



# Debt, the IMF & World Bank: *Where does Ireland now stand?*

This year saw an avalanche of documents covering Irish thinking on debt and development -

- **Review of Ireland Aid**
- **New Irish Policy on Developing Country Debt**
- **3rd Annual Report on Ireland's Participation in World Bank and IMF**

In this paper we take stock of where Ireland now stands on debt and IMF/World Bank policies in the light of these publications.

## Overview: Success - and Setback

The biggest leap forward has been on debt. Ireland, as far as we are aware, is the first country to support total debt cancellation for low income countries. The other recent example of Ireland breaking ranks with the rich and powerful was in 1996 when the government decided against contributing to the IMF's programme in low income countries<sup>1</sup>. This decision was reversed in 1999, with the government arguing that making a financial contribution would give Ireland greater influence at the IMF. It is disappointing, that there is no evidence that Ireland has fulfilled this commitment to challenge IMF policies.

We look first at the **IMF's Poverty Reduction and Growth Facility** and Ireland's track record on this and second at the new **Debt Policy**.

## PART 1: HAS IRELAND FULFILLED ITS COMMITMENT TO CHALLENGE THE IMF?

In 1998/99 we ran our second campaign against an Irish contribution to the IMF's programme - now called the Poverty Reduction and Growth Facility (PRGF). In spite