



**‘The Case For a Justice Centred Irish Debt Policy’**

**Submission to the Irish Government**

**Debt and Development Coalition Ireland**

**29<sup>th</sup> September 2009**

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## **Introduction – Southern Debts in a Time of Global Crises**

Despite some progress on debt cancellation in recent years, debt repayments from Southern countries remain an enormous domestic resource drain – now standing at a staggering US\$ 2.9 trillion. This amounts to US\$ 100 million of debt repayments from the poorest to the richest countries every day.<sup>1</sup> The delays inherent in debt cancellation processes are even more alarming now as countries of the Global South face the impacts of a range of deepening crises. The crises are manifold and are most seriously affecting the lives of the most vulnerable people in countries of the Global South.

The World Bank estimates that slower economic growth resulting from the current financial crisis may cause as many as 200,000 to 400,000 more infant deaths per year between 2009 and the Millennium Development Goals (MDGs) target year of 2015. This could mean 1.4 million to 2.8 million additional infant deaths during that period.<sup>2</sup> Globally, unemployment is forecast to grow by between 29 and 59 million in 2009 from its 2007 level. Between 19 and 42 million of these people could be in Southern countries.<sup>3</sup> Women of the Global South will be particularly vulnerable in this regard, especially in export processing industries where women constitute up to 80% of workers.<sup>4</sup> With more than 1.2 billion workers globally living with their families in poverty prior to the onset of the crisis, the International Labour Organisation (ILO) has highlighted that the crisis poses a grave threat to the livelihoods, health and wellbeing of millions.<sup>5</sup>

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<sup>1</sup> Jubilee Debt Campaign, *A New Debt Crisis? Assessing the impact of the Financial Crisis on Developing Countries*, 2009, p. 6; World Bank, *Global Development finance 2008, Volume II, Summary and Country Tables*, 2008.

<sup>2</sup> World Bank and IMF, *Global Monitoring Report: A Development Emergency*, 2009, p. 15

<sup>3</sup> International Labour Organisation (ILO), *Global Employment Trends*, Update, May 2009, Table B2. 2009 Unemployment scenarios (millions of people)

<sup>4</sup> Alberdi, Inés, *The World Economic and Financial Crisis: What Will It Mean for Gender Equality*, *Unifem*, 13 July 2009, [http://www.unifem.org/news\\_events/story\\_detail.php?StoryID=901](http://www.unifem.org/news_events/story_detail.php?StoryID=901)

<sup>5</sup> ILO, *ILO Issues revised global unemployment projections; Unemployment in Asia Pacific could top 100 million people*, May 2009, [http://www.ilo.org/asia/info/public/pr/lang--en/WCMS\\_106532/index.htm](http://www.ilo.org/asia/info/public/pr/lang--en/WCMS_106532/index.htm)

The horrific daily reality of this has been highlighted by the UN Food and Agriculture Organisation (FAO) who show that some 100 million more people than last year are living in chronic hunger and poverty, which is now posing a threat to one sixth of humanity.<sup>6</sup> All of these major challenges are taking place in the context of an urgent climate crisis. Already, a potential 26 million people have been displaced due to climate change. An estimated 375 million people may be affected by climate related disasters by 2015; 200 million people may be displaced each year by 2050; and several major cities dependent on water from mountain ranges face collapse.<sup>7</sup>

As a result of the multi-layered impacts of these major crises, studies are indicating the likely onset of a new phase of the sovereign debt crisis.<sup>8</sup> For example, Zambia, which has already received debt cancellation through the Highly Indebted Poor Country (HIPC) Initiative and Multi-lateral Debt Relief Initiative (MDRI), is now vulnerable due to the slump in copper prices, and could soon face a debt to export ratio of 300% - double what is deemed sustainable by World Bank and IMF restrictive measures.<sup>9</sup> In light of these real dangers, UNCTAD Secretary General, Supachai Panitchpakdi, has urged lending governments not only to consider the impacts of the crises on their own economies, but to take immediate action on alleviating the debt burden on countries of the Global South.<sup>10</sup>

## **Section 1: Failures of Existing Debt Relief Schemes**

Progress has been made in recent years on shifting the debt cancellation debate to one more supportive of the needs and concerns of Southern countries. The 2002 United Nations *Monterrey Consensus on Financing for Development* argued that appropriate

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<sup>6</sup> FAO, *1.02 Billion People Hungry: One Sixth of Humanity Undernourished – More Than Ever Before*, 19<sup>th</sup> June 2009, <http://www.fao.org/news/story/en/item/20568/icode/>

<sup>7</sup> Oxfam International, *Suffering the Science, Climate Change, People and Poverty*, Oxfam Briefing Paper 130, July 2009, p. 3

<sup>8</sup> Kaiser, Jurgen et al, *Towards Renewed Debt Crisis, Risk Profiles of the Poorest Countries in light of the Economic Slowdown*, June 2009; Jubilee Debt Campaign, *op cit*, 2009; UNCTAD, Trade and Development Report, 2009; Li, Yeufen, *Collateral Damage from the Global Financial Crisis Could Land Developing Countries in Another Round of Debt Crises*, UNCTAD, February 2009.

