DEBT AND DEVELOPMENT COALITION IRELAND

World Bank - IMF Watch 2013

{Debt and Development Coalition Ireland seeks to empower people in Ireland to take informed action for greater financial justice in Ireland and in the Global South}

TRACKING IRELAND'S POLICIES AT THE WORLD BANK AND INTERNATIONAL MONETARY FUND TOWARD THE GLOBAL SOUTH

Debt and Development Coalition Ireland (DDCI) is a membership organisation working for global financial justice. As an independent civil society organisation, one of our roles is to examine the work of the International Financial Institutions (IFIs), the World Bank and the International Monetary Fund, and the impact their policies have on the lives of millions of people around the world. We track the policies of the Irish government which represents the people of Ireland as a member of both the World Bank and the IMF, and support interested citizens and parliamentarians to hold the government to account in policy-making in this area.

This annual report is part of this monitoring work, and in 2013 focuses on the following issues which DDCI believes require urgent attention:

1. The need for debt audits and cancellation of unsustainable and illegitimate debts in Southern countries
2. The impact of the World Bank's *Doing Business* Report on economic planning in countries of the Global South[1]
3. The damaging impact of the International Finance Corporation of the World Bank Group through its investment in "financial intermediaries"
4. The IMF's promotion of regressive tax policy loan conditions, especially consumption taxes
5. Southern countries' demand for fundamental governance reform at the IMF

IN BRIEF: What are the IMF and World Bank?

The **International Monitory Fund (IMF)** has 188 member countries. It monitors the economies of its member countries, gives economic policy advice, and acts as the lender of last resort to borrowers who are then subject to loan policy conditions. In 2009, the G20[2] decided that the IMF should lead in responding to the financial and economic crisis, and committed to quadrupling the Fund's resources from US$ 250 billion to US$ 1 trillion.

The **World Bank** has 188 member countries. It provides financial and technical resources to Southern countries, and has a specific poverty reduction mandate. The World Bank Group works through five institutions, which have different roles.[3] In 2012, the World Bank Group committed US$ 52.6 billion in loans, grants, equity investments, and guarantees to its members and to private businesses.[4] The governments that borrow from the World Bank are required to adopt policy changes in return for loan financing.

Ireland became a member of both bodies in 1957.

[1] DDCI uses the terms 'North/South', or 'Global North /Global South' rather than 'First World/Third World or 'Developed/Developing' countries. We use them as a short hand in a way that seeks not to imply superiority or inferiority between people.

[2] The group of 20 leading advanced and emerging economies.

[3] The World Bank Group is made up of the International Development Association, the International Bank for Reconstruction and Development (these two together are comprise the World Bank), the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for the Settlement of Investment Disputes.

[4] World Bank, *Annual Report 2012*, World Bank, 2012

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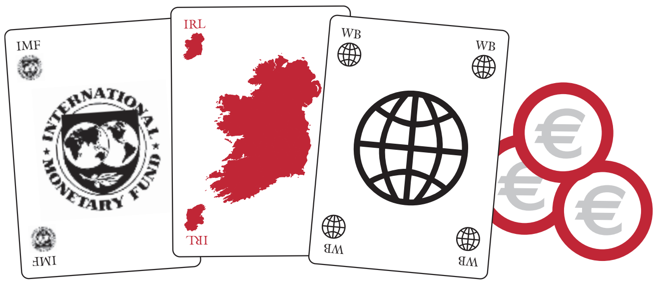
IRELAND, THE WORLD BANK AND IMF IN 2013: WORKING FOR THE PEOPLE OR FOR BIG FINANCE?

Are the World Bank and IMF working for the people or for big finance? This years *World Bank-IMF Watch* focuses on a number of areas where the international financial institutions (IFIs) are sadly hurting, the lives of people in the Global South. As Europe grabs the attention on debt issues, the continued debt distress of Southern nations has fallen off the international agenda. This edition of *World Bank – IMF Watch* shows how unsustainable and often illegitimate debts continue to be repaid by Southern nations. We highlight how Argentina awaits the judgment of a United States (US) court on whether an opportunistic "vulture fund" can claim over a billion dollars from its coffers. How the people of Zimbabwe await to see if they must repay debt arrears accumulated over decades of unjust rule and dodgy international lending relationships. How Jamaica is being put through yet another round of austerity measures, while the IFIs fail to support outright debt cancellation.

The report concentrates on a number of current, critical developments at the IFIs which are of high concern to justice groups worldwide. At the World Bank Group, we highlight how the current review of the well known World Bank *Doing Business Report* must address the narrow and often damaging economic policies they promote. We highlight the International Finance Corporation (IFC), an arm of the World Bank Group, and the sometimes devastating social and environmental effects of its investments in the financial sector. At the IMF, we question the continued promotion by the IMF of taxes that disproportionately hurt poor people and the continued failure of its board of directors to instigate meaningful governance reform.

Ireland has contributed over €150 million to the World Bank Group and IMF over the past 3 years. It is commendable that Ireland seeks to invest its largest contributions in elements of the World Bank and IMF that target finance toward the most impoverished people. However, Ireland cannot stay silent on the serious policy failures at the IFIs outlined here. This report comes just weeks after the Irish Government launched its follow-up to the White Paper on Irish Aid (2006) titled *One World, One Future: Ireland's Policy for International Development* (2013). Given the new policy document's strong focus on "demonstrating results" the Irish Government must become more accountable and show how its membership of the IFIs contributes toward poverty eradication and the reduction of inequality.



