Issue update
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Financial crisis a boon for ECAs

While hefty public bailouts of the financial and auto industries have stimulated debate on the role of governments in commercial markets, one form of government subsidy has flown beneath the proverbial radar: export credit. Confronted by an increasingly dire financial crisis, Western governments are using their export credit agencies (ECAs) to boost liquidity and rescue faltering industries. At an extraordinary World Trade Organization meeting last month, participating governments reported a 30% increase in ECA business over the previous 12 months. The WTO called for even greater reliance on public credit to lessen the burden on commercial banks. Shortly afterwards, the OECD announced an agreement with non-members, including Russia and Brazil, to provide markets with publicly-sourced export credit.

The Canadian government is making good on these commitments. This month EDC's borrowing authority was increased by $2 billion and the Crown Corp received $350 million in equity. The agency has had a busy month: granting Brazilian giant Petrobras half a billion in loans; bolstering shipbuilder Davie Yards with $380 million in financing and guarantees through the Canada Account; and extending a waiver to struggling Nortel for $750 million in past support.

The government's reliance on EDC during the financial crisis deserves more attention. This year the Halifax Initiative identified a number of concerns regarding EDC in a submission to a legislative review process: a lack of transparency regarding the agency's operations; its failure to require that clients apply "best practices" regarding environmental and social impacts; and its lack of an explicit human rights policy. We propose various legislative reforms to address these shortcomings, which we urge the Canadian government to adopt expeditiously.

Halifax Initiative Submission to EDC's legislative review,
http://www.halifaxinitiative.org/index.php/EDC_ECA_Reports/1096

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Halifax Initiative d'Halifax

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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

UN vs. G-1 at Financing for Development meeting

After a year long consultation process and three months of negotiations on the text, disappointment faced many civil society participants as they met with governments officials and business leaders in Doha, Qatar, to finalize the outcome document for the review of the implementation of the Monterrey Consensus on Financing for Development (see FAQs).

Despite strong efforts to advance the agenda on taxation and capital flight, aid, innovative mechanisms for financing development, external debt, trade and systemic issues, little progress was made in Doha on the broad agenda set in 2002 at the original Monterrey meetings (see JUST THE FACTS). The poor outcome is due largely to the blockades that the United States (along with Canada, Australia, New Zealand and Japan) set up against a more progressive version introduced by the General Assembly President in Doha, and which both the Group of 77 and the European Union supported.

While the end product may have been disappointing, the United Nations did agree – again despite total opposition from Canada and the US – to an international conference at the highest level on the financial crisis and its impacts on development. While the modalities for the meeting won't be worked out until March, and the final conference may come too late to have any substantive impact, both it and the new UN Commission of Experts (see Notice Board) will be significant shots across the bow of the April 2009 G-20 meeting in London.

Doha disappointment: governments fail to deliver a good outcome on development finance, http://www.eurodad.org/whatsnew/articles.aspx?id=3220

Ecuador defaults on debt payment deemed "illegitimate"

After delaying payment on US$30.6 million in interest due on Global Bonus 2012 bonds when they came due in mid-November, Ecuador's President Rafael Correa announced one month later that the country would in fact be defaulting on the payment – not because it couldn't pay (it has $5.65bn in cash reserves), but because the original bond was illegitimate. The move follows on from the recommendations of the Public Credit Audit Commission's report that deemed a large portion of Ecuador's debts that were contracted between 1976 and 2006 to be illegal or illegitimate (see IU September 2008). The report says the restructuring was done without executive decree, and that it consequently led to exorbitant interest rates (10-12 percent). The Global Bonds represent part of $3.9 billion in foreign commercial debts restructured in 2000 after the country's 1999 default.

This month, the President of the Brazilian Chamber of Deputies established a "Parliamentary Commission of Inquiry aimed at investigating the public debt of the federal, state, and municipal governments". Paraguay, Venezuela and Bolivia have also announced they will initiate debt audits.

Ecuador's Debt Default: Exposing a Gap in the Global Financial Architecture, Neil Watkins and Sarah Anderson, Foreign Policy in Focus, http://www.fpif.org/fpiftxt/5744