<sup>9</sup> Jubilee Debt Campaign, *op cit*, 2009, p. 4

<sup>10</sup> UNCTAD, *30 Apr 09 - Temporary debt moratorium needed for some poor nations, says UNCTAD Secretary-General* <http://www.unctad.org/Templates/Page.asp?intItemID=4819&lang=1>

debt relief measures should be ‘*pursued vigorously and expeditiously*’.<sup>11</sup> Since then, the multi-lateral debt cancellation schemes culminating in the Multi-lateral Debt Relief Initiative, have wiped out approximately US\$ 88 billion.<sup>12</sup> Despite these significant financial gains for some Southern countries, these schemes have not gone nearly far enough financially, and include serious systemic failures in their approach.

Most fundamentally, the current approach to debt cancellation does not address the cost of the unjust lending practices to Southern countries. In addition, debt cancellation agreements have been based on a highly restrictive measure of what constitutes ‘debt sustainability’ and have been accompanied by unjust and damaging policy conditions. And despite the overwhelming evidence of the damaging impacts of policy conditionality attached to debt cancellation, Southern countries still have little say in reforming the international financial institutions (IFIs) due to the undemocratic structures governing them. Failure to tackle these problems is no longer an option as Southern countries face a new debt crisis where there are little assurances from Northern governments that they will be supported through the economic and climate crises with scaled up, effective grant-based finance. The devastating implications of each of these failures are outlined below.

#### **a. Unjust lending practices and illegitimate debts have not been addressed**

In the current international system, borrowing countries bear the negative consequences of unjust – or illegitimate - debts in their entirety. As a result, lenders may operate with impunity where exploitation and irresponsibility on their part has taken place. This is a fundamental oversight given the widely documented abuse of the lending system by international lenders. The variety of recorded circumstances that have led 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.<sup>13</sup> For example, the Bataan nuclear plant in the Philippines represents a

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<sup>11</sup> United Nations, *Monterrey Consensus of the International Conference on Financing for Development*, Monterrey, Mexico, 18-22 March 2002, p.17.

<sup>12</sup> Jubilee Debt Campaign, *ibid*, 2008, p. 1

<sup>13</sup> For a myriad of examples 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,

case of a combination of all of these factors. The contract was given to a US company under corrupt circumstances, for a project that never opened and yet has cost the people of the Philippines billions of dollars.<sup>14</sup>

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. For example, President Mobutu of Zaire (now 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.<sup>15</sup>

#### *Action on Illegitimate Debts Long Overdue*

The injustice of repayments of illegitimate debts is amplified when it is considered that the unjust debts of countries of the Global South have in reality been paid many times over. In 2005, Nigeria had some US\$ 30 billion of debt outstanding to the Paris Club due to interest and charges incurred because of delayed payments under the previous military regime. This is despite the original loans totalling only US\$ 8 billion.<sup>16</sup> The New Economics Foundation (NEF) has highlighted that the negative impacts of similar types of debts to these have continued through many generations.<sup>17</sup> Out of 13 countries examined by NEF, it concluded that 10 were re-paying 100% unjust loans which cost those countries collectively US\$ 383 billion.<sup>18</sup>

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*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.

<sup>14</sup> Jubilee Debt Campaign, op cit, 2008, p. 9

<sup>15</sup> ibid

<sup>16</sup> Jubilee Debt Campaign, op cit, 2009, p. 7

<sup>17</sup> NEF, op cit, p. 3

<sup>18</sup> ibid

### *Illegitimate Debts: Rising Up the Political Agenda*

The need for action on illegitimate debts is increasingly recognised. The Government of Norway cancelled some US\$ 80 million of debt as a result of a Norwegian Ship Export Campaign (1976-80). The Norwegian government declared its '*shared responsibility*' in creating a '*development policy failure*,'<sup>19</sup> and has called for the establishment of a UN taskforce on illegitimate debts.<sup>20</sup> 80% of Iraq's debts were also cancelled, partly as a result of a US led campaign at the time. The US Treasury Secretary stated, "... *the people of Iraq shouldn't be saddled with those debts incurred through the regime of a dictator which is now gone*".<sup>21</sup> More recently, the Government of Ecuador extensively audited its debts in order to ascertain their level of legitimacy. The audit report details a litany of lending failures and exploitative contracts.<sup>22</sup> And since the release of the audit report, the Government of Ecuador has refused to make some bond repayments.<sup>23</sup> Further governmental and non-governmental debt audits are now being actively explored in Brazil, Bolivia, Guinea, Mali, Paraguay and the Philippines to ascertain the legitimacy, or otherwise, of their debts. Concern about this important issue has deepened very significantly at United Nations level. As a result, the United Nations Conference on Trade and Development (UNCTAD) has initiated a programme called *Responsible, Sovereign Lending and Borrowing* which includes as a core part of its objectives, the development of guidelines and criteria for assessing the legitimacy of both past, and future sovereign debts.<sup>24</sup> This programme is a strategic contribution to deepening multi-lateral action in this area.

