

# Issue update

## *Selected Issues on International Financial Institutions*

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### Odious Investment

It is generally assumed that foreign direct investment in Southern countries is beneficial, promoting growth, jobs and development. Indeed, the World Bank and other public financial institutions operate on this assumption and promote investment liberalization policies with developing countries. However, publicly financed private investments often cause serious harm to local populations and violate their human rights.

International human rights law imposes obligations on states to respect, protect and fulfill human rights. This includes the obligation to protect against human rights abuse by third parties, such as corporations. All areas of state activity and all parts of the state apparatus, including public financial institutions, are bound by this legal duty. Yet the vast majority of public financial institutions lack clear and effective human rights policies to guide their investment activities. Some public financial institutions report undertaking 'human rights due diligence' to assess and mitigate adverse human rights impacts. However, virtually no information is publicly available regarding these processes and harmful investments continue to receive financing.

The Canadian government provides companies with investment and equity financing through the World Bank's International Finance Corporation (IFC) and two Crown corporations - Export Development Canada (EDC) and the Canada Pension Plan Investment Board (CPPIB). These institutions lack transparent and effective policies that ensure compliance with international human rights law. This month we explore some of these issues, which are the subject of debate both in Canada and internationally.

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**JUST THE FACTS:** The Canada Pension Plan Investment Board: An Overview



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## Mongolia Undermined

The Oyu Tolgoi mining concession in Mongolia boasts one of the world's largest untapped deposits of copper and gold. The massive mine is under construction by Vancouver-based Turquoise Hill Resources (THR), majority owned by British company, Rio Tinto. Project costs could reach as much as \$13 billion and THR is banking on public financial institutions to provide part of the financing. The company hopes to receive several billion in financing and insurance from a consortium of public institutions that includes Export Development Canada, the European Bank for Reconstruction and Development, the U.S. Export Import Bank, the Australian Export Finance and Insurance Corporation and two World Bank institutions (the International Finance Corporation and the Multilateral Investment Guarantee Agency).

Local residents and Mongolian civil society organizations express frustration and concern regarding project impacts and ineffective regulatory oversight. They cite a lack of transparency regarding the project and complain that they have not been adequately consulted. Herders have been forced to relocate and report significant adverse impacts to their livelihoods as a consequence. They describe coercive practices in the administration of relocation compensation. Mongolians are concerned that the project, which is located in the Gobi desert, will limit their access to increasingly scarce water resources. They also are worried about the proposed diversion of a local river and the construction of both a coal-fired power plant and an international airport, all associated with the mine.

The UN Working Group on business and human rights recently concluded its first field mission, in Mongolia. The Working Group's representative, Margaret Jungk, made a number of findings that support community concerns, including 'an unfortunate lack of clarity about the respective roles and responsibilities of the government and business with regard to human rights.' She reported that herders, as well as local and regional governments, have been excluded from decision-making processes concerning exploration and mining activity. Ms. Jungk also expressed concern regarding a lack of government capacity to oversee private sector activity in Mongolia.

In October, Mongolian herders filed a complaint about Oyu Tolgoi with the World Bank's Compliance Advisor Ombudsman (CAO). Among other concerns, they argued that the project's Environmental and Social Impact Assessment omits the operational and decommissioning phases of the project.

Interview with ED of Mongolian NGO Oyu Tolgoi Watch  
[www.bicusa.org/en/Article.12648.aspx](http://www.bicusa.org/en/Article.12648.aspx)

Complaint filed with CAO against Oyu Tolgoi project  
[www.bicusa.org/en/Article.12703.aspx](http://www.bicusa.org/en/Article.12703.aspx)

Oyu Tolgi Watch complaint under the OECD Guidelines  
[www.oecdwatch.org/cases/Case\\_188/?searchterm=Oyu%20Tolgoi](http://www.oecdwatch.org/cases/Case_188/?searchterm=Oyu%20Tolgoi)

## New Resources:

### **(Mis)Investment in Agriculture**

Since the financial crisis of 2008, many developing countries have increased their openness to foreign investment in land. The private sector arm of the World Bank Group - the International Finance Corporation (IFC) and its Foreign Investment Advisory Service - provide technical assistance and consultative services to governments, promoting an “enabling business and regulatory environment” for investors. Part of these services has focused on the development of simpler procedures for investors to gain access to land.

