

## Issue update

### *Selected Issues on International Financial Institutions*

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## New loans for LICs: IMF “with a human face” or “a mask”?

At the end of July, the IMF announced “unprecedented” increases of concessional (grant/low-interest) lending for low-income countries (LICs) (\$8 billion in the next two years; up to \$17 billion by 2014), zero interest on new and existing loans through 2011, greater loan flexibility, and a set of new instruments to channel the increased support (Extended Credit Facility for flexible medium-term support; Standby Credit Facility for short-term and precautionary needs; and Rapid Credit Facility for emergency support with limited conditionality). The shift also came with assurances from Fund Managing Director Dominique Strauss-Khan that new programs would focus on poverty reduction, economic growth, and safeguards on social protection. In addition to the anticipated new resources, IMF membership also greeted this month to a new general allocation of Special Drawing Rights (see “Agreement...” in this issue).

But a group of civil society organizations (CSOs) - Action Aid, Third World Network, Eurodad and the Bretton Woods Project - have questioned the new changes will actually go. For example, of the \$17 billion that the IMF has announced, \$14 billion is expected to come from donors and likely from existing, rather than additional, aid money. The IMF itself will only give 2.3 billion, of which a mere \$785 million from its forthcoming gold sales. As for dropping its 0.5 percent interest rate on new and existing loans to zero through 2011, this only frees up \$110 million over the next two and a half years, essentially providing \$1 million in relief per LIC per year. The CSOs also argue that the new facilities are largely a name change, with LICs still likely expected to cut spending, inflation rates and deficits.

IMF Announces Unprecedented Increase in Financial Support to Low-Income Countries  
<http://www.imf.org/external/np/sec/pr/2009/pr09268.htm>

IMF Financial Package for Low-Income Countries: Much Ado About Nothing, ActionAid, Bretton Woods Project, Eurodad, TWN, <http://www.brettonwoodsproject.org/g24imfresources>

#### *Also in this issue:*

HI identifies reforms for EDC Environmental Policy

Agreement made on \$250 bn allocation to IMF members

Notice Board, new publications and upcoming events

**JUST THE FACTS: EDC Environmental Policy: Needed Reforms**



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153 Chapel Street  
Ottawa, ON K1N 1H5  
Canada

TEL: (613) 789-4447  
FAX: (613) 241-4170  
WEB: [www.halifaxinitiative.org](http://www.halifaxinitiative.org)

## HI identifies reforms for EDC Environmental Policy

Export Development Canada will revise its Environmental Policy this year and recently concluded a period of public comment on the Policy. The Halifax Initiative prepared a submission for the review that includes a number of recommended improvements (see Just the Facts). The Environmental Policy, which was established in 2005, governs environmental risk assessment at EDC and outlines the environmental review processes that are applied to EDC's financial products.

The purposes of the review are the following: to clarify EDC's environmental commitments and environmental review processes; ensure consistency with general export credit agency practices; address the issue of climate change; and identify adjustments to the policy that governs the disclosure of environmental and social information. To guide the review process, EDC released a Discussion Paper, which identifies EDC's priority issues regarding environment and disclosure, and includes a number of proposed changes to the Environmental Policy.

Halifax Initiative Submission

[http://www.halifaxinitiative.org/index.php/reports\\_analysis/1143](http://www.halifaxinitiative.org/index.php/reports_analysis/1143)

EDC Discussion Paper

[http://www.edc.ca/english/docs/Environmental\\_Policy\\_Discussion\\_e.pdf](http://www.edc.ca/english/docs/Environmental_Policy_Discussion_e.pdf)

## Agreement made on \$250 bn allocation to IMF members

For the first time in 28 years, the International Monetary Fund's membership has agreed to allocate \$250 bn in special drawing rights (SDR) to the world's economies, following up on April's promise by the G-20 (See IU April 2009). SDRs, an international reserve asset and the IMF's "currency", automatically increase central banks' foreign exchange reserves, but also come without any of the conditions typically associated with the IMF. Allocated relative to a country's IMF quota, the largest share will go to the US (\$42.6 billion), with developing countries expected to get around \$90 bn. Low-income countries will get \$18 billion and sub-Saharan Africa will get \$10 bn.

The allocation couldn't come at a better time. SDRs can be converted into cash and used to accumulate savings, for development projects, stimulus packages, or debt payments. But while the SDRs are interest free if they remain part of a country's reserves, once converted into cash, countries must then pay market interest rates for borrowing that hard currency (be it yen, dollars, euros, or pounds) until the currency is converted back into SDR. Currently market interest rates are low, but should they increase, this cash conversion could become a burden to countries. Consequently, some civil society groups have welcomed the news but are calling for a fixed interest rate, flat fee, or no charges to convert SDRs into cash, enhancing the ability of developing countries to access the resource.