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<sup>19</sup> *Cancellation of debts incurred as a result of the Norwegian Ship Export Campaign (1976-80)*, 02.10.06, <http://www.regjeringen.no/en/dep/ud/Documents/Reports-programmes-of-action-and-plans/Reports/2006/Cancellation-of-debts-incurred-as-a-result-of-the-Norwegian-Ship-Export-Campaign-1976-80.html?id=420457>

<sup>20</sup> *Statement at the Conference on the World Financial and Economic Crisis and Its Impact on Development New York, 25 June 2009* [http://www.regjeringen.no/en/dep/ud/about\\_mfa/Other-political-staff/Hakon-Arald-Gulbrandsen/Speeches-and-articles/2009/crisis\\_impact.html?id=570242](http://www.regjeringen.no/en/dep/ud/about_mfa/Other-political-staff/Hakon-Arald-Gulbrandsen/Speeches-and-articles/2009/crisis_impact.html?id=570242)

<sup>21</sup> Jubilee Debt Campaign, op cit, 2008, p. 29 - 30

<sup>22</sup> Comisión Para La Auditoría Integral Del Crédito Público, *Informe Final De La Auditoría Integral De La Deuda Ecuatoriana*, November 2008; [http://www.auditoriadeuda.org.ec/images/stories/documentos/informe\\_final\\_CAIC.pdf](http://www.auditoriadeuda.org.ec/images/stories/documentos/informe_final_CAIC.pdf); <http://www.eurodad.org/whatsnew/articles.aspx?id=1934&item=1502>

<sup>23</sup> Watkins, Neil & Anderson, Sarah, *Ecuador's Debt Default: Exposing a Gap in the Global Financial Architecture*, December 15<sup>th</sup> 2008, <http://www.fpif.org/fpiftxt/5744>

<sup>24</sup> UNCTAD to launch project on responsible sovereign lending and borrowing, <http://www.unctad.org/Templates/Page.asp?intItemID=4778&lang=1>

**b. A new debt crisis on the horizon - Binding, just and responsible finance standards have not been developed**

*The Need for Just Financing Standards*

Internationally binding, just and responsible financing standards are required to ensure that a new series of illegitimate debts do not re-occur, and to provide a principles-based alternative to IFI policy conditionality. This is all the more urgent as UNCTAD, among others, cites serious concern over possible unsustainable debt levels in 49 least developed countries.<sup>25</sup> A template for just and responsible standards, for both lenders and borrowers, has been developed by the European Network on Debt and Development (EURODAD). Eurodad outlines suggested standards regarding technical and legal terms and conditions; protection of human rights and the environment; public consent and transparency; procurement; and repayment difficulties and disputes.<sup>26</sup> Alongside the development of such standards should be action to address historic illegitimate debts in order to demonstrate that there are real consequences to unjust lending.

*A Reviewed Debt Sustainability Framework?*

Instead of prioritising the need for justice centred, long term financing standards, the World Bank and the IMF have focused on reviewing the Debt Sustainability Framework (DSF) for low-income countries (LICs) which guides lenders on the levels of debt distress being experienced by borrowing countries. The reviewed DSF will now take into account the level of migrant remittances which are sent to the borrowing country and it can now exclude debts owed by state owned enterprises in assessments of countries' overall indebtedness levels. This means that Southern countries' capacity to borrow will likely be signalled by the IFIs as having increased. While a move away from the rigidity of the 'one size fits all' approach of the DSF framework to a more country-by-country approach is welcome, as is greater participation by national governments in the DSF, the changes are, overall, of grave concern. This is because in the midst of the myriad of crises, Southern countries require a massive scale up of predictable, concessional, non-debt creating financing.