The report outlines a set of recommendations for action on specific issues. However, we also ask the Government to become more accountable in its decision-making with the IFIs. Specifically, Debt and Development Coalition Ireland calls on the Irish Government to:

- Publish the policy objectives that Ireland is pursuing at the IFIs. These should ideally be outlined in the currently unpublished, revised international debt policy undertaken by the Dept. of Finance and the Dept. of Foreign Affairs and Trade in 2009.
- Establish monitoring and evaluation mechanisms for tracking progress toward meeting these objectives. This should include reference to ongoing IFI evaluations that are informing Ireland's decision making and spending. Ireland should carry out independent, periodic reviews to account for the impact of public spending, amounting to over €150 million over the past 3 years, at the IFIs vis-à-vis our national development policy objectives.[5]
- Initiate an annual Oireachtas debate on Ireland's participation at the IFIs to support parliamentary input into Ireland's decision-making.
- Initiate a discussion on the issues arising from the *Annual Report on Ireland's Participation at the World Bank and IMF* at the Inter-Departmental Committee for Policy Coherence, chaired by Minister for Trade and Development Joe Costello T.D, with opportunities provided for civil society participation.

[5] For example the Dutch Government recently undertook an review of the past 10 years of its funding and engagement with the World Bank in *Working with the World Bank*: *Evaluation of Dutch World Bank Policies and Funding (2000-11)*, Policy and Operations Evaluation Department, Ministry for Foreign Affairs, 2013

IRELAND'S YEAR AT THE WORLD BANK AND IMF – A COMMENTARY ON THE IRISH GOVERNMENT'S ANNUAL REPORT

THE IRISH GOVERNMENT'S 2012 REPORT: IRELAND'S PARTICIPATION AT THE WORLD BANK AND IMF[6]

Each year, the Irish Government publishes an important report on its participation at the World Bank and IMF. It is significant as it is the main mechanism through which the Government reports to the Oireachtas and to the public on its decision-making as a member of the World Bank and IMF. The report outlines the Irish Government's perspective on the main issues discussed by the institutions in the course of the year. In this year's report, DDCI particularly noted the following:

AT THE IMF

IS THE IMF CHANGING?

By highlighting the IMF's Independent Evaluation Office report[7], the Irish Government acknowledges the IMF's admission of failure to foresee the global financial crisis, stating that "*its [the IMF's] focus on reserve accumulation was misplaced and that the IMF should have placed greater emphasis on issues such as the causes and consequences of global liquidity and international capital flows*". Though too late, this acknowledgement by the IMF is welcome. The more relevant and pressing problem however, is the IMF's hazardous policy response to the global crisis. Despite some important statements by the IMF on the benefits of debt cancellation and the dangers of overly zealous austerity measures,[8] recent research, most notably by the Initiative for Policy Dialogue and the South Centre, building on UNICEF research, highlights that austerity measures in IMF member countries are most prevalent in Southern countries. Common measures across 80 countries include phasing-out or eliminating subsidies, wage bill cuts/caps, increasing regressive consumption taxes, pension cuts and rationalizing and/or further targeting of social safety nets. Healthcare system cuts and labour deregulation were also being considered in 30 countries.

The report authors highlight, *"contrary to public perception, [..] consolidation strategies are not limited to Europe, and, in fact, many are more prevalent in developing countries. All of the different adjustment approaches pose potentially serious consequences for vulnerable populations."*[9]

GOLD SALES

The Irish Government report highlights that the IMF agreed to a massive sale of its gold reserves in 2012 worth US$ 1.1 billion. The report indicates that a further US$ 2.7 billion as a result of the sale is due to be released soon. The IMF's sale of gold reserves in 2012 will be used for concessional loans to Low Income Countries (LICs). In 2012, the IMF was set to lend US$ 3.1 billion to 36 LICs, such as Bangladesh, Burkina Faso and Kenya. Given the historically high price of gold, the gold sale realized millions more than anticipated. The IMF should have pegged these funds for cancellation of debts for these LICs rather than contributing to the creation of new debt. The IMF should use the remaining US$ 2.7 billion for this purpose. 58 civil society organisations have proposed ways in which this could be done, such as through the extension of the Post Catastrophe Relief Fund to support debt cancellation for vulnerable countries.[10]

6 Dept of Finance, *Ireland's Participation at the World Bank and IMF*, 2013

7 IMF (2012) *International Reserves: IMF concerns and country perspectives*, Evaluation Report, published by the Independent Evaluation Office of the IMF.

8 In 2012, the IMF signalled support for debt relief for Greece and in the run up to the World Bank-IMF spring meetings 2013, IMF Director, Christine Lagarde indicated, *"(Reforms) don't have to be brutal or abrupt or massively front-loaded. Those under financial pressure have to demonstrate the ability to do so but be mindful of the fabric of society"* http://uk.reuters.com/article/2013/04/10/uk-imf-lagarde-europe-idUKBRE9390XU20130410

9 Initiative for Policy Dialogue and the South Centre, *Age of Austerity, A Review of Public Expenditures and Adjustment Measures in 181 Countries, Working Paper*, March 2013.

10 www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/Microsoft_Word_-_Common_Position_Statement_eng_fr_ger_sp.pdf

IRELAND AND GOVERNANCE AT THE IFIs

The report highlights the governance changes at the IMF, which once enacted will result in an increase of Ireland's voting share from 0.528 to 0.713 per cent. However, there is no reference by the Irish government to the continuing, enormous global imbalance in the governance rules of the institution (See pg 10 for an overview of this problem).

