Ireland
the global South
and the international financial institutions

PUBLIC REPORT CARD

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WHY A PUBLIC REPORT CARD?

This public report card is designed to provide an assessment of Irish government policy toward Southern countries[1] through Ireland's membership of the World Bank and the International Monetary Fund (IMF).

The World Bank and IMF were set up in 1944 at a meeting of 45 countries in Bretton Woods, New Hampshire, USA. They are often referred to as the 'Bretton Woods Institutions' or the 'International Financial Institutions' (IFIs). They were originally established with the aim of rebuilding the post-war economy and promoting international economic cooperation. Today, with 187 member countries each, they are among the most powerful actors in the global financial system, giving substantial loans to countries in financial and economic crisis.

Debt and Development Coalition Ireland (DDCI) is a membership organisation concerned about global financial injustice. This concern is rooted in our support for Southern campaigners' work for greater justice in a hugely unequal world. As a civil society organisation, we believe that it is important to publicly highlight and track the implementation of Ireland's policies in this area, to encourage greater accountability by the Irish government for the impact of these policies on the lives of millions of people in the wider world.

DDCI believes that we have a particular responsibility to focus our attention on the World Bank and IMF especially now, as Southern people experience significant debt vulnerabilities. In 2010, the IMF warned that it expected a significant deterioration in Southern debt levels compared with pre-crisis projections over the next five years.[2] The IMF estimates that one third of 'Low Income Countries' (LICs) are either in debt distress or are at high risk of debt distress.[3]

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1 A note on language: throughout the document the terms 'North/South', or 'global North /global South' are used, rather than 'First World/Third World', or 'Developed/Developing' countries.

2 IMF, *Preserving Debt Sustainability in Low Income Countries in the Wake of the Global Crisis,* IMF 2010: 3

3 IDA & IMF, *Heavily Indebted Poor Countries Initiative (MDRI) – Status of Implementation and Proposals for the Future of the HIPC Initiative,* IDA & IMF, Nov 8, 2011: 21

WHAT ARE THE ROLES OF THE IMF AND THE WORLD BANK?

The **IMF** monitors the progress of the world's economies, gives economic policy advice to governments, and lends money to IMF member countries with balance of payments problems. In 2009, the G20 (the group of the world's 20 most powerful economies) decided that the IMF should lead in responding to the financial and economic crisis, and aimed to quadruple the Fund's resources from $250 billion to $1 trillion.[4] Although it does not have an organisational aim of poverty reduction, the IMF is a very powerful institution in international development as it is the lender of last resort to many Southern countries which, as borrowers, are subject to its loan policy conditions. The IMF has also become a major influence as a lender to European economies, including Ireland.

The **World Bank** provides financial and technical support to Southern countries, and has a specific poverty reduction mandate. It works through five institutions, which have different roles: the International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID). The IDA is the arm of the Bank that lends to the world's most impoverished countries, in the form of grants and no-interest loans. The World Bank Group's financial transfers amounted to US$57.3 billion during fiscal year 2011.[5] The World Bank (which is comprised of two of the arms of the World Bank Group - the IBRD and IDA) requires that borrowing governments adopt policy changes in return for loan financing. The IBRD and IDA lent US$ 43 billion combined during fiscal year 2011.[6]

Ireland's participation in the World Bank and IMF

HOW DOES IT WORK?

Ireland joined the IMF and World Bank in 1957. The Irish legislation governing our membership is the Bretton Woods Agreements Act 1957, now amended several times since, most recently in 2012. Ireland is a member of the Canadian-led multi-constituency group within the World Bank and the IMF, which includes Ireland and 11 Caribbean countries. Ireland's Finance Minister is a Governor of the IMF and World Bank for Ireland (each member country has a governor) and attends the joint Annual Meeting of the IMF and World Bank which takes place each Autumn. Irish government representatives also attend similar meetings in Spring each year. Voting power in both institutions is based on historical (and, DDCI believes, outmoded) views of economic power. Recent changes saw Ireland's voting power or 'quota' in the IMF and World Bank increase. Since 1999 the Department of Finance has published an annual report, '*Ireland's Participation in the International Monetary Fund and the World Bank*', which outlines its engagement with those institutions during the previous year and includes details of Ireland's payments to both institutions.