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<sup>25</sup> UNCTAD *Trade and Development Report 2009*, United Nations, p. VII

<sup>26</sup> Hurley, Gail, *Eurodad Charter on Responsible financing*, January 2008, <http://www.eurodad.org/whatsnew/reports.aspx?id=2060>

Yet, the IFIs through their focus on making the DSF and the IMF guidelines on debt for its programmes in Low Income Countries (LICs) more flexible,<sup>27</sup> are merely making loans easier to access by Southern countries. Increasing the credit limits of Southern countries is not the answer to the looming debt crisis. And given the evident trend of donors currently in renegeing on their ODA obligations, the reviewed DSF may provide donors with even more ‘get-out clauses’ from delivering desperately needed non-debt creating finance to Southern countries.

#### *‘Vulture Funds Still Unregulated’*

The impact of commercial actors must also be considered in the process of agreeing binding, just and responsible financing standards. In particular opportunistic commercial debt collectors – or so-called ‘vulture funds’ – must be curtailed, which profiteer from buying the bad debts of Southern countries cheaply and then suing through the courts, often for the full amount. At least 54 debt collecting companies, many of which are based in tax havens, are known to have sued 12 of the world’s poorest countries for claims amounting to US\$ 1.5 billion.<sup>28</sup> This is having a damaging impact on Irish Aid priority countries. For example, Zambia was forced to pay US\$ 15.5 million - nearly half the amount of money the Irish government gives to Zambia in aid annually - to debt collection company, Donegal International, as a result of such a claim. This denied at least 100,000 people medical care provision in Zambia.<sup>29</sup>

#### **c. Levels of debt cancellation – Too little, too few countries, too conditional**

##### *The Problem of ‘Debt Sustainability’*

Despite the increase in recent debt cancellation deals, a large number of countries remain left out of the HIPC and MDRI initiatives, even though they are in urgent need

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<sup>27</sup> IMF, *IMF Executive Board Reviews the Low-Income Country Debt Sustainability Framework and Adopts a More Flexible Policy on Debt Limits in IMF-Supported Programs Public Information Notice (PIN) No. 09/113* September 9, 2009, <http://imf.org/external/np/sec/pn/2009/pn09113.htm>; IMF & World Bank Staff, *A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework*, August 5, 2009

<sup>28</sup> Jubilee Debt Campaign, *Time to Stop the Debt Vultures*, Briefing, June 2009, p. 1

<sup>29</sup> *ibid*, p. 3 and Eurodad, *Taming the Vultures: Are New measures Enough to Protect Debt Relief Gains*, August 2008

of debt cancellation. This is due to the inadequacy of the ‘debt sustainability’ measurement as defined by the international financial institutions which mostly focuses on the debt/export ratio. This methodology is arbitrary, too narrow and does not account for the full reality of Southern situations. For example, it does not take into account government spending requirements in areas such as education, healthcare or even emergency food aid to ensure the basic needs of Southern populations can be met. The result is that countries such as Kenya, where life expectancy is just 52 years and one third of the population are undernourished, do not qualify for debt cancellation.<sup>30</sup> Victoria Elliott of the Independent Evaluation Group of the World Bank acknowledged this when she commented in April 2006: “*It is true that the 150% ratio is arbitrary – but there is no reason to go for any other... We need a rule like that to get the transparency that donors want*”.<sup>31</sup> Detailed research by the New Economics Foundation (NEF) proposes a different, human rights based measure, which takes into account what governments need to spend on health, education and basic infrastructure without taxing those below an ethical poverty line (US\$ 3 dollars per day). Based on this credible research, the Jubilee Debt Campaign UK concludes that at least **100 countries** still require approximately **US\$ 400 billion** in debt cancellation if their basic needs are to be met.<sup>32</sup>

#### *HIPC / MDRI are too slow and conditional*

Existing debt cancellation processes are highly inefficient. A significant factor in delaying Southern countries receiving cancellation is the range of policy changes required under HIPC in order to reach the point of debt cancellation. The practice of attaching policy conditions to debt cancellation is unjust for many reasons. On a practical level, it slows down the debt cancellation process in countries that desperately need it. For example, ‘Enhanced HIPC’ countries have waited an average of 3.8 years to receive irrevocable debt cancellation.<sup>33</sup> More fundamentally, the impacts of the policy conditions attached to debt cancellation such as through the IMF Poverty Reduction and Growth Facility (PRGF) and the World Bank Poverty

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<sup>30</sup> Jubilee Debt Campaign, op cit, 2008, p.28

<sup>31</sup> ibid, pg. 28, and note 53

<sup>32</sup> New Economics Foundation, *Debt Relief as if Justice Mattered*, 2008 & Jubilee Debt Campaign, op cit, 2008, p. 39

<sup>33</sup> Jubilee Debt Campaign, op cit, 2008, p. 23 & *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Status of Implementation*. International Development Association and International Monetary Fund, August 28, 2007, pg. 11