AT THE WORLD BANK GROUP

IRELAND AND THE INTERNATIONAL FINANCE CORPORATION (IFC)

The report notes that the Department of Finance hosted a significant meeting of the IFC and Irish private sector companies in Dublin in 2012. The report indicates that the purpose of this event was to support Irish private sector companies to access IFC funding. The report indicates that "*the expectation is that engagement with the Bank will open up new markets, new business and new opportunities for the Irish private sector*". It is unclear what development cooperation objective this activity fulfils, as the emphasis in the report is on potential benefits of the meeting for the Irish private sector. This is of particular concern given the serious failings in IFC's lending in the financial sector outlined in this report (see page 8 for an overview of these problems)

WHILE THE GOVERNMENT'S ANNUAL REPORT IS AN IMPORTANT DOCUMENT, DDCI ASKS THE GOVERNMENT TO USE IT IN FUTURE TO:

- Clearly indicate what *Ireland's view is* of the significant policy decisions made at the IFIs.
- Introduce policy objectives for Ireland's engagement with the IFIs and an analysis of specific decisions that have impacted on these policies. This would provide a clear and accountable tracking mechanism for measuring the impact of particular policy decisions.
- Jointly publish the annual report by the Dept. of Finance and Irish Aid. As significant elements of World Bank Group funding are monitored by Irish Aid, DDCI believes that future reports should be jointly published by both departments.

{"CONTRARY TO PUBLIC PERCEPTION, [..] CONSOLIDATION STRATEGIES ARE NOT LIMITED TO EUROPE, AND, IN FACT, MANY ARE MORE PREVALENT IN DEVELOPING COUNTRIES. ALL OF THE DIFFERENT ADJUSTMENT APPROACHES POSE POTENTIALLY SERIOUS CONSEQUENCES FOR VULNERABLE POPULATIONS."}

IRELAND'S CONTRIBUTIONS TO THE IMF AND WORLD BANK GROUP 2010-12*

IMF

		2010	2011	2012	Total	
	Poverty Reducation Growth Facility (PRGF)	€100,000				
	Total IMF contributions	**€100,000**	**€-**	**€-**	**€100,000**	

WORLD BANK GROUP - IRELAND'S TOP INVESTMENTS IN THE WORLD BANK GROUP 2010-12

		2010	2011	2012	Total	% of total Irish contribution to World Bank Group
	IDA					
1	International Development Association (IDA)	€18,000,000	€18,000,000	€23,400,000	€59,400,000	39%
	World Bank Trust funds					
2	Global Fund to fight AIDS, TB and Malaria	€9,050,000	€9,340,000	€11,800,000	€30,190,000	20%
3	Ethiopia Protection of Basic Services Program (Phase II and III) Project	€7,830,000	€7,500,000	€7,700,000	€23,330,000	15%
4	Multi Donor Trust Fund for Ethiopia Productive Safety Nets	€7,030,000	€8,000,000		€15,030,000	10%
5	Consultative Group on International Agricultural Research (CGIAR)			€4,240,000	€4,240,000	3%

* For a full list see Appendix 1

UPDATE: SOVEREIGN DEBT IN THE GLOBAL SOUTH[11]

Successful international campaigns for debt justice have seen the cancellation of $126 billion[12] of debt in Southern countries. This cancellation was required as a matter of justice because many of these loans were the result of odious, illegitimate or simply reckless lending between borrowers and lenders in the past[13]. The cancellation was achieved through the World Bank and IMF's Highly Indebted Poor Country Initiative (HIPC) (begun in 1996 and extended in 1999 and 2006) which guarantees some debt cancellation for up to 39 countries[14]. While the scheme frees up significant resources it also has some fundamental failures. Qualifiying countries are required to implement many counter-productive policy conditions in order to access the debt write-down[15]. The HIPC scheme came to an end in 2011, and today there is no internationally agreed fair, transparent or independent process for supporting countries in debt crises.

LEVELS OF EXTERNAL DEBT STILL OF CONCERN

Recent figures released by the World Bank show that the external debt of Southern countries is rising, amounting to US$4.9 trillion in 2011, up from US$4.4 trillion in 2010. This has more than doubled since 2000, when the figure was US$2.1 trillion[16]. Despite the increasing engagement of new lenders such as China and India, the World Bank and the IMF remain dominant lenders, accounting for almost half of new lending to LICs over the last 5 years[17]. Most worryingly, some indebted countries, such as Ethiopia, could be spending as much of their government revenue on foreign debt payments in a few years as they were before debt relief.

{"SOME INDEBTED COUNTRIES, SUCH AS ETHIOPIA, COULD BE SPENDING AS MUCH OF THEIR GOVERNMENT REVENUE ON FOREIGN DEBT PAYMENTS IN A FEW YEARS AS THEY WERE BEFORE DEBT RELIEF."}

Ethiopia

In Ethiopia, debt payments fell as a result of debt cancellation from averaging 10% of government revenue from 1998 - 2000, to 4% a year from 2007 – 2009. At the same time, spending on health and education increased from 22% of government revenue to 32% by 2006 – 2007, with evidence of improvements in health and education outcomes for citizens. However, since the financial crisis began, foreign owned debt has risen again and is predicted to reach US$ 10bn by 2014. Since 2005, Ethiopia has been lent US$ 5.6 billion, including US$ 1.6bn by the World Bank, the bulk of this since the financial crisis in 2008. Although the IMF and World Bank say that Ethiopia is still at a low risk of debt distress, the debt created in recent years may lead them back into debt crisis.[18]

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[11] This section draws from the Jubilee Debt Campaign (UK) report, *The State of Debt*, and EURODAD's recent analysis of the World Bank's 2013 International Development statistics.

[12] IDA & IMF, *HIPC Initiative and MDRI: Committed Debt Relief and Outlook - Status as of end-December 2012*, available at http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1256580106544/HIPCStatisticalUpdate2013.pdf

[13] To read more about odious and illegitimate debt see: Eurodad, *Skeletons in the Cupboard, Illegitimate Debt Claims of the G7*, 2007; Hanlon, Joseph, *Defining Illegitimate Debt, Understanding the Issues*, Norwegian Church Aid, 2002; Mandel, Steve, *Odious Debt: Debt Relief as if Morals Mattered'*, 2006, New Economics Foundation; Jubilee Debt Campaign, *Unfinished Business, 10 Years of Dropping the Debt*, 2008; Christian Aid, *Enough is Enough, The Debt Repudiation Option*, 2007

[14] IDA & IMF, op cit: 1

[15] Jubilee Debt Campaign, *Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation, 2006*

[16] http://eurodad.org/1544376/

[17] The World Bank and IMF accounted for 45% of new lending to low income countries over the last five years, Jones, Tim, *The State of Debt*, Jubilee Debt Campaign, 2012: 6.

