Issue update
Selected Issues on International Financial Institutions

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The changing face of global development finance

In 2007 Brazil's Development Bank issued loans worth more than double the entire World Bank portfolio. More than half of the increase in aid since 2002 comes from debt relief, rather than new funding commitments. What's more, from 1995-2005, Africa saw no net increase in its development aid despite a 35% increase in commitments to global aid over that period. In 2007, China financed more infrastructure projects in Africa than all multilateral and bilateral donors combined. The Gates Foundation provides more funding for neglected developing country diseases than all of the Group of Seven. These were some of the facts that emerged at an HI conference on "The Changing Face of Global Development Finance - Impacts and implications for aid, development, the South and the Bretton Woods Institutions."

Key note speakers Amar Bhattacharya and Yao Graham brilliantly mapped the changing landscape in developing countries and discussed how these states are financing their development, drawing particular attention to the situation in Africa and the growing regional and in-country disparities. Fabrina Furtado raised concerns about the new "Bank of the South" in Latin America which, while shifting power to developing countries, looks set to replicate past mistakes by funding large-scale regional infrastructure projects in the Amazon. Firoze Manji dispelled the western media myths about a new "yellow peril" (in the form of China) taking over Africa. Charles Mutasa, Lydia Duran and Rasheed Draman spoke about many of the shortfalls in the aid effectiveness agenda. And Alejandro Bendaña reminded us of the need to move beyond the "aid box" and to explore new models of development.

Discussions from the meeting will form the basis of a submission to the Financing for Development review that concludes in November in Doha (See IU January 2008).

Conference backgrounder, glossary of terms, powerpoint presentations and recorded speeches
http://www.halifaxinitiative.org/index.php/current_events/Changing_face_of_GDF

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DRC government calls for contract renegotiation

On February 18, the Congolese government announced the completion of its mining contract review (see IU November 2007), concluding that virtually all of the country's contracts require re-negotiation.

On the Tenke Fungurume project, which is to be developed in partnership with the state mining company, Gecamines, the Ministry of Mines called for further discussions regarding such issues as: the quantum of transfer payments; Gecamines' percentage share ownership and involvement in the management of the project; regularization of certain issues under Congolese law; and the implementation of social plans. In response, Lundin Mining, part owner of Tenke, asserted that its agreements with the Congolese government are legally binding and that "all associated issues have been dealt with fully under Congolese law." Export Development Canada is currently considering backing Tenke Fungurume.

International NGOs are concerned about the transparency of the contract re-negotiation process. They have called on Kinshasa to issue a comprehensive re-negotiation / cancellation plan, with a clear time line and methodology for the process. Given the differing perspectives on projects such as Tenke, transparency will be essential for the re-negotiation process to have credibility. NGOs have also called on donor countries, like Canada, and multilateral institutions to publicly support an open and transparent process of re-negotiation.

NGOs fear that DRC mining contract review process has been hijacked
http://www.raid-uk.org/docs/DRC_contracts/DRC%20review%20hijacked%204Feb08%20EN.doc

"Responsible lending" key theme for 2008

In the past two months, the Organisation for Economic Co-operation and Development (OECD) issued a set of "Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries", the Belgian senate approved a resolution and law "to safeguard development co-operation and debt relief from the actions taken by vulture funds" (see on-line "Glossary of Terms"), and the European Network on Debt and Development released its "Charter on Responsible Financing."

With the Monterrey Consensus (see on-line "Glossary of Terms") up for discussion this year at the Financing for Development review meeting in Doha (see IU January 2008), and the Monterrey chapter on "External Debt" up for debate at the United Nations (UN) next month, the concept of responsible lending (see "JUST THE FACTS") is garnering increasing attention among both government officials and civil society. While the issue has really only found space in international debt and aid discourse in recent years, in 2002 the Monterrey Consensus was already pointing to the need for "a set of clear principles for the management and resolution of financial crises that provides for fair burden-sharing between public and private creditors and between debtors, creditors and investors." Now, with the UN, the G8, the G20, the OECD and several civil society groups paying increasing attention to the issue, countries around the world have a unique opportunity to put responsible lending on the agenda at Doha.