Reduction Strategy Papers (PRSPs) have hurt the most vulnerable people in those countries and have regularly failed to contribute to increased growth or poverty reduction. The economic policy conditions have followed a clear pattern of opening markets, privatisation and keeping public expenditure low, irrespective of whether these are appropriate policy actions in the context of such impoverished and vulnerable states.<sup>34</sup> These kinds of policies have been described by UN economist Jeffery Sachs as, ‘.. *belt tightening for people who cannot afford belts*’<sup>35</sup> as their approach has had such deeply painful human impacts. For example

- Privatisation of the cotton industry in Mali has resulted in a 20% drop in cotton price for 3 million Malian farmers.<sup>36</sup>
- Zambia had to restrict public sector spending through hiring and wage freezes leaving it unable to employ 9,000 urgently needed teachers.<sup>37</sup>
- Malawi took 6 years to reach HIPC completion point partly because it was declared ‘off track’ by the IMF. The IMF suspended interim debt relief and delayed debt cancellation due to governments’ additional expenditure on grain purchase. The government of Malawi took this expenditure decision when Malawi was suffering through a severe drought and food shortage, greatly exacerbated by a HIV/AIDS epidemic.<sup>38</sup>

In addition to adhering to narrow and damaging sets of policy conditions, the practice of policy conditionality fundamentally weakens the sovereign right of governments to chart their own way out economic difficulties through engaging in the democratic process with their parliaments and citizens on all possible policy options. Yet, in attempting to justify the need for this policy conditionality, the IFIs have often

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<sup>34</sup> See Jubilee Debt Campaign (UK), “*Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation*,” London, October 2006; Jubilee USA, *Are IMF and World Bank Economic Policy Conditions undermining the Impact of Debt Cancellation?*, February 2008 Briefing Note; Oxfam International, *Kicking the Habit: How the World Bank and the IMF are still addicted to attaching economic policy conditions to aid*, Briefing Paper 96, Oxfam International, November 2006; Joint NGO Briefing Note, *Blind Spot, The Continuing Failure of the World Bank and IMF to Fully Assess The Impact of their Advice on Poor People*, Sept 2007; Action Aid International, *What Progress? A Shadow Review of World Bank Conditionality*, 2006

<sup>35</sup> Quoted in Jubilee Debt Campaign, *Cut the Strings: Why the UK government must take action now on the harmful conditions attached to debt cancellation*, 2006, p. 9

<sup>36</sup> Oxfam International, op cit, 2006, p.3

<sup>37</sup> Jubilee Debt Campaign, op cit, 2006, p.4

<sup>38</sup> *ibid*, p.10

indicated that they view the practice as a way of helping Southern governments push through unpopular policy changes in their countries.<sup>39</sup> This indicates a highly inappropriate relationship between the IFIs and Southern governments, which is undermining vital possibilities of building more accountable relationships between Southern governments and their citizens.

Increasingly the inappropriate nature of conditionality is being recognised. For example, in 2005 the Africa Commission described the impacts of policy conditionality in Southern countries as ‘.. *an infringement on sovereignty and ineffective*’.<sup>40</sup> And since 2002, the UK and Norwegian governments have highlighted serious concerns about the practice of IFI conditionality.<sup>41</sup> The evidence of the range of policy disasters and the long delays caused to debt cancellation demonstrate that policy conditionality does nothing to ensure that debt cancellation promotes poverty reduction, which is Ireland’s central concern outlined in the White Paper on Irish Aid.<sup>42</sup>

#### **d. IFI governance is deeply undemocratic**

The lack of action by the IFIs on ending their practice of policy conditionality is all the more problematic when the undemocratic governance structures of the institutions are considered. As the boards the World Bank and IMF are dominated by the largest financial contributors to the institutions, the concerns of Southern governments, representing 80% of the world’s population, are not adequately considered despite the disproportionate influence of the institutions in their countries. This is despite the fact that, with regard to the World Bank Group, Southern countries are increasingly important financial contributors, in particular in financing the International Bank for

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<sup>39</sup> Action Aid International, *Money Talks. How aid conditions continue to drive utility privatisation in poor countries*, 2004, p. 4

<sup>40</sup> Commission for Africa, *Our Common Interest, Report of the Commission for Africa*, March 2005, p.314

<sup>41</sup> The UK government adopted a policy against requiring privatization and trade liberalization as a condition of its aid in 2005. The Norwegian government has a similar policy based on its 2005 *Soria Moria Declaration*. See Bull, Benedicte, et al., “*The World Bank’s and the IMF’s use of Conditionality to Encourage Privatization and Liberalization: Current Issues and Practices*,” Centre for Development and the Environment, University of Oslo (commissioned by the Norwegian Ministry of Foreign Affairs), November 2006

<sup>42</sup> Government of Ireland, op cit, 2009, p.85

Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) through loan repayments.