[18] ibid 2012: 25

PRIVATE DEBT ON THE RISE

The character of Southern sovereign debt has changed due to the growing involvement of private lenders. It is estimated that the share of private external debt in Southern countries – debt that is owed by private companies as opposed to governments - may have exceeded the public share[19]. Globally, in 2000, long-term public debt was US$ 1.3 trillion compared to US$ 0.5 trillion of private sector debt. By the end of 2011, public sector debt was US$1,761 billion compared to US$1,708 billion of private sector debt. The true picture in relation to private debt is unknown due to its complex and unreported nature, and therefore the level of risk in this area is uncertain[20]. This may store up problems for Southern countries because, as the Irish experience shows, unsustainable private debt burdens can disastrously fall back on the state. In Nicaragua, one of the countries to have successfully completed the HIPC initiative, private external debt is currently 48 per cent of GDP, compared to 45 per cent for the public sector. Payments on private debt are costing 10 per cent of Nicaragua's export revenues, compared to 2 per cent for public debt payments[21].

Analysis of Southern countries' debt shows that while at the moment it is relatively sustainable at an average debt to GNI ratio of 21.5% in 2011[22], some countries have highly distressed ratios of more than 100%. These include Belize, Jamaica, Nicaragua and Papua New Guinea.

Jamaica

Jamaica, which is in the same grouping as Ireland within the World Bank and IMF[23], has never qualified for debt relief as it is classified as a Middle Income Country. However, Jamaica has repaid US$ 19.8bn on US$ 18.5bn of loans so far and still has debts of US$ 7.8bn remaining, a result of large interest payments. The Jamaican government's foreign debt payments (US$ 1.2bn) are double the amount spent on health and education combined (US$ 600m).[24] In May 2013, the IMF announced a new loan agreement for Jamaica, accompanied by austerity measures over four years. The IMF arrangement includes a 'debt exchange' option.[25] However, analysis by UNDP of a previous similar restructuring in 2010 (which provided interest rate reductions and slight extensions on debt maturities) shows that while this form of debt re-structuring provides some fiscal breathing space, it did not address the long term problem of lack of sustainability of the debt.[26] In Jamaica's case a debt write-down and grants based finance should be on the agenda to enable it to finally take control of its own development and future planning.

ACTION!

The Irish government should work to put debt cancellation needs of Southern countries higher on the World Bank and IMF agenda. This should include:

- Supporting immediate debt write downs for countries with high levels of debt distress, like Jamaica;
- supporting debt audits where questionable loans are being repaid;
- and working for internationally agreed fair and responsible lending and borrowing practices in future.

{"SOME COUNTRIES HAVE HIGHLY DISTRESSED RATIOS OF MORE THAN 100%. THESE INCLUDE BELIZE, JAMAICA, NICARAGUA AND PAPUA NEW GUINEA."}

Mbemba Jabbi speaks about Zimbabwe's debt, 2009

[19] http://eurodad.org/1544376/
[20] http://eurodad.org/1544376/
[21] *The State of Debt*, op cit, 2012: 23
[22] http://eurodad.org/1544376/
[23] Ireland is a member of the Canadian-led multi-constituency group within the World Bank and the IMF. The group is chaired by Canada and includes Ireland and 11 Caribbean countries.
[24] www.guardian.co.uk/global-development/poverty-matters/2013/apr/16/jamaica-decades-debt-damaging-future
[25] IMF, Request for an extended arrangement under the extended fund facility, May 2013 http://www.imf.org/external/pubs/ft/scr/2013/cr13126.pdf
[26] Hurley, Gail. *Jamaica's Debt Exchange A Case Study for Heavily Indebted Middle-Income Countries*, *Discussion Paper*, May 12, 2010, UNDP www.jm.undp.org/files/Discussion%20Paper%20Jamaica's%20Debt%20Exchange.pdf

OLD AND NEW DEBT PROBLEMS

ARGENTINA – THE VULTURES ARE CIRCLING

Over 10 years ago, Argentina defaulted on its debt. Mired in economic and political crisis, compounded by the damaging policies of external lenders, Argentinean President Kirchner offered the state's creditors about 25 cent in the dollar. Most creditors, seeing the writing on the wall, eventually took the deal.

However, some opportunistic creditors, coined '*vulture funds*', bought up this high- risk, distressed debt on the secondary market hoping to make a profit over time. Cayman Islands based fund, NML Capital Ltd, a subsidiary of Elliot Associates, has been suing Argentina since, as a route to reclaiming this type of debt, culminating its actions in 2012 in the dramatic seizing of national Argentine symbol, *The Libertad* naval ship, off the coast of Ghana. This was followed by a New York court ruling that the Argentinean Government must pay US$ 1.3 billion to NML capital Ltd. In February and April 2013, a New York court heard Argentina's appeal, which offered to pay the vulture funds largely the same deal as offered on its previously defaulted debt.

The implications of the court ruling will be enormous. For Argentina, if it loses its appeal, it will be legally obliged to pay NML Capital at the same time it pays its previously re-structured debts to other creditors. Furthermore, any bank that allows Argentina to repay one creditor without paying NML Capital would be in contempt of the ruling. This could push Argentina back into a technical default – all to fund the profit seeking interests of a "vulture fund".

ACTION!

The Irish government should initiate legislation severely curbing the level that such funds can profit from the purchasing of distressed debt and ensure that any existing national debt re-structuring agreements also apply to such funds. Ireland should advocate for other jurisdictions to do the same.