Notice Board – This month…

- On **December 11**, the day after the 60th Anniversary of the Universal Declaration of Human Rights, the **General Assembly adopted** by consensus **the Optional Protocol to the International Covenant on Economic, Social and Cultural Rights**. The Protocol allows individuals to file complaints about alleged violations of rights under the Covenant with the United Nations's Committee on Economic, Social and Cultural Rights.
- Following a 17-month **investigation of the Bujagili Dam** in Uganda, **the World Bank's Inspection Panel** has **found** that **the Bank fell short** in properly assessing the project's economic viability, the impacts of climate change on river hydrology and the cumulative effects of multiple dams on the Nile River and on Lake Victoria. Risks were also identified in the power-purchase agreement negotiated between the developer and the government. Due to the rising costs of the project, electricity is likely to become a luxury item that is out of the reach of most Ugandans. Bank management dismissed almost all of the Panel's findings, and the Board has accepted management's action plan. The full report is available at http://www.internationalrivers.org/en/node/3568
- The IMF approved a **one-year arrangement with Malawi** for US$77.1 million to address a terms of trade shock resulting from an increase in the price of food, fuel and fertilizers. The **first arrangement under the Exogenous Shock Facility** (ESF) provides support to low-income countries who experience external shocks beyond their control.
- At the climate change conference in Poznan, Poland, 160 groups released a statement calling for **a new Global Climate Fund** under the United Nations Framework Convention on Climate Change (UNFCCC). The statement offers **principles to guide the** formation of the **new fund**. Available on-line at http://www.ips-dc.org/articles/957
- UN General Assembly President Miguel d'Escoto issued more **details** on his **Expert Commission on Reforms of the International Monetary and Financial System**. It will identify broad principles underlying needed institutional reforms, suggest a range of feasible proposals for reform, and identify the merits and limitations of alternatives. It will meet on January 5-6 in New York, on March 9-10 in Geneva, and in New York in March. A final report is expected for April. http://www.un.org/ga/president/63/letters/doha281108.pdf

New Publications this month

- "*Issue Brief: The Bank of the South*", Halifax Initiative, December 2008. One year on from launching the Bank of the South in Latin America, what are some of the problems hindering the Bank's completion? What are some of the ongoing concerns? And what is the Bank's status today? http://www.halifaxinitiative.org/index.php/factsheets/1125
- "*Quick Fixes or Real Solutions? World Bank and IMF responses to the global food and fuel crises*", Action Aid, Bank Information Centre, EURODAD, December 2008. http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Quick%20Fixes%20or%20Real%20Solutions.pdf

Upcoming Events

- Conference on "Values, development and regulation", hosted by Tony Blair and Nicolas Sarkozy, Paris, France, January 8-9, 2009.
- World Social Forum, Belem, Brazil, January 27 – February 1, 2009.

JUST THE FACTS

Key outcomes of the Financing for Development meeting

Reaffirmation of Monterrey –Doha reaffirmed Monterrey's goals to "eradicate poverty, achieve sustained economic growth and promote sustainable development as we advance to a fully inclusive and equitable global economic system". It went beyond Monterrey, noting that "gender equality and women's empowerment are essential [...] to effective development". Countries will support the promotion of gender equality by addressing gender-based discrimination and through economic empowerment, including full and equal access to economic resources. Doha also affirmed the centrality of "full and productive employment and decent work for all."

Taxation – CSOs were hoping for strong measures on the following: tax evasion and avoidance; addressing capital flight; upgrading the UN Committee of Experts on International Cooperation in Tax Matters to a full inter-governmental committee; introducing progressive taxation policies; and improving tax administration and enforcement. Instead, countries agreed that tax systems need to be more pro-poor ("progressive" was cut), that more cooperation is needed to fight tax evasion, and that ECOSOC will explore strengthening the UN Committee of Experts.

Aid – CSOs were hoping for a renewed commitment and timetable for the 0.7 percent aid target, greater aid predictability, the maximum use of developing country systems and democratic ownership of development priorities. Countries restated their commitment to 0.7 (despite recent declines), agreed to rolling (not multi-annual) timetables, and conveyed their support for the principles of national ownership, alignment, harmonization, and managing for results. Many felt Doha fell short of the Accra's September meeting on aid effectiveness.

Innovative mechanisms for financing development and currency transaction tax (CTT) – CSOs wanted more support for new measures to finance development. Beyond affirming that these resources needed to be additional to aid budgets, not much was said (and nothing on CTT).

Debt – CSOs wanted a more permanent debt mediation or arbitration mechanism that is fair, transparent and independent, expanded debt cancellation and further discussions on illegitimate debt. Doha identified the joint responsibility (creditor and debtor) for resolving debts, but called for a "debt restructuring mechanism" with no reference to mediation or arbitration, and with a central role for the Bank and Fund. Nothing was said about illegitimate debts.

International Conference – CSOs wanted an international conference on the financial crisis at the UN. To ensure all countries can effectively participate in discussions on global economic structures, countries agreed to "a conference at the highest level on the world financial and economic crisis and its impact on development," with modalities decided by March 2009.

Follow-up – The UN will monitor the various commitments and consider a follow-up in 2013.

Doha Declaration on Financing for Development,
http://www.un.org/Docs/journal/asp/ws.asp?m=A/CONF.212/L.1/Rev.1