Issue update
Selected Issues on International Financial Institutions

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CSOs push for Common Approaches revamp

Members of the Organisation for Economic Co-operation and Development (OECD) are currently reviewing a 2007 Council Recommendation regarding export credit agency (ECA) operations. The Recommendation on Common Approaches on the Environment and Officially Supported Export Credits (Common Approaches) is a "gentlemen's agreement" that seeks to establish a level playing field regarding ECA environmental practice. CSOs argue that the Recommendation's impact is undermined by the lack of effective accountability mechanisms to ensure consistent and effective application by member governments.

ECA-Watch, an international civil society network in which the Halifax Initiative participates, together with Amnesty International, recently provided input to the Common Approaches review process. The organizations promote widening the application of the Recommendation, making its application mandatory and enhancing peer review processes regarding ECA compliance. In addition, ECA-Watch and Amnesty emphasize the need for improved transparency by these public financial agencies including enhanced disclosure of information regarding the environmental, social, labour, human rights and developmental impacts of ECA-supported transactions.

Meanwhile, debate on Bill C-300 (see IU November 2009) will continue when Parliament resumes in March. If adopted, this legislation will require enhanced social, environmental and human rights performance by companies that receive support from Canada's export credit agency, Export Development Canada.

CSO letter on Common Approaches
http://halifaxinitiative.org/content/letter-oecd-eca-watch-and-amnesty-international-re-review-common-approaches-january-12-2010

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New debt deal for Haiti following this month's quake?

As the world's attention focused on the devastating impacts of this month's earthquake in Haiti, donors met in Montreal to discuss recovery plans, and the World Bank and IMF both announced more than $200 million in emergency funding for the country. While many groups support immediate and substantial financing for the country, groups were quick to draw attention to the fact that the $102 million committed by the IMF is a loan, not a grant, which will add to Haiti's existing $1.25 billion debt load. Although Haiti saw $1.2 billion of its multilateral debt stock cancelled last July (see IU 7, 2009), the country still owes the Inter-American Development Bank (IDB), the IMF and the World Bank $650 million. Venezuela, Haiti's biggest bilateral creditor, has announced that it will cancel Haiti's $295 million debt and Taiwan is expected to follow suit. In Canada, Minister Flaherty has been publicly supportive of debt cancellation, and the IMF and Bank's Boards have asked staff to look into how to fund the cancellation of debts owed to those institutions. The biggest challenge will be the IDB, which seems less willing to walk away from the $447 million that it is owed.

CNCA letter to ministers regarding government boycott
http://www.ccic.ca/_files/en/media/cso_statement_haiti_2010-01-25_e.pdf

Financial transactions tax discussion heats up

In the past two months, momentum has been building around the idea of a financial transactions tax (FTT, See "JUST THE FACTS"). British Prime Minister Gordon Brown and French President Nickolas Sarkozy continue to advocate for its adoption. The German Parliament is holding a hearing on the FTT after receiving a petition from 50,000 FTT supporters. And now US President Barrack Obama has introduced a new levy on banks (not quite an FTT) to recoup a small portion ($90 billion) of the country's $700 billion bailout.

The IMF also held meetings in Washington and London with civil society groups and academics on its G20 commissioned study into financial sector taxation, responding to a civil society request to be consulted (see IU 11, 2009). Among the interventions, French Professor Bruno Jetin provided the rationale for why the FTT represents such a promising tool for both covering the costs of bank bailouts and redistributing wealth globally. North-South Institute researcher Rodney Schmidt spoke to some of the practical and technical dimensions of implementing an FTT. Austrian academic Stephan Schulmeister provided an economic assessment of the impacts of the FTT on the market and how it could serve to curb short term speculative activity. The Fund is receiving public submissions on the study until February 10.

Meanwhile, Canadian Finance Minister Flaherty again reiterated his opposition to the tax on the grounds that his government doesn't support raising taxes and didn't need to bail out banks. But as the federal deficit climbs, and the government sees no appetite for raising personal or corporate income taxes, "a banking fee for bankers" may be the best bet yet.

IMF Seeks Views on Financial Sector Taxation
http://www.imf.org/external/np/exr/consult/2009/index.htm