The result is massive land acquisition in developing countries by foreign investors. A recent report from OXFAM estimates that global land acquisitions by private actors in the past decade are eight times the land mass of the United Kingdom. Little of this land is used to produce food for local people; rather, it is used for export crops as well as biofuels. The Oakland Institute has also released a series of studies on foreign land acquisition. Case studies from Africa provide clear evidence that land acquisitions are displacing local people, disrupting local livelihoods and jeopardizing local food security.

Our Land, Our Lives: Time out on the global land rush  
[www.oxfam.ca/sites/default/files/bn-land-lives-freeze-041012.pdf](http://www.oxfam.ca/sites/default/files/bn-land-lives-freeze-041012.pdf)

Understanding Land Investment Deals in Africa  
[www.oaklandinstitute.org/special-investigation-understanding-land-investment-deals-africa](http://www.oaklandinstitute.org/special-investigation-understanding-land-investment-deals-africa)

### **More than Bricks and Mortar**

Over the past several decades, the World Bank Group has encouraged the privatization of public infrastructure, opening lucrative investment opportunities for private sector actors. Infrastructure investments between 2005 and 2008 exceeded \$2 trillion, more than half in developing countries. As a result of this trend, decisions about infrastructure financing are increasingly driven by private, profit-seeking interests rather than public assessments of needs and benefits. This reality has serious implications. Privatized services - water, sanitation, energy, roads and telecommunications - are available only to those who can afford them. The social and environmental safeguards used to evaluate public projects are less likely to be applied to private sector investments. Indeed, some governments are providing guarantees that private sector actors will not be held liable for negative environmental and social outcomes.

In a recent paper, Nicholas Hildyard analyzes this trend and asks how privatized infrastructure responds to the needs of the 1.4 billion people without access to electricity, the 880 million without access to safe water and the 2.6 billion without access to basic sanitation.

More than Bricks and Mortar  
[www.thecornerhouse.org.uk/resource/more-bricks-and-mortar](http://www.thecornerhouse.org.uk/resource/more-bricks-and-mortar)

### The Canada Pension Plan Investment Board - An Overview

The Canada Pension Plan (CPP) is a compulsory public pension fund to which all working Canadians contribute. A sustainability review of the CPP in 1996 resulted in the formation of the **Canada Pension Plan Investment Board (CPPIB)**, a Crown corporation with a legislated mandate to invest the pension contributions of Canadians.

In June 2012, the CPPIB's portfolio was worth \$165 billion. The fund is invested in public and private equities, bonds, private debt, real estate and infrastructure. Currently, the CPPIB has investments in over 3,100 companies, including 500 Canadian companies.

Unlike some other pension plans, the CPPIB does not have ethical investment guidelines. Rather, it has a weak 'responsible investment' policy and refrains from screening out investments that have harmful effects on human health and well-being. As a result, the CPPIB holds investments in Canadian and international tobacco companies. It is heavily invested in the arms industry, providing equity finance to the manufacturers of tactical nuclear weapons, cluster bomb delivery systems and new weapons technologies. The CPPIB is also an international leader in the privatization of public infrastructure.

The CPPIB is heavily invested in Canadian and international mining companies that have been cited for social, environmental and human rights concerns. These include industry giants such as Barrick Gold, Goldcorp, Kinross Gold Corp., Newmont and Rio Tinto. The CPPIB also holds significant investments in energy sectors that contribute to climate change.

Other Canadian and international pension funds operate with much more rigorous ethical and human rights guidelines. The Norwegian Government Pension Fund, for example, excludes tobacco and weapons manufacturers; it also divests from companies when there is evidence that their activities have negative environmental or human rights impacts. The Fund excluded Canada's Barrick Gold due to severe environmental damage associated with a mine in Papua New Guinea. It divested from Rio Tinto as a result of its poor environmental record. Along with the largest pension fund in the Netherlands, it divested from Walmart due to the company's failure to comply with UN Global Compact principles. Norway and others have shown that ethical investing can have positive social and environmental benefits. These investors have taken important steps to ensure compliance with human rights norms. It's time the CPPIB did the same.

Canada Pension Plan Investment Board  
[www.cppib.ca](http://www.cppib.ca)

Norway Government Pension Fund  
[www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441](http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441)