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[4] In 2009, 250 billion in the IMF's reserve assets of Special Drawing Rights were created. Member countries quota contributions are due to increase from $ 366 billion to $732 billion once governance changes are implemented by end of 2012. In November 2011 the IMF reported that it has potential resources of $836 billion, $389 billion of which is available for new lending. For an overview of IMF funding mechanisms see: Bretton Woods Project, *IMF Resources, Quota, NAB and GAB*: http://www.brettonwoodsproject.org/art-569552.

[5] World Bank *Annual Report 2011: Year in Review*: The World Bank 2011.

[6] ibid.

Ireland's Payments to the World Bank 2010[7]

According to the most recent report on Irish participation in the World Bank, in 2010 Ireland paid €18 million into the IDA as part of the IDA's 15th replenishment.[8] In addition, Ireland paid over €32 million to 15 World Bank Group Trust Funds, such as the Afghanistan Reconstruction Trust Fund, Education for All Fast Track Initiative and the Global Fund for AIDS, TB and Malaria.[9]

And to the IMF....

To the IMF, Ireland paid €100,000 to the Poverty Reduction and Growth Facility, a lending facility to Low Income Countries.[10]

CHANGING TIMES: IRELAND – A LENDER AND BORROWER

Ireland has a positive history of working in solidarity with impoverished people in the global South, and of supporting debt cancellation for the most impoverished countries. Ireland's official development assistance programme also has a positive impact and reputation internationally.

On 16 December 2010, the IMF approved a €22.5 billion loan to Ireland, part of the €85 billion agreement under the Joint EU-IMF Assistance Programme to Ireland. DDCI, along with partner organisations, has carried out an audit of Ireland's debt which can be found at www.debtireland.org. The audit of Irish debt was informed by the practice of Southern debt justice groups who undertake debt audits as a way of making information on public debt more transparent. The Irish debt audit seeks to make information about the nature and scale of Irish debt more accessible to the Irish public. DDCI is also a member of Debt Justice Action, a new coalition of justice organisations in Ireland working for local and global debt justice (see www.notourdebt.ie).

DDCI believes that **now, more than ever**, people North and South must continue to stand in solidarity with eachother. Southern people, through generations, have already paid billions of euro in unjust external debt. Much of this debt is directly attributable to loans that did not benefit the people in those impoverished countries. The need to establish just and sustainable ways of dealing with sovereign debt crises globally, where the principle of justice for citizens is placed at the forefront of any policy, has never been greater.

[7] It is anticipated that Ireland's report on its participation in the World Bank and IMF for 2011 will be issued in March 2012.
[8] Department of Finance *Ireland's Participation in the International Monetary Fund and the World Bank 2010* March 2011: 14.
[9] ibid: *17.*
[10] ibid: *16.*

In this Report Card, DDCI's focus is on the following urgent issues for Southern countries:

[more debt cancellation]

The international Jubilee 2000 Campaign built great momentum for significant debt cancellation for Southern countries, resulting in governments wiping out almost $122 billion of debt in 40 countries as of end-2010.[11] While this has had a positive impact on the lives of people in the South, what was promised by governments has not gone far enough. The external debt of Southern countries remains enormous, currently standing at US$4.1 trillion.[12]

How debt cancellation happens

The instruments used by the World Bank and the IMF to cancel debt are the Highly Indebted Poor Country (HIPC) initiative[13] and the Multilateral Debt Relief Initiative (MDRI).[14] These mechanisms, highlighted by DDCI below, were designed to provide debt relief, to free up resources for poverty reduction in Southern countries and represent a positive step. **However**, they have serious failings in their design. DDCI has the following concerns:

- **The HIPC initiative and the MRDI are too slow and limited for Southern countries' urgent debt cancellation needs:** Already struggling to address poverty on a daily basis, to simply qualify for these mechanisms Southern countries had to first establish a track record with the IFIs by agreeing on and implementing policy changes and clearing arrears to the institutions over many years. These mechanisms have been too slow in delivering the level of debt cancellation required for Southern countries. Once admitted to the debt cancellation programme, it can take over 5 years or more to actually receive debt cancellation.[15] In 2006, the HIPC initiative was effectively closed to new entrants.[16]

Arrears clearance – slowing down debt cancellation: In the past countries including Liberia and the Democratic Republic of Congo have had debt cancellation delayed because of disputes over clearing arrears. Furthermore, the IMF has resorted to extending new loans which are not then eligible for cancellation, reducing the effectiveness of debt cancellation.