Notice Board – This month…

- Prime Minister Stephen Harper's **prorogation** of Parliament will **not affect Bill C-300**, An Act respecting Corporate Accountability for the Activities of Mining, Oil or Gas in Developing Countries. The "battle" over the bill will pick up again in March, once parliamentary committees are re-established.
- **Foreign Affairs and International Trade Canada** announced the establishment of a $20 million **Investment Corporation Program** (INC). The program will cover some of the costs involved in testing the technical feasibility and economic viability of private sector investments in developing countries. Funding from INC will count as official development assistance. The program **replaces CIDA-Inc.,** which played a similar role until it was disbanded in 2009.
- **Global Financial Integrity**, which promotes national and multilateral policies, safeguards, and agreements aimed at curtailing the cross-border flow of illegal money, released the "**New Haven Declaration**", a statement endorsed by Oxfam, Human Rights Watch, Amnesty International, and the Tax Justice Network, among others. The statement makes **the links between illicit financial practices**, secrecy in global finance and their adverse impact on human rights. As part of the launch, it released a new web site pressing for **transparency in the international financial system**. http://www.g20transparency.com
- The **IMF** Board completed the **review of its disclosure policies** and, like the World Bank (see IU 10, 2009), now presses for the disclosure of documents and information on a **timely basis** unless strong and specific reasons argue against such disclosure. http://www.imf.org/external/np/exr/cs/news/2010/cso110.htm
- **Chile** became the **31st member** of the **Organisation for Economic Co-operation and Development**, and second Latin American country to join. Two thirds of the OECD's members are European countries. Neither India, China nor Brazil are members.
- **Canadian civil society** groups launched a **platform of common demands** for the **2010 G8 and G20 meetings** in Muskoka and Toronto. The platform focuses on issues related to development, the financial crisis and climate change, and includes recommendations on the transition from the G8 to G20. Halifax Initiative spoke at the press launch. http://www.halifaxinitiative.org/content/g8-g20-2010-agenda-global-development
- The **World Bank and IMF** provided **$1.9 billion in debt relief** for the **Republic of Congo** as part of the Heavily Indebted Poor Country and Multilateral Debt Relief Initiatives. Congo implemented a host of conditions related to macroeconomic stability, public financial and oil sector management, governance, health and education reform to get the relief.

New Publications this month

- "*Countering Illicit and Unregulated Money Flows - Money Laundering, Tax Evasion and Financial Regulation*", Transnational Institute, Debate Papers, December 2009. http://www.tni.org/sites/tniclone.test.koumbit.net/files/download/crime3_0.pdf
- Capital Controls and 21st Century Financial Crises: Evidence from Colombia and Thailand", Bruno Coelho and Kevin P. Gallagher, PERI Working Paper No. 213, January 2010.

Upcoming Events

- G7 Finance Ministers and Central Bank Governors, Iqaluit, Nunavut, Canada, February 5-6.

JUST THE FACTS

Financial transactions tax (FTT) – What? Who? Why? How?

- **What?** The FTT is a tiny tax that would be levied on all financial market transactions (not just currency exchanges). It would cover financial transactions traded through stock exchanges, futures exchanges or any other facility established for the purpose of trading ("exchange trading") by financial market actors.

- **Who?** It would include transactions involving stocks, bonds, foreign exchange and derivatives (including trade of futures and options related to stocks, interest rate securities, currencies and commodities). Currently, it would not cover any of the same financial instruments traded bilaterally between two parties ("off-exchange" or "over the counter" (OTC) trading), which take place without any regulatory supervision or oversight. This could be addressed by pressing for OTC transactions to become registered and in the longer term, by extending the tax to these transactions to avoid shifts in transactions to the unregulated market. Ordinary consumer transactions such as payments for goods, paychecks and cross-border remittances would not be subject to the FTT. Short-term inter-bank lending and central bank operations would also be excluded from the FTT.

- **Why?** <u>Revenue:</u> As it covers a range of financial instruments, even a minimal tax would help generate significant resources that could be used for stimulus packages, as deficits and public debts balloon, and to help fill the funding shortfall for achieving the Millennium Development Goals and climate change adaptation and mitigation.
    - <u>Reliability of development finance:</u> After the first few years, once the market has responded to the introduction of the tax, the amount of revenue generated would likely be fairly predictable – helping governments plan for the future.
    - <u>Curb speculative investment:</u> An FTT of, for example, 0.05 per cent would be small enough not to impact the individual casual investor, but big enough to curb short term speculative trading done by day traders who can sometimes trade the same commodity five times in a day.
    - <u>Justice:</u> A tax on financial transactions is a measure of political fairness and social justice. It will shift the burden of crisis resolution from the general public to the financial sector, from taxing wages and consumption to taxing capital, making the tax system fairer.

- **How?** The money would be collected in the individual stock exchanges where trading occurs through the electronic settlement systems used on all important exchanges (the same is true for the collection of the tax on OTC transactions). Ideally, the FTT would be introduced globally, but this does not preclude countries from introducing it unilaterally. The UK already has a stamp duty of 0.5% on the trade of stocks.

- **How much?** The Austrian Institute for Economic Research has estimated that a global FTT of 0.05% could yield between $447bn and $1022bn a year, even assuming a reduction in market activity of 65%. Furthermore, even a 50% decline in trading would still generate more revenue annually than development assistance or aid.