Notice Board – This month…

- With an agreement on IMF quota and voting power now expected at the IMF's spring Meetings in April, the Group of Seven reiterated the need for the Fund to better align member countries' quota share with their relative position in the world economy – a nod to some emerging economies - using a simple and transparent formula. Finance Minister Jim Flaherty said Canada was advocating for some transfer of quota and voting share from industrialized countries (like Europe) to emerging economies (like India and China).
- The US Treasury has agreed to allow the IMF to sell up to one-eighth of the Fund's 3,217 tonnes of gold to help offset the institution's growing budgetary deficit. American consent for the deal, however, is conditional on the Board agreeing to cut the number of its executive directors from 24 to 20. The US seeks to reduce the number of seats currently allocated to Western Europe (eight) and make room for emerging market representatives.
- The International Finance Corporation (IFC) approved a $300 million loan for phase two of the Camisea liquefied natural gas project. The $3.8 billion project has been mired in controversy since the outset: it has destroyed pristine Amazonian rainforest; 75% of the concession is within an indigenous reserve; the coastal pipeline terminal was built next to a protected marine reserve; and there have been damaging spills along the pipeline.
- International Financial Consulting Ltd. has been selected to conduct the 2008 legislative review of the Export Development Act. The findings of the review will likely go before the Standing Committee on International Trade in 2009. The Halifax Initiative was involved in the 1999 review that led to changes in how EDC takes account of the environment.
- Mark Carney started this month as the Governor of the Bank of Canada and alternate Canadian Governor to the IMF. David Malone, former Canadian Ambassador and President of the International Peace Academy, will become President of the International Development Research Centre (IDRC) in July. Leonard Edwards is the new G8 Sherpa, while still remaining Deputy Minister of Foreign Affairs.

New Publications

- "*Recent Developments on IMF Gold Sales and Debt Cancellation,*" Jubilee USA, February 2008. To address the annual $400 million deficit anticipated for 2010, IMF Managing Director, Dominique Strauss Kahn, is planning to sell some 400 tonnes of the Fund's gold reserves. While a 2007 Advisory Panel of Eminent Persons advised such a move, in "happier times" the Fund refused to sell any gold to cover debt cancellation agreements under the Multilateral Debt Relief Initiative. This paper proposes using gold sales to fund future debt relief and cancellation. http://www.jubileeusa.org/index.php?id=111

Upcoming Events

- Financing for Development (FfD) review of Chapter V, "External Debt", New York, March 10 – 11 (a.m.); FfD review of Chapter VI, "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial, and trading systems in support of development", New York, March 11 (p.m.) - 12.
- International Day of Action for Rivers, March 14.

Responsible lending – responsible to whom and for what?

The notion of 'responsible lending' by official and private creditors, defined by the Organisation for Economic Co-operation and Development (OECD) as, "lending that supports a borrowing country's economic and social progress without endangering its financial future and long-term development prospects," is gaining momentum in international development discourse.

Among Northern donors, interest in the concept stems from the increased prominence of new developing country lenders, such as China, India, Venezuela and Brazil. This phenomenon has unsettled many 'traditional' donors who fear that, after a recent round of debt cancellation to various developing countries, 'new' lenders are recreating unsustainable debt burdens in developing countries, and are undermining donor efforts to coordinate and harmonize aid delivery. For example, the World Bank introduced a "free rider" policy that bars countries that accept non-concessional loans from these lenders from receiving Bank grants. The Group of Eight has expressed its support for a voluntary "Charter for Responsible Lending" and last month the OECD issued a set of "Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries." These instruments underscore the importance of "debt sustainability frameworks," the principles of the "Paris Declaration on aid effectiveness," good governance and transparency. They appear to focus greater attention on borrowers, over lenders.

But from a civil society perspective, other factors are driving the call for a charter. In October 2006, the Norwegian Government stimulated discussions around creditor co-responsibility with its decision to cancel the US$80 million in debt that it was owed by five countries. The government determined that the credits had been extended irresponsibly, without due consideration for the needs of the recipient countries. The US sub-prime mortgage crisis and the emergence of private "vulture funds," which buy foreign debt at below market rates from creditors and then sue the debtors in court for the full amount, has also focused international attention on the issue of 'predatory lending' by private actors. As a result, civil society groups are advocating for the adoption of a framework that accounts for both the origin and impact of the debts and that shares responsibility for preventing and resolving future debt crises equally among both debtor and creditor. The new Eurodad Charter on Responsible Financing sets out provisions to ensure that terms and conditions are fair, that the loan contraction process is transparent, that human rights and the environment are respected and that repayment disputes are resolved fairly and efficiently.

Based on files from Marta Ruiz and Gail Hurley, Eurodad

OECD "Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries"
http://www.olis.oecd.org/olis/2008doc.nsf/LinkTo/NT00000962/$FILE/JT03238627.PDF

EURODAD Charter on Responsible Financing, http://www.eurodad.org/whatsnew/reports.aspx?id=2060