A DEBT AUDIT FOR ZIMBABWE

HOW DID ZIMBABWE'S DEBT COME ABOUT?

For the last decade the Zimbabwean government has been in default on most of its debt owed to external lenders, currently estimated to be around US$ 7 billion. This debt arose primarily from loans made in the 1980s and 1990s by commercial lenders, governments including France, Germany and the UK, and international financial institutions such as the World Bank, IMF and African Development Bank. Recent research by the Zimbabwe Europe Network and Jubilee Debt Campaign UK shows that Zimbabwe's debt was accumulated on a questionable basis including:

- At least US$ 750 million of debt arising from structural adjustment loans from the IMF, World Bank and African Development Bank, which resulted in lowered economic growth and increased unemployment.
- Loans from the World Bank for tree plantations which created fuel supplies despite the fact that there was plenty of wood available, and there was no economic return on the plantations.
- Loans from the Spanish government for the Zimbabwe government which were used to buy Spanish military aircraft and UK unspecified 'aid' loans, which were tied to buying exports from British companies.

WHY IS ZIMBABWE'S DEBT BEING DEBATED NOW?

Recently, the World Bank and IMF have signaled that Zimbabwe may be eligable to enter HIPC and the African Development Bank is currently carrying out an analysis of their sovereign debt. However, the current government, eager to re-enter the debt markets, has indicated that it would favour a hybrid debt relief model, comprised of a combination of some elements of HIPC in addition to repayments of debts through proceeds from mineral (especially diamond) sales. Given the negligible impact of Zimbabwe's historic debts and the questionable role of previous Zimbabwean governments and a range of lenders in its sovereign debt accumulation, Zimbabwean campaigners are questioning whether citizens should foot the bill for Zimbabwe's arrears. Indeed, while a deal could reduce Zimbabwe's debt by about half the arrears clearance could cost up to US$ 750 million out of an annual budget of US$ 2.7 billion.[27]

ACTION!

DDCI calls on the Irish Government, to ask the Africa Development Bank, World Bank and IMF to release all information and evaluations of loans which contributed to Zimbabwe's sovereign debt and to request them to signal that they would support and co-operate with an official, independent debt audit if one is undertaken by Zimbabwe.

[27] ibid:8

KEY ISSUES AT THE WORLD BANK

THE WORLD BANK'S *DOING BUSINESS REPORT*

The *Doing Business Report* ranks countries' business regulations and enforcement across 185 economies, based on 10 indicators and updated every year[28]. The rankings are actively used by the World Bank, international donors, policy makers and investors to gauge the investment environment in countries. This in turn impacts on countries access to grants, loans and investment. Because of its influence, the economic policy decision-making of Southern governments, especially those with weaker economies, are influenced by the rankings. For example, the Zambian Government's principal scheme to promote private sector development has 4 'cross-cutting' aims, one of which is to ensure that Zambia improves its scores in the *Doing Business* rankings by moving from position 100 to 50 by 2014.[29]

While the World Bank has argued that *Doing Business* is not intended to include all elements relevant to private sector development, the World Bank President, Dr Jim Yong Kim, has responded to criticisms by establishing a review of the *Doing Business* Report in 2013. DDCI believes the review must face up to 2 fundamental problems of *Doing Business:*

1. It is **irrelevant to the majority of businesses** in the global South, which are mostly small, often poor, entrepreneurs.[30] This is because the rankings focus on the investment interests of medium, urban companies. For example, Zambia ranks well nationally on the 'access to credit' indicator but when small businesses were surveyed in Zambia by CAFOD in 2012, lack of access to credit was the major problem cited in blocking their development.

2. By ranking countries according to a set of **biased and narrow indicators**, *Doing Business* implies its findings are objective. It does not recognise that there are a range of routes to economic development. Instead, the rankings largely favour economic deregulation, rewarding potentially very **harmful economic policies**. DDCI is particularly concerned about two areas of the *Doing Business* report: **Labour regulation** and **tax policies.**

LABOUR REGULATION

- In 2011, the Employing Workers Indicator (EWI) of *Doing Business* was removed. This is because it was viewed as promoting deregulation of labour standards and rewarding countries that did away with worker protection legislation, sometimes through World Bank loan policy conditions.[31]
- Despite trade union advocacy, there has not been progress in creating a more balanced indicator which scores countries on worker or social protection measures that support a fairly treated workforce. Worryingly, the option of re-introducing the EWI after the review has not been ruled out.

Eimear Gavin at Financial Fools Day campaign, 2009

[28] The 10 indicators are: Starting a Business; Dealing with construction permits; getting electricity; Registering property; Getting credit; Protecting investors; Paying taxes; Trading across borders; Enforcing contracts; Resolving insolvency. The top 10 countries ranked 'easiest to do business' for 2012 are: 1) Singapore 2) Hong Kong 3) New Zealand 4) United States 5) Denmark 6) Norway 7) United Kingdom 8) Korea Rep 9) Georgia 10) Australia http://www.doingbusiness.org/rankings

[29] Government of Zambia, *Private Sector Development Reform Programme II (PSDRP II) 2009-14*, Pub 2009, http://www.psdzambia.org/uploads/3/0/7/4/3074051/psdrp_ii_programme_document.pdf

[30] CAFOD, *What kind of review do we need of the Doing Business Rankings*?, Oct 2012

[31] For example, CAFOD highlights that Brazil moved down the rankings when its minimum wage was increased ibid

TAX REGIMES

- The *'paying taxes'* indicator of *Doing Business* focuses on the amount of taxes businesses must pay in a country, with low corporate tax countries ranking highly. The rankings define tax entirely negatively, purely as a cost to business, ignoring the fact that tax revenue is the most sustainable and predictable source of income for Southern countries. Given that from 2000-2010, governments lost US$ 5.86 trillion to illicit capital flight,[32] it is extraordinary that *Doing Business* fails to acknowledge the devastating impact of corporate tax evasion and avoidance in eroding the revenue base of governments.[33]

ACTION!