The G24 Group of Developing Countries has developed a constructive formula toward fairer representation of Southern countries in the World Bank. Firstly, it recognises the need to make World Bank shareholding more representative, through increasing basic votes, and factoring in the importance of population. And secondly, it recognises the development mandate of the World Bank by including poverty incidence, and by recognising financial contributions made by countries to the World Bank.

In addition to this, reallocation of board seats should also be considered for the World Bank, based on changed voting shares, including an end to the outdated practice of some countries having permanent seats. European governments, who hold eight chairs and have over 30% of the vote at the World Bank, thus have a particular responsibility to push for reform. This means reducing the overall voting share of European governments, and potentially reallocating seats between EU countries. In addition, the ongoing review of World Bank disclosure policy is critically important where there should be a presumption of automatic disclosure with a strictly limited regime of exceptions.

With regard to the IMF, a double majority voting system that requires the achievement of two separate majorities - one based on one-country one-vote and the other on economically weighted quotas should be introduced.<sup>43</sup> This double majority approach would increase Southern countries' influence in decision-making by creating a situation where coalitions can be built among like-minded states. The increased dialogue that this would generate between members and the incentives created to build consensus would result in more stable and effective decision-making at the IMF.

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<sup>43</sup> Chowla, Peter, *Bridging the democratic deficit, Double majority decision making and the IMF*, Bretton Woods project, Feb 2007, p. 1

**e. Lack of coherence in debt cancellation policy as part of the wider development cooperation effort**

The development benefits of debt cancellation are significant, demonstrating that resources from debt cancellation can be a highly effective form of development finance for recipient countries. For example, debt cancellation has enabled Uganda to abolish fees for primary school attendance, which has resulted in a doubling in school enrolments and increases in girls' school attendance.<sup>44</sup> In the current crises, debt cancellation must be viewed as one aspect of a wider global development cooperation effort and must be accompanied by delivery of existing Official Development Assistance (ODA) spending obligations by donors. UNCTAD have highlighted the imperative need for donors to meet their ODA commitments under present conditions,<sup>45</sup> yet donors including Ireland, Italy and Latvia have already reneged on these obligations. Many donors also continue to double-count debt cancellation contributions as aid, failing to practice the 'additionality' principle as outlined in the *Monterrey Consensus*,<sup>46</sup> and as supported by some governments including by Norway and by Ireland. The level of resources being lost by Southern governments through this abuse is very significant for example, Nigerian and Iraqi debt cancellation accounted for 18% of total European aid levels in 2006.<sup>47</sup>

The proceeds of IMF gold sales should also be utilised for multi-lateral debt cancellation. They should not be used, as proposed by the G20 and IMF, as a new concessional lending fund and for IMF administrative costs. At least US\$ 5 billion from gold sales (in total worth upwards of US\$ 10 billion at current market prices) should be set aside for debt cancellation and grants for the most impoverished nations. In addition, the IMF resources delivered should not be linked to the implementation of policy conditions.<sup>48</sup>

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<sup>44</sup> Jubilee Debt Campaign, 2008, op cit, p. 25

<sup>45</sup> UNCTAD, op cit, 2009, p. 7

<sup>46</sup> UN, op cit, 2002, p. 17

<sup>47</sup> Concord, *Hold the Applause! EU Governments risk breaking aid promises*, 2007 p.10

<sup>48</sup> Jubilee USA, *Leveraging the IMF's Pots of Gold for the Benefit of Low Income Countries, Position Paper*, May 15 2009, p. 2

*World Bank climate financing leading to more indebtedness*

As highlighted recently by the Government of Bolivia, and others, a climate debt is owed to countries of the Global South.<sup>49</sup> This can be described as a two-fold debt. Firstly, an emissions debt, caused by the overuse by Northern countries of the earth's capacity to absorb greenhouse gases, denying its use to the majority of the world's population who need it most for their development. And secondly, an adaptation debt, owed to Southern countries for the severe current and future damage to their people and environments as a result of the impacts of climate change for which they are not responsible.

Despite this, Northern governments are supporting the World Bank's Climate Investment Funds (CIFs) which fail to address Northern responsibilities in climate change finance. Firstly, the World Bank is an inappropriate institution to administer climate funds. In 2007-08 the World Bank increased its investment in fossil fuel projects by 94% and decreased its investment in renewable energies by 42%. This is despite the World Bank's Extractive Industries Review recommending that the World Bank pull out of all coal investments and phase out its oil projects by 2008.<sup>50</sup> In addition, unlike the United Nations Framework Convention on Climate Change (UNFCCC), the World Bank has not clearly defined its understanding of 'clean technologies' and will fund technologies widely viewed as 'less dirty' (coal technologies) or even controversial (carbon capture and storage).<sup>51</sup>