[11] Includes cost of HIPC initiative ($76 billion); MDRI ($33.8 billion) and additional 'beyond HIPC' requirements of the Paris Club official bi-lateral creditors ($11.9 billion). Source: IDA & IMF op cit: 21

[12] This applies to Low and Middle Income Countries for 2010. See World Bank's database: http://databank.worldbank.org/ddp/home.do

[13] The HIPC scheme began in 1996 and was extended in 1999. It aims at reducing bi-lateral, multi-lateral and commercial debts of 40 Southern countries.

[14] The MDRI scheme began in 2006 after the G8 Gleneagles Summit in 2005. It commits to cancelling the debt stocks of countries that have completed the HIPC process relating to 4 multi-lateral lenders - the World Bank, the IMF, the African Development Bank and the Inter-American Development Bank. It applies to debts contracted up to end-2004, though for the World Bank only till end-2003.

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

[16] IDA & IMF op cit: 7

- **Not enough countries or types of debts are targeted:** The World Bank and IMF do not use meaningful human development measurements for assessing countries' debt cancellation needs. As a result, they don't target enough countries. According to the IMF, the criteria for entry into the HIPC includes that countries must be eligible to borrow from the World Bank's IDA (which means a Gross National Income (GNI) per capita of less than US$1,175); be facing an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; already have established a track record of what are viewed as sound policies through IMF and World Bank supported programmes, and have developed a Poverty Reduction Strategy paper, in which the Bank and the IMF are also involved. In 2011, only 40 countries were eligible or potentially eligible for HIPC Initiative assistance.[17] This is despite the fact that in 2010, the IMF identified that the global crisis has increased the debt vulnerabilities of many Low-Income Countries.[18] Given such serious concerns, the United Nations Secretary General has again highlighted the need for the international community to consider extending debt cancellation to all Low Income Countries[19] (categorised by the Bank as countries which have a GNI of $1,005 or less).[20]

DDCI believes that more indebted countries should be included in debt cancellation programmes if they are to have a chance of achieving globally agreed anti-poverty targets such as the Millennium Development Goals.

Moreover, many of the loans extended by the IFIs are **unjust** and **illegitimate** in the first instance, as they have supported the interests of creditors and in some cases political and economic elites in the borrowing countries, as opposed to the citizens of the country. It is time that the concept of **illegitimate debt** is recognised and acted upon by the IFIs, and by governments around the world, given the widely documented abuse by international lenders of the lending system.

CHALLENGING ILLEGITIMATE DEBT CLAIMS

The variety of recorded circumstances that have lead to the creation of historic illegitimate loans by lenders include those given to repressive regimes and to known corrupt officials; those given for obviously useless, damaging or overpriced projects; or those granted on unacceptable terms and conditions.[21]

The huge loss of resources from Southern countries as a result of illegitimate debt repayments means that addressing the issue must be central to the formulation of new debt cancellation arrangements. For example, it is estimated that some 20% of Southern debts can be attributed to dictators, where lenders knowingly lent to oppressive regimes, such as to leaders in Indonesia, the Philippines and apartheid South Africa.[22] President Mobutu of Zaire (now the Democratic Republic of Congo (DRC)) accumulated a debt of $12.9 billion despite wide recognition among lenders that this debt could not be repaid. The people of the DRC are now being held responsible for this injustice, in a situation where life expectancy is 45 years and only half of children attend primary school.[23]

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[17] www.imf.org/external/np/exr/facts/hipc.htm

[18] IMF & World Bank *(2010) Preserving Debt Sustainability in the Wake of the Global Crisis.*