The rankings element of the report should be excluded, until the purpose and content of the report as a development tool is clearly defined. This also means that the World Bank should stop using the *Doing Business* country scores within its Country Policy and Institutional Assessments, a decisive ranking tool used by the Bank which influences the scale of money disbursed to borrowing countries.

- For the report to become development focused it should become relevant to supporting the majority of businesses in the global South (small and informal) and cease to promote potentially harmful economic policies.
- The *Employing Workers* indicator should be permanently excluded and more balanced research carried out which includes considerations of worker protections.
- The *Doing Business* analysis should promote transparency in relation to tax systems and administration, which enables citizens to hold their governments to account in this area, including whether countries have declared support for country-by-country financial reporting by multinational corporations (MNCs) and automatic exchange of information on tax matters.

The current review of *Doing Business* should broaden its consultation to include more small and medium enterprises in rural areas in Southern countries and address policy areas, such as access to education and information, that are useful for them.[34]

INTERNATIONAL FINANCE CORPORATION (IFC) INVESTMENT IN THE FINANCIAL SECTOR

The International Finance Corporation (IFC) is part of the World Bank Group. Its role is to encourage private sector investment in the global South, with the objective of supporting Southern countries to achieve sustainable growth.[35] More than 50% of IFC business is in the poorest countries in the world.[36] A social and environmental audit by the Compliance Advisor Ombudsman (CAO) of the IFC's lending to the financial sector was published in February 2013.[37] The audit revealed an astonishing lack of oversight within the IFC's practice of channeling public funds through so-called 'financial intermediaries' (FIs). FIs are third party financial entities such as banks, equity funds, microfinance institutions, insurance companies and leasing companies. The IFC channels more than 40% of its finance through these intermediaries valued at almost US$ 20 billion. The audit looked at a 10% sample of the overall portfolio and found that 10% of the sample were not compliant with the IFC social and environmental requirements, and a further 25% were only partially compliant or there was uncertainty over their compliance. Crucially, the CAO audit:

- found that the IFC "*conducts no assessment of whether the [environmental and social] requirements are successful in doing no harm*" and indicated that "*the result of this lack of systematic measurement tools is that the IFC knows very little about potential environmental or social impacts of its [..] lending*" .

[32] *Global Financial Integrity (2012). Illicit Financial Flows from Developing Countries: 2000-2010*, December 2011 (see http://iff.gfintegrity.org/iff2012/2012report..html)

[33] For more information see Killian, Sheila, *Driving the Getaway Car? Ireland, tax and development*, March 2011, Debt and Development Coalition http://www.debtireland.org/download/pdf/driving_the_getaway.pdf

[34] as highlighted in the CAFOD survey op cit

[35] For more information on the IFC, see www1.ifc.org

[36] www.worldbank.org/en/news/speech/2011/05/10/ifcs-13th-annual-global-private-equity-conference-the-new-investment-climate-in-emerging-markets

[37] www.cao-ombudsman.org/

- found that among the *"sub-clients" that the FIs lend to ("sub-clients" are the local institutions which the IFC wish to assist) "the proportion of non-improved performance was around 60 per cent". In addition, sub-clients of the IFC are being allowed to invest up to 5% of their portfolios in activities on the IFC exclusion list*, including investments in tobacco production, the arms industry and gambling.

- indicated "*surprise*" that *even when requirements were contained in a contract between the IFC and a financial intermediary were not complied with*, the IFC did not refuse additional financing.

IFC support for Land-grabbing in Cambodia, Laos - Vietnamese Rubber Barons

Civil society organisation Global Witness has released a shocking report[38] that highlights the IFC and Deutsche Bank involvement with companies that are engaging in legally questionable land acquisitions in Cambodia and Laos. An area half the size of Ireland has been leased by companies including, Hoang Anh Gia Lai (HAGL) and Vietnam Rubber Group (VRG), beyond legal allowances and causing enormous social suffering and environmental damage. The IFC is involved through its 5 per cent investment in HAGL. The Global Witness report indicates "*the negative impact of VRG and HAGL's activities is hard to overstate. Often, the first people know about either company being given their land is when the bulldozers arrive. Families affected are impoverished, face food and water shortages and get little or no compensation. Indigenous minority peoples' spirit forests and burial grounds have been destroyed. When they resist, communities face violence, arrest and detention, often at the hands of armed security forces who are on the investors payroll.*" The report indicates that neither the IFC nor Deustche Bank undertook adequate due diligence on HAGL or VRG and as a result have failed to uphold their own environmental and social commitments.

{"WHEN THEY RESIST, COMMUNITIES FACE VIOLENCE, ARREST AND DETENTION, OFTEN AT THE HANDS OF ARMED SECURITY FORCES WHO ARE ON THE INVESTORS PAYROLL."}

ACTION!

The Irish government should request the IFC to

- suspend its investment in cases such as that of the Cambodia and Laos landgrabs and other cases that are under review by the CAO (the CAO reports over 30 major projects currently under investigation), urgently address the environmental damage or social harm that has resulted from financial sector investments and compensate any losses communities have suffered;
- fundamentally review the purpose and modalities of IFC investment in the financial sector. In the development of a new strategy for investment in the financial sector, the IFC should formulate a process for independent input, participatory consultation with communities affected by IFC lending, and broader stakeholder engagement.

These recommendations have been raised with the World Bank Group by 45 CSOs including DDCI. The World Bank board of directors Committee for Development Effectiveness has requested the IFC to respond to these concerns.

The Irish government should **not** invest in the IFC financially or through creating linkages between the IFC and the Irish private sector without these fundamental concerns being addressed.