Secondly, the CIFs undermines the 'polluter pays' principle by proposing mixed finance solutions through grants and concessional loans to support Southern countries to cope with the impacts of climate change. This means that Southern countries will have to take on additional debt to pay for a crisis they did not create. The funds are not additional to ODA and will also come with policy conditions attached as the administering institutions will follow their own policies and operational procedures in

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<sup>49</sup> Government of Bolivia, *Evaluating developed countries' historical climate debt to developing countries* : Submission by Bolivia to the AWG-LCA <http://www.ecologicaldebt.org/documentos/bolivia250409.pdf>, April 2009, P. 3-5; Third World Network, *Climate Debt: A Primer, UN Climate Change Talks - 8<sup>th</sup> session of the AWG-KP and 6<sup>th</sup> session of the AWG-LCA*, 1 June-12 June 2009, Bonn

<sup>50</sup> Gender Action, *Doubling the Damage: World Bank Climate Investment Funds Undermine Climate and Gender Justice*, Gender Action, February 2009, p. 5

<sup>51</sup> *ibid*, p.5

their implementation.<sup>52</sup> Thirdly, the CIFs undermine the UNFCCC process by duplicating and introducing inefficiencies into the existing climate change architecture.<sup>53</sup>

## **Section 2: A justice centred Irish debt policy**

### *Ireland's Role*

It is clear that principled decision-making from Northern governments is crucial in addressing the major failings in the international lending system. For its part, Ireland has largely played a positive role in existing international debt cancellation processes. Ireland's *Policy on Developing Country Debt*, published in 2002, rightly highlights that Southern governments' debt repayments present a major obstacle to poverty reduction and the achievement of the MDGs.<sup>54</sup> And in the White Paper on Irish Aid, Ireland frames its support for debt cancellation as an important aspect of Ireland's overall poverty reduction agenda.<sup>55</sup>

In practice, Ireland has shown strong leadership in the international arena by being the first Northern country to support total debt cancellation as a viable political objective for Highly Indebted Poor Countries.<sup>56</sup> And Ireland has strongly advocated a policy of debt cancellation payments as additional to Official Development Assistance (ODA) as well as ensuring its bi-lateral development assistance has been provided through grants rather than loans. Ireland has also been responsive and efficient in making significant payments to international debt relief schemes and has made strong arguments that social considerations must be taken more into account in defining debt sustainability criteria.<sup>57</sup>

However, despite these positive contributions, Ireland's current policy does not address the serious failures inherent in the current approach to international debt cancellation. Particularly significant gaps in Irish policy include, the need to address

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<sup>52</sup> *ibid*, p. 6-7

<sup>53</sup> *ibid*, p. 6

<sup>54</sup> Government of Ireland, *Policy on Developing Country Debt*, 19 July 2002, p.i

<sup>55</sup> Government of Ireland, *White Paper on Irish Aid*, Government of Ireland, 2006, p.85

<sup>56</sup> Government of Ireland, *op cit*, 2002, p.ii

<sup>57</sup> Government of Ireland, *ibid*

the problem of unjust lending and illegitimate debts given the justice imperative and the growing recognition of the need for action in this area. Ireland also has no clear policy on IFI policy conditionality. While Ireland has emphasised positive principles such as the need for partnership and coherence in development,<sup>58</sup> and refers to the need to make debt cancellation speedier and more flexible,<sup>59</sup> it has not adequately responded to the significant evidence available of the damage to Southern countries as a result of IFI policy conditionality.

Improvements are also required in ensuring coherence in Ireland's decision-making in the area of debt and IFI policy. Ireland's White Paper commits to building on working contacts between the Departments of Finance and Foreign Affairs '*to ensure that the full range of resources and expertise are brought to bear on our engagement with the international financial institutions*'.<sup>60</sup> Ireland's new debt policy should bring this commitment a step further to ensure strengthened consultation and accountability between all levels of stakeholders on debt and IFI policy from ministerial level, to the level of the World bank and IMF constituencies, Irish parliamentarians and civil society groups.

### **Section 3: Recommendations for a justice centred Irish debt policy**

The development of a new Irish debt policy presents a strategic opportunity to address the series of concerns outlined above. Based on these concerns, a new Irish debt policy should support:

- 1. An end to unjust lending practices through supporting the cancellation of illegitimate debts by:**
  - Recognising the serious problem of illegitimate debts and the need for such debts to be cancelled;
  - Calling for an democratic, multi-lateral process to tackle the problem of illegitimate debts directly, including the formation of a UN led international taskforce on illegitimate debts (as proposed by the Government of Norway);

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<sup>58</sup> Government of Ireland, 2006, op cit, p. 9

<sup>59</sup> Government of Ireland, op cit, 2002, p. 8

<sup>60</sup> Government of Ireland, op cit, 2006, p. 84

- Providing financial and political support directly to Southern governments and Southern civil societies to carry out debt audits to ascertain the legitimacy of existing debt contracts;
- Supporting multi-lateral initiatives seeking to address the problem of illegitimate debts, including the current UNCTAD programme on *Responsible, Sovereign Lending and Borrowing*.