[19] United Nations General Assembly (2011) *External Debt Sustainability and Development*: Report of the Secretary General, 66th Session, 20th July 2011: 16

[20] http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income

[21] For a myriad of examples of illegitimate debts see: Christian Aid, *Enough is Enough, The Debt Repudiation Option*, 2007; 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; CRBM, *The Duale Peripa Project, Italy's Responsibilities in Ecuador's Illegitimate Debt*, CRBM, August, 2009; Mader et al, *How to Challenge Illegitimate Debt: Theory and Legal Case Studies,* 2009

[22] Hanlon, Joseph, Defining Illegitimate Debt and Linking its Cancellation to Economic Justice, Open University, June 2002: 49. Further research by the New Economics Foundation op cit, 2006.

[23] Jubilee Debt Campaign, op cit, 2008: p. 9

SMALL CARIBBEAN STATES: HIGH DEBT DISTRESS BEING IGNORED

'In 2005, the public debt of [small Caribbean island state] St. Kitts and Nevis, peaked at 197 percent of GDP, the highest in the world. The Caribbean Development Bank's Country Poverty Assessment in 2007/8 categorised 23.7 percent of the population as living in poverty. Yet only five small island developing states (Comoros, Guinea-Bissau, Guyana, Haiti and São Tomé and Príncipe) have been classified as either poor enough or indebted enough to benefit from international debt relief schemes such as the HIPC Initiative. Moreover, the International Financial Institutions have recently closed the HIPC Initiative to further countries regardless of indebtedness indicators.'

UNDP, *Achieving Debt Sustainability in the small Island Developing States,* UNDP October 2010: 37

> *The* [Caribbean] *region is heading towards bankruptcy - if countries could be declared bankrupt. When you have two items, just paying wages and salaries, and debt that's more than your revenue, what remains to run the country? Many governments in the region are approaching that kind of position.*

President Bharrat Jagdeo of Guyana, Statement to the UN General Assembly April 2010

[end policy conditionality attached to loans]

■ **External policy conditions attached to both HIPC and MRDI erode sovereignty and national democracy:** Once identified as a 'HIPC', to be eligible for debt cancellation, Southern countries have to first implement IMF/World Bank policy changes. This promotion of externally approved decisions leads to an erosion of sovereignty over key areas such as public expenditure, macroeconomic strategies and poverty reduction. These policy reforms are often more clearly aligned to the goals of the IMF and World Bank, rather than to the specific country needs. DDCI believes that this practice of policy conditionality should be brought to an end and a more effective and mature form of long term international cooperation fostered through **agreed, legally binding, fair and responsible borrowing and lending standards**.

DAMAGING POLICY CONDITIONS ATTACHED TO DEBT CANCELLATION

Privatization has frequently been required in order for Highly Indebted Poor Countries to receive debt cancellation. Research by the Jubilee Debt Campaign UK found that in order to access debt cancellation under the HIPC Initiative:

- Zambia had to privatize its national bank in the face of parliamentary and public opposition. IMF policies also forced it to restrict public sector spending through a wage and hiring freeze, leaving it unable to employ 9,000 desperately needed teachers.
- Nicaragua had to privatize electricity. Electricity prices rose by 200%, pricing the poor out of the market. Blackouts became frequent.
- Sierra Leone has had to lay the groundwork for privatization of 24 state enterprises, including water, power, and telecommunications.

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

[DDCI's key areas of concern at the IMF are:]

- **Lack of accountable leadership selection of the managing director at the IMF:** European governments, as opposed to the broader membership of the IMF, have traditionally chosen the IMF's managing director. This arrangement, along with the fact that the US selects the leadership of the World Bank, was part of a so-called 'gentleman's agreement' around the time of the Bretton Woods conference in 1944. In 2009, the IMF made a commitment to reform the process of selecting its management. **But....**

> In July 2011, the IMF failed to address this issue of leadership selection though the process which led to the appointment of EU candidate Christine Lagarde to the position of Managing Director of the IMF.