Nessa ní Chasaide, Protest Against Gibe Dam Ethiopia, 2010

[38] Global Witness, *Rubber barons: How Vietnamese companies and international financiers are driving a land grabbing crisis in Cambodia and Laos*, May 2013

KEY ISSUES AT THE IMF

TAX CONDITIONALITY

Tax justice campaigners have long been concerned that the policy consensus shaped by the IMF encourages regressive taxation, including the promotion of flat taxes such as VAT on basic consumption items. Taxing basic goods like food and household items is particularly regressive because it doesn't differentiate between consumers. This effects poor families worst as this group spend a higher percentage of their income on these types of goods than better off households. Although there has been an acknowledgment within the IMF that VAT is a regressive tax[39], promotion of VAT is still at the heart of many IMF policy conditions. The IMF, in a recent review of Bangladesh's IMF programme, reported that a new VAT law, which was included as a loan policy benchmark, and eliminated exemptions on basic goods and sets a flat 15% VAT rate, provides '*a solid anchor for the government's tax modernization strategy*'. In fact, the IMF called it the 'centrepiece' of tax reform in Bangladesh.[40] This is in a context where poor households pay 40 per cent more than rich households in VAT as a percentage of their income.[41] Bangladeshi campaigners responded by calling on the government to employ a range of alternative progressive taxes including expanding income taxes, reducing corruption in taxation, taxing luxury goods, increasing corporate taxation and halting capital flight.[42]

Bangladesh is not a stand alone case. Recent extensive research drawn from IMF country reports and loan contractual documentation indicates that 63 Southern countries are applying increases in consumption taxes on goods and services. Notably the research highlights it as a strong trend in African countries. 18 African countries, many of which are in IMF programmes are highlighted as introducing VATs (eg: the Gambia, Guinea-Bissau, Sudan) or expanding the coverage of VATs (eg: in Benin, Burkina Faso, Ethiopia, Ghana, Malawi, Mali).[43]

The IMF has shown that it can change its policy approach in relation to taxation. For example, it has in recent times recognised the need to tax extractive industries fairly and ensure transparency about MNC and government tax agreements[44]. However, its stance on VAT has remained stuck in the past.

{"PROMOTION OF VAT IS STILL AT THE HEART OF MANY IMF POLICY CONDITIONS."}

ACTION!

The Irish government should advocate that the IMF stop applying increases in regressive taxes such as VAT as a source of quick win revenue collection and instead focus on supporting fair burden sharing of tax that focuses on progressive, equity-based taxation policies.[45]

URGENT NEED FOR REFORM AT THE IMF

One of the long-running issues that DDCI has been tracking at the IMF is the urgent need for governance reform, particularly quota reforms. Each member of the IMF is assigned a quota. The quota is used in three ways: to determine voting rights, to determine contributions to the IMF, and to set a guideline for the level of resources a country can borrow from the IMF[46]. Quotas are historically unfairly skewed and are now decided upon through counting a combination of GDP, openness, economic variability and international reserves[47]. As of March 2013, the quotas were distributed as follows: 26 countries which were categorized as 'advanced' had 56% of the quotas, but 73 countries – the poorest – as they were able to avail of the IMF's Poverty Reduction and Growth Trust had 3%.[48]

39 IMF Income inequality and fiscal policy available atwww.imf.org/external/pubs/ft/sdn/2012/sdn1208.pdf

40 IMF, *Statement at the Conclusion of the IMF Mission on the First Review Under the Extended Credit Facility Arrangement with Bangladesh* http://www.imf.org/external/np/sec/pr/2012/pr12472.htm, December 6, 2012

41 Faridy and Sarker (2011)*Who really pays Value Added Tax (VAT) in developing countries? Empirical evidence from Bangladesh, 2011 International Conference on Financial Management and Economics IPEDR vol.11.*

42 No to IMF loan, yes to tax justice, http://bangladeshtax.blogspot.ie/2013/05/no-to-imf-loan-yes-to-tax-justice.html, May 7, 2013

43 Ortiz & Cummins, *The Age of Austerity: A Review of Public Expenditures & Adjustment Measures in 181 Countries*, Initiative for Policy Dialogue & the South Centre, March 2013

44 IMF (2011) *Resource mobilization in developing countries*, available at www.imf.org/external/np/pp/eng/2011/030811.pdf

45 Ortis and Cummins point to the possibilities within the areas of taxation of income, inheritances, property, luxury goods, corporations, including the financial sector, op cit: 29

46 www.brettonwoodsproject.org/art-569552

47 For more information on how quotas are calculated, see www.imf.org/external/np/exr/facts/quotas.htm

48 G24, *IMF Quota Formula Review, Achieving Comprehensive and Balanced Reform,* G24 Secretariat, February 1, 2013

{"THE FUNDAMENTAL GOAL OF QUOTA REFORM MUST BE TO ENHANCE THE VOICE AND REPRESENTATION OF EMERGING MARKETS AND SOUTHERN COUNTRIES, INCLUDING POOR AND SMALL LOW-AND MIDDLE-INCOME COUNTRIES."}

The G24, a group of 24 Southern country members of the World Bank and IMF made up of countries in Africa, Latin America and the Caribbean and Asia have been pushing for urgent reform. They argue that the current situation:

(a) fails to adequately reflect the dynamic changes underway in the global economy;

(b) remains biased against most emerging markets and Southern countries, especially the poor; and

(c) leads to many inconsistencies between countries[49]

In a communiqué in April 2013, the G24 re-iterated their strong belief that 'the fundamental goal of quota reform must be to enhance the voice and representation of emerging markets and Southern countries, including poor and small low-and middle-income countries, and to better reflect changes in relative weights in the global economy'.

ACTION!