Technically, developed economies, with higher SDR allocations, can grant or loan their SDRs to countries that need them - and France and the UK have indicated a willingness to do so - but the technical details of actually making such a transfer have yet to be determined.

## Notice Board - This month...

- ☰ The International Finance Corporation plans to **boost World Bank support for agribusiness by 30 percent** as its response to the global food crisis. IFC support in FY2009 stands at \$2bn, up from \$400 mn in FY2004. Many civil society groups object to an enhanced role for agribusiness versus supporting small-scale sustainable livelihoods.
- ☰ The **Ambatovy Nickel/Cobalt mine** in Madagascar, which received **support from Export Development Canada** in February 2007, has hit a snag. President Rajoelina, who took power in March through a coup d'état, has indicated that the **certification** for the \$4.5 bn mine **may not be binding** under Madagascar's mining and investment law. The project has already been struck with cost overruns, environmental concerns and financial woes.
- ☰ In a new push for free universal health care, **Gordon Brown** has indicated that the UK's development agency will **put \$6bn into healthcare by 2015** to countries in Africa and Asia, providing technical assistance, drugs and ensuring that doctors and nurses receive fair pay deals. The move would initially target children and pregnant women.
- ☰ **Canada** temporarily **increased** its callable **capital to** the Inter-American Development Bank (IDB) by **US\$4 bn**. It will increase the IDB's lending capacity by up to 45 percent.
- ☰ **Iceland's parliament** has agreed to **repay US\$3.5 bn to the UK and the Netherlands**, at a **rate they can afford** - 4 percent of GDP for UK debts and 2 percent for Dutch debts. In June, the country was forced to borrow from these two countries to repay 300,000 British and Dutch investors who lost money in high-interest "icesave" accounts. Until the decision this month, opponents to the deal were concerned about the level of **public debt** imposed on Iceland by the country's financial elite, and the tax hikes and public spending cuts it would have required of the country to repay the debts.
- ☰ Discussions regarding **IMF governance reform** have hit a **stalemate** as Executive Directors from a large number of **developing countries** have refused to agree to any proposed structural changes, like a ministerial council to oversee policy (see IU June 2008), until there is a "**substantial quota realignment** in favour of **middle-income countries and low-income countries**". Some countries accused IMF Head Strauss-Khan of rushing through reforms. For more, see <http://www.imf.org/external/np/sec/pn/2009/pn0998.htm>
- ☰ On a visit to the **Democratic Republic of Congo**, **World Bank President Zoellick** made a **big push** for the country to improve its energy governance, while also announcing \$430 mn in support to **rehabilitate the Inga I and II dams**. With a potential capacity of 40,000 megawatts, the project would be twice the size of the controversial Three Gorges Dam.

### New Publications this month

- "Special Drawing Rights and the Global Reserve System", Factsheet, Action Aid, 2009, <http://www.actionaid.org/assets/pdf%5CActionAid%20Factsheet-%20Special%20Drawing%20Rights%20%20the%20Global%20Reserve%20System.pdf>

### Upcoming Events

- G-20 Finance Ministers meeting, September 4, London, England.
- G-20 Heads of State meeting, September 23-24, Pittsburgh, USA.
- "The Future of Canadian ODA: Putting the ODA Accountability Act into Practice", CCIC, September 28-30, Ottawa.

### EDC Environmental Policy: Needed Reforms

The Halifax Initiative submission to the Environmental Policy review follows the format established in the EDC Discussion Paper. Key HI recommendations include:

#### **Project environmental and social standards**

EDC's Environmental Review Policy should impose an obligation that private sector clients comply with the IFC Performance Standards, over the life of a project. Derogations from the Performance Standards should be avoided.

#### **Community engagement**

At a minimum, EDC should adopt the *broad community support* requirement established under the IFC Policy on Social and Environmental Sustainability.

#### **Project conditions and monitoring**

EDC should require that independent environmental and social reviews be undertaken to verify client-generated monitoring and reporting information. Subject to legal provisions governing commercial confidentiality, EDC should publicly disclose remediation and mitigation plans and procedures, and related monitoring reports, including those generated by independent experts.

#### **Climate change**

The objective of EDC's climate change policy should be to minimize the GHG emissions associated with its portfolio. EDC should achieve this goal by preferentially supporting low emission exports and investments, and by reducing its support for high GHG emitters. EDC should promote the adoption of an effective, binding climate change policy at the OECD.

#### **Disclosure**

EDC should modify its Disclosure Policy to make client consent for the release of all non-commercially confidential information a condition for EDC backing.

#### **Human rights**

EDC should adopt a human rights policy that protects against the interference of human rights by its clients. In order to guarantee access-to-information rights and to promote accountability, the EDC Disclosure Policy should be amended to ensure the timely public release of EDC human rights policies and procedures, as well as project-specific human rights information.