- **Lack of democratic representation of Southern countries in governance and decision-making at the IMF**: Decision making at the IMF is not based on democratic principles of equality and transparency. It is based on a historical formula and method of distribution of power that was created and maintained by richer countries since the inception of the institutions. In 2008, some IMF governance reform was agreed upon. However, the shift between Northern and Southern nations was only 2.6% of voting share. At the Board level, there will be two less European executive directors in order to give slightly more representation to Southern countries. In Ireland's Bretton Woods Agreements (Amendment) Act 2011, one of the two amendments passed provides for an additional alternate Executive Director for African constituencies and increased voting power for low income countries.[24] However, major governance reform is still needed as G8 countries currently hold approximately 46% of IMF voting shares.[25]

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[24] Department of Finance (March 2011) *Ireland's Participation in the International Monetary Fund and the World Bank 2010: 8.*
[25] A list of IMF directors and voting powers is available at www.imf.org/external/np/sec/memdir/eds.aspx

- **Exacerbation of poverty in the Global South:** The IMF has caused serious damage to the lives of people in the South by promoting macroeconomic policy conditions such as market liberalisation, privatisation, capping public expenditure and strict monetary policies, irrespective of whether these are appropriate policy actions in the context of the complex needs of impoverished and vulnerable states. The IMF Conditionality Guidelines in 2002 sought to decrease the number of structural conditions, and in 2009, the IMF also phased out its structural performance criteria, which included areas such as tax rates, commodity prices and institutional reform, which went beyond the Fund's core macroeconomic business. However, DDCI remains concerned about the persistent rigidity of the policy framework applied to Southern countries by IMF lending programmes. Recent research in relation to 13 low-income countries shows that while there was an initially more flexible approach to managing the crisis, there has been very little fundamental change in the IMF's long term approach.[26]

In September 2011, a UNICEF report indicated that Southern governments and the IMF are widening austerity measures:

'An updated review of the latest IMF country reports shows that governments are weighing various cost-saving policies, including: (i) wage bill cuts/caps, including salaries of education, health and other public sector workers; (ii) elimination or reduction of subsidies, including for basic food items; and (iii) rationalizing social protection schemes by reforming pensions or further targeting social safety nets. Also widely discussed is the introduction or broadening of taxes, such as VATs, on basic products consumed by vulnerable populations….'
'…Protecting vulnerable populations is critical to equitably sharing the adjustment costs of the ongoing economic and fiscal crises and avoiding detrimental or even irreversible effects on children. [..]'.

UNICEF, *Austerity Measures Threaten Children and Poor Households: Recent Evidence in Public Expenditures from 128 Developing countries,* UNICEF, September 2011

- **The failure of the IMF to commit to utilising proceeds from IMF gold sales to fund pressing debt cancellation needs of Southern countries:** In 2008 the IMF faced budget problems and one of the strategies it adopted was the sale of some of its reserve gold. The sale was completed in 2010 and earned the IMF $2.8 billion in profits. 58 Civil Society Organisations, including DDCI, have called on the IMF to invest the funds in Southern countries in crisis. We recommend using the gold sales proceeds to fund the IMF Post-Catastrophic Debt Relief Trust for impoverished countries, or to clear arrears for countries ahead of a debt relief process – this would be helpful because countries such as Liberia and the Democratic Republic of Congo have had debt cancellation delayed because of disputes over how to clear arrears.

[26] Eurodad, *Standing in the Way of Development*, Eurodad 2010.

THE CURRENT DEBATE ON THE IMF'S GOLD SALES

DDCI understands that other options for the use of proceeds from gold sales being considered by the IMF board include bolstering the IMF's surplus in a context of Eurozone crisis, or subsidising lower interest loans for the poorest Southern countries. These other options are unwise. Regarding the former, the funds in question are not significant enough to impact on a potential Eurozone default. The latter option will entrench IMF lending to the poorest countries for years to come rather than pro-actively addressing Southern nations' right to urgently needed sustainable, grant based finance.