**2. The development of internationally binding, just and responsible financing standards by:**

- Advocating for a multi-lateral agreement on legally binding, just and responsible financing standards between lenders and borrowers. These standards should include public and private lenders;
- Supporting efforts at EU level to curtail so called ‘*vulture funds*’ from making claims in EU member state national courts;
- Supporting legal measures to end tax haven secrecy and corruption including automatic information exchange between tax jurisdictions and country level reporting on tax earnings and profits.

**3. Expanded, unconditional debt cancellation for all Southern countries that need it by:**

- Acknowledging the failure of the current approach to debt sustainability and supporting a new debt sustainability measurement not based solely on fiscal considerations, but on a measure that prioritises human rights and peoples basic needs as the central consideration;
- Supporting debt cancellation for all Southern countries that need it based on this fairer criteria;
- Calling for an end to policy conditions in debt cancellation and lending processes due to the damaging impact of this practice on the economies and democracy strengthening processes in countries of the Global South;
- Supporting a shift within the World Bank and IMF from a conditionality-based financing approach to one of just and responsible financing standards; and shifting Irish ODA support toward non-conditional aid institutions.

- 4. Democratic reform of the governance of the IFIs by:**
- Supporting at least equal voting rights for Southern countries at the World Bank including a consolidation of European votes to achieve this and the presumption of automatic disclosure of documents with strict limitations on exceptions;
  - Supporting the more democratic formula of double-majority voting at the IMF and the presumption of automatic disclosure of documents with strict limitations on exceptions.
- 5. A coherent international approach to debt cancellation as part of the international development cooperation agenda by:**
- Supporting the use of the proceeds of at least US\$ 5 billion of IMF gold sales to fund expanded debt cancellation for the benefit of low-income countries, free of policy conditions;
  - Continuing to advocate the principle of national debt cancellation contributions as additional to international ODA spending obligations;
  - Immediately enacting legislation to copperfasten Ireland's commitment to spend 0.7% of GNP on ODA by 2012 at the latest;
  - Recognising the climate debt owed to countries of the Global South and calling for support for adaptation to climate change to be: UN led; grant based, not loan based; unconditional; and additional to aid commitments.
- 6. Improved coherence in national policy decision-making on debt as part of a wider development cooperation agenda by:**
- Committing to mechanisms for sustained accountability to the Dáil regarding Ireland's engagement in the IFIs through a) an annual Dáil debate on the *Annual Report on Irelands participation in the IMF and the World Bank* and b) an annual meeting with representatives of the Finance and Public Service Committee and Foreign Affairs Committee with the Canadian Executive Directors of the World Bank and IMF, with their Irish constituency counterparts.
  - Committing to holding a joint meeting between civil society actors and the Minister for Finance and Minister for Overseas Development annually to

ensure that civil society views are taken into account in Ireland's policy making on the IFIs.

## **Conclusion**

As shown by the recent non-payment of bonds by the Ecuador government, some Southern governments are losing patience in the face of the injustice at the heart of existing debt cancellation schemes. Indeed, debt repudiation may represent a viable alternative for some as they struggle to cope with deepening crises.<sup>61</sup> Others may be simply forced to default. It is desirable for lenders to act justly now in order to prevent such outcomes. Ireland should continue to represent a principled voice on debt cancellation. However, a very significant shift is now required from Ireland's 2002 debt policy if this is to be achieved. As matters of priority, this shift should include supporting:

- An end to unjust lending practices and support for the cancellation of illegitimate debts;
- The prevention of a new debt crisis through internationally binding, just and responsible financing standards;
- Increased, unconditional debt cancellation for all Southern countries that need it based on human rights measures;
- Democratic reform of the governance of the IFIs to ensure fair Southern representation;
- Scaled up, just and grant-based financing for Southern countries affected by the economic and climate crises;
- And improved coherence at all levels of national decision-making on debt and the IFIs.

This will greatly strengthen Ireland's contribution toward Goal 8 of the Millennium Development Goals, which aims to comprehensively deal with Southern debt through a global partnership for development. It will bring Ireland closer to making the principles of partnership, effectiveness, coherence and long term sustainability, as outlined in the White Paper on Irish Aid, a reality. And it will provide a more credible

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<sup>61</sup> Christian Aid, op cit, 2007, pgs 3-5

basis for Ireland to take action on an issue that has unjustly plagued the people of the Global South for far too long.

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