The Irish government should support increased participation and voting rights for Southern countries at the IMF. This could be achieved through introducing a double majority voting system whereby the current quota-based voting system would be combined with a "one state – one vote" model such as that used by the United Nations. The archaic arrangement of Europe appointing the head of the IMF and the US appointing the head of the World Bank should be ended immediately and an open, merit based and transparent system put in its place.

[49] For more information on the G24's position on the IMF quota system, see www.g24.org/Communiques/april_2013.html

In summary, DDCI calls on the Irish government as a member of the IMF and the World Bank, and an established advocate for poverty reduction in Southern countries to:

Debt Cancellation, Debt Audits

Work to put debt cancellation needs of Southern countries back on the World Bank and IMF agenda including by:

- Supporting immediate debt write downs for countries with high levels of debt distress, like Jamaica;
- supporting debt audits where questionable loans were extended and support debt cancellation where appropriate, such as in the Zimbabwe case;
- working for internationally agreed fair and responsible lending and borrowing practices in future.

Vulture Funds

- Initiate legislation which severely curbs the level that vulture funds can profit from the purchasing of distressed debt and ensure that any existing national debt re-structuring agreements also apply to such funds.

World Bank Group - Doing Business Rankings

- Support the suspension of the rankings element of the report until the purpose and content of the report as a development tool is clearly defined. Particular attention should be put to improving its labour and tax policy analysis by becoming relevant to small and informal businesses in the global South.

World Bank Group - International Finance Corporation

- Call for suspension of IFC investment in cases such as that of the Cambodia and Laos landgrabs and other cases that are under review by the CAO
- Support a fundamental review of the purpose and modalities of IFC investment in the financial sector.
- The Irish Government should cease to invest in the IFC financially or through creating linkages between the IFC and the Irish private sector without this fundamental overhaul taking place.

IMF – Taxation policy

- Advocate that the IMF stop applying increases in regressive taxes such as VAT as a source of quick win revenue collection and instead focus on supporting fair burden sharing of tax that focuses on progressive, equity-based taxation policies.

IMF – Governance Reform

- Support much greater voice and vote of Southern countries at the IMF through supporting a double majority voting system whereby the current quota-based voting system would be combined with a "one state – one vote" model such as used by the United Nations.
- Support an end to the archaic arrangement of Europe appointing the head of the IMF and the US appointing the head of the World Bank.

APPENDIX

IRELAND'S CONTRIBUTIONS TO THE IMF AND WORLD BANK GROUP 2010-12

1	IMF	2010	2011	2012	Total	
	Poverty Reducation Growth Facility (PRGF)	€100,000				
	Total IMF contributions	**€100,000**	**€-**	**€-**	**€100,000**	

2	WORLD BANK GROUP	2010	2011	2012	Total	% of total contribution to World Bank Group
A	**IDA**					
A1	International Development Association (IDA)	€18,000,000	€18,000,000	€23,400,000	€59,400,000	39%
	Total IDA	*€18,000,000*	*€18,000,000*	*€23,400,000*	€59,400,000	
B	**World Bank Trust funds**					
1	Global Fund to fight AIDS, TB and Malaria	€9,050,000	€9,340,000	€11,800,000	€30,190,000	20%
2	Ethiopia Protection of Basic Services Program (Phase II and III) Project	€7,830,000	€7,500,000	€7,700,000	€15,330,000	15%
3	Multi Donor Trust Fund for Ethiopia Productive Safety Nets	€7,030,000	€8,000,000		€15,030,000	10%
4	Consultative Group on International Agricultural Research (CGIAR)			€4,240,000	€4,240,000	3%
5	Global Partnership for Education		€3,900,000		€3,900,000	3%
6	Education for All Fast Track Initiative Catalytic Trust Fund (EFA-FTI Catalytic Trust Fund)	€3,800,000			€3,800,000	3%
7	Afghanistan Reconstruction Trust Fund	€2,000,000	€1,000,000		€3,000,000	2%
8	Ethiopia Protection of Basic Services Social Accountability Program		€1,000,000	€800,000	€1,800,000	1%
9	Facility for Investment Climate Advisory Services (FIAS)		€600,000	€600,000	€1,200,000	1%
10	Multi Donor Trust Fund for the Ethiopia Productive Safety Nets Partnership	€588,000		€300,000	€888,000	1%
11	Technical and Administrative Support to the Joint Budget Support Framework in Uganda Multi-Donor Trust Fund	€546,104	€163,831	€163,831	€873,766	1%
12	Multi-donor Trust Fund for Comprehensive African Agriculture Development Programme (CAADP)	€210,000	€610,000	€250,000	€1,070,000	1%
13	Trust Fund for Mainstreaming Disaster Reduction Initiative of the Global Facility for Disaster Reduction and Recovery	€150,000		€500,000	€650,000	0.4%
14	Foreign Investment Advisory Services (FIAS) Sub-Saharan Africa Program	€400,000			€400,000	0.3%
15	Standby Recovery Financing Facility of the Global Facility for Disaster Reduction and Recovery	€100,000	€300,000		€400,000	0.3%
16	Multi Donor Trust Fund for the Protection of Basic Services Program Secretariat in Ethiopia	€110,000	€200,000	€50,000	€360,000	0.2%
17	Private Enterprise Partnership Africa: Conflict Affected States in Africa Initiative (CASA)		€300,000	€300,000	€600,000	0.4%
18	The International Finance Corporation (IFC) Sustainable Business Innovator	€200,000			€200,000	0.1%
19	The International Finance Corporation (IFC) Conflict Affected States in Africa	€200,000			€200,000	0.1%
20	The World Bank Institute	€100,000			€100,000	0.1%
	Subtotal World Bank Group Trust Funds	*€32,314,104*	*€39,913,831*	*€26,703,831*	*€98,431,766*	61%
	Total to World Bank Group	**€50,314,104**	**€50,913,831**	**€50,103,831**	**€151,331,766**	

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