- **The cautious and limited stance by the IMF on controlling capital flows:** It is welcome that the IMF has recently acknowledged the success of some capital flow control experiences, that is, controls over trade in real and financial assets. The IMF Executive Board's acknowledgement of Brazil's successes in this area is one recent example of this.[27] Despite this step forward, civil society organisations are concerned that the IMF's policy framework continues to limit the availability of policy options that allow a country to balance domestic needs with coping with developments in international capital markets. This is because the IMF is overly focused on capital controls as measures of last resort only. Further, according to a useful analysis published in November 2011,[28] the IMF's narrow focus on capital outflows from Southern economies neglects the 'source' side of the problem: the role that advanced economies play in pushing volatile and short-term capital flows towards Southern countries. Therefore, while the IMF's recent consideration of the usefulness of capital controls is welcome, a more robust debate, led by Southern nations with high experience in this area, should be more strongly supported by the IMF.

[DDCI's key areas of concern at the World Bank are:]

- **The lack of accountable leadership selection of the managing director at the World Bank:** As with the IMF, the leadership selection process for the World Bank is not democratic. In the case of the World Bank, the US has traditionally chosen the Bank's managing director.

- **A lack of democratic representation of Southern countries in governance and decision-making:** As with the IMF, voting power at the World Bank is based on economic power. Reforms in 2010 brought about small increases in voting shares for Southern countries. However, the World Bank voting reform thus far has resulted in high-income countries being set to hold onto over 60 per cent of voting power across the World Bank Group for at least the next five years.[29]

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[27] IMF speech August 2011 available at www.imf.org/external/np/sec/pn/2011/pn11108.htm; also IMF Staff position note: *Capital Inflows – The role of controls* 2009.
[28] Gallagher et al *Capital Account Regulations for Stability and Development: A New Approach*, Frederick S Pardee Centre, November 2011.
[29] Bretton Woods Project *At Issue: Analysis of World Bank Reforms: Governance still remains illegitimate and outdated*, May 2010.

- **Continued policy recommendations that hurt poor people through its practice of policy conditionality:** A 2005 World Bank review of its practice of conditionality sought to address many of the problems raised about loan policy conditions. Since this review, the overall number of conditions attached to loans has been reduced but a smaller number of conditions can still exert a high level of influence. Loans also continue to give the Bank influence in primary industries and natural resource management, fiscal policy, public sector reforms and long-term sustainable development. Though the reduced number of conditions is positive, the negative effects of these far reaching conditions remains a major challenge for Southern countries.

> Recent research revealed that a massive 57 conditions were attached to three loans given by the World Bank to Ghana in 2009. 12 out of the 57 conditions were stipulated in a side document, which allows the details to be left out of the loan document, making it less transparent. These policy conditions prevent Ghana from deciding independently on appropriate measures to recover from the global crisis and to boost long term sustainable development
>
> Eurodad, *Conditionality in World Bank Crisis Lending to Ghana*, 2010.

- **Too powerful a role for the World Bank in climate finance:** The World Bank has become increasingly involved in climate related funding, including the Climate Investment Funds (CIFs) and the Green Climate Fund. While the World Bank CIFs have become more representative of Southern governments based on concerns raised by civil society and governments, major problems remain. These include: the World Bank's poor environmental track record, its application of policy conditions as part of its loans, its use of loans as opposed to grants in elements of climate financing, the privileging of mitigation of the ongoing effects of climate change over the long term goal of supporting Southern countries to adapt to cope, and the lack of adequate participation of affected communities, particularly women in its decision-making. The extension of loans (as opposed to grants) to Southern countries to help them adapt to cope with climate change is of particular concern, as this will lead to the accumulation of new unjust debts in countries which are not responsible for causing global climate change. It is of great concern that the World Bank is being given such an influential role in climate financing as it has already failed to live up to its promises on investing in renewable energy, increasing its lending towards fossil fuel-based projects by 400% between 2006-2010.[30]

> World Bank recent spending on fossil fuel includes a $3.75 billion loan to the South African power utility, Eskom, approved in 2010. The loan supports the Medupi power plant, which will exclusively run on coal. This comes despite the cleaner and more efficient alternatives suggested by South African campaigners. The Inspection Panel, the World Bank's own accountability mechanism, is currently investigating the Eskom loan for violations of operational policies and procedures.[31] In February 2011, residents living close to Medupi went to court to stop the destruction of an ancient river-bed for the building of the coal plant.[32]

[30] Friends of the Earth *World Bank, Climate Change and Energy Financing: Something old, something new?* 2011.
[31] The World Bank Inspection Panel *Inspection Panel Report and Recommendation, South Africa Eskom Investment Support* Project, 29th July 2010.
[32] Friends of the Earth *World Bank, Climate Change and Energy Financing: Something old, something new?* 2011.

- **Increasing investment by the World Bank Group in private finance through the International Finance Corporation (IFC), with unclear development outcomes**: The IFC is the arm of the World Bank Group which provides finance and advice for private sector investment in Southern countries. Funding for the IFC has grown enormously over the past decade, with finance sector lending making up over half of all new project commitments in 2010.[33] While a vibrant private sector can support development, DDCI believes that the Bank's growing support for private rather than public investment is damaging for Southern countries as the capacity of elements of the private sector to provide public goods effectively has proven questionable. The IFC focus on the financial sector primarily involves untransparent financial intermediaries such as commercial banks and private equity funds as delivery mechanisms for its investments. The criteria for success of these investments are not based on developmental impacts and local authorities have little say in decisions. A recent study shows that companies from rich countries receive most IFC investments. While only 16% of all IFC investments supported go to local companies in poor countries, two thirds go to transnational companies from rich countries.[34]

The World Bank Independent Evaluation Group, the World Bank's own internal watchdog, published an evaluation in March 2011 which assessed the ability of the IFC to reach the most vulnerable communities through its projects and investments. The report, *Assessing IFC's Poverty Focus and Results*[35], found that:

1) Less than half of the projects reviewed were designed to deliver poverty outcomes;
2) Just one third of the projects addressed market failures, such as enhancing access to markets or employment by the poor;
3) The IFC does not adequately consider issues of poverty reduction in project design; and
4) Its primary focus is the pace of economic growth, rather than the pattern of growth that could support the most vulnerable and the poor.

It should be noted that the IFC has recently undergone a process of review to assess its poor development performance. In response it has recently instituted a new sustainability framework and is working on an internal incentive structure to align its investments with the Millennium Development Goals. Nevertheless, its investments are still proving to be problematic and its use of financial intermediaries is currently undergoing review by the IFC Compliance Advisory Ombudsman.

A World Bank Independent Evaluation of the IFC's Private Sector Results in 2009 found that over 40% of all IFC projects were unsuccessful at generating positive development results, and that in Africa, more than half of IFC investments had low development ratings.[36]

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[33] Bretton Woods Project *Out of sight, out of mind? IFC investment through banks, private equity firms and other financial intermediaries* 2010.
[34] Eurodad *Development Diverted: How the International Finance Corporation fails to reach the poor* 2010.
[35] IEG (Independent Evaluation Group, World Bank) *Assessing IFC's Poverty Focus and Results* 2011.
[36] Eurodad *Development Diverted: How the International Financial Corporation Fails to Reach the Poor* 2010.

Ireland and the global South
World Bank and IMF scorecard

✓ GOOD

Debt and Development Coalition Ireland welcomes the Irish government's:

- Positive track record of supporting debt cancellation for the poorest countries.
- Clear support for debt cancellation payments as being additional to aid payments.
- Prompt payments into debt cancellation schemes.
- Largely grant based (as opposed to loan based) Official Development Assistance (ODA) programme.
- Commitment to focusing on the world's poorest countries in Ireland's ODA budget
- Support for funding the most 'pro-poor' elements of the World Bank's work.
- Support for the third chair for Africa on the Board of Directors at the World Bank.
- Commitment to principles of partnership, locally owned strategies and policy coherence in Ireland's White Paper on Irish Aid.

✗ NEEDS MAJOR IMPROVEMENT

Debt and Development Coalition Ireland believes that in 2012 the Irish government, should strengthen its policy positions as a member of the World Bank and IMF in further support of Southern countries by proactively promoting:

Increased Debt Cancellation through

Supporting increased, unconditional debt cancellation for all Southern countries that need it, including of unjust and illegitimate debts

- Advocating that the current World Bank-IMF review of their 'Debt Sustainability Framework' supports the development of social development indicators in measuring the impact of debt levels on Southern countries' ability to meet agreed development goals.
- Advocating that the 'Debt Sustainability Framework' should support a more comprehensive analysis of the total country debt vulnerability by including risk factors relating to extreme shocks, domestic public debt and external private debts.
- Supporting independent debt audits in Southern countries as a means to enable governments and citizens identify the scale, nature and impacts of debts.
- Advocating for the use of the proceeds from IMF gold sales to fund urgent debt cancellation needs of Southern countries.

- Supporting the placing of profits from gold sales into the IMF Post-Catastrophe Debt Relief mechanism. The remit of the mechanism should be expanded so it would be eligible for more countries suffering a catastrophic natural disaster, or a large external economic shock.
- Supporting the setting aside of money to clear arrears for countries ahead of a debt cancellation processes.

End policy conditionality and support fair and responsible lending and borrowing standards by

Supporting an ending to the practice of attaching policy conditions to loans and debt cancellation processes. Loan agreements and debt relief should not only promote pro-cyclical policies, but rather support a variety of economic analyses and countries' right to formulate independent economic policies.

- Supporting an alternative to policy conditionality through the development of legally binding, fair and responsible international borrowing and lending standards. Reference should be made to existing lending and borrowing 'charters' which have been developed by the European Network on Debt and Development, and the African Network and Forum on Debt and Development.[37] These should function as templates for further work and influence the ongoing UN process on responsible lending and borrowing standards.[38]
- Challenge the IMF's overly restrictive policy framework on capital flows and support an international, Southern-led, dialogue on this issue.

Support Fundamental IFI Governance Reform through

Supporting IMF and World Bank governance reform in favour of Southern countries, including a more accountable leadership selection process that includes far greater representation for Southern countries. Note: In 2011, the Irish government ignored Southern countries right to fair representation in the IMF leadership selection process by focusing only on perceived Irish domestic interests.

Promote Just Climate Financing through

Supporting a genuinely democratically governed Green Climate Fund and climate financing mechanisms that are grant based, not loan based.

Clarify Ireland's Funding Decisions

Keep Ireland's promise to deliver 0.7% in aid by 2015 to Southern countries, and publish clear development criteria for funding decisions on Ireland's contributions to the IFIs.

[37] See the Eurodad Charter here: http://eurodad.org/?p=13540 and the Afrodad borrower charter here: http://eurodad.org/?p=4453

[38] The UNCTAD Responsible Sovereign Lending and Borrowing Project aims to build consensus around a set of internationally agreed guidelines to promote responsible sovereign lending and borrowing internationally. It is expected that draft guidelines will be published in 2012. For more information on the project see: http://www.unctad.info/en/Debt-Portal/Project-Promoting-Responsible-Sovereign-Lending-and-Borrowing/Project-Documents/

GOOD PROGRESS

Ireland has a positive history to build on.

- The Irish government should build on this positive position by addressing these core development policy concerns at the IMF and World Bank. This would ensure that principles of justice and sustainable development for Southern countries are central to its expectations and future policy priorities at the IFIs.

However, currently, the Irish government does not have policy positions on these critical issues.

- DDCI proposes that these policy positions, based on **justice and sustainable development for people of the global South** should be clearly supported by the Irish government through an **updated international debt policy for Ireland** and **in the review of the White Paper on Irish Aid**.

- In 2012, DDCI will use this public scorecard to monitor the policy concerns outlined here, along with progress towards the publication of Ireland's updated **International Debt Policy**, and the current **review of the White Paper on Irish Aid**.

DDCI asks Irish parliamentarians and members of the public to advocate that Minister for Finance Michael Noonan TD and Minister of State for Trade and Development Joe Costello TD support these proposals.

To read more on any of these issues, go to
www.debtireland.org;
www.eurodad.org;
www.brettonwoodsproject.org;
www.worldbank.org;
www.imf.org;
www.finance.gov.ie;
www.irishaid.gov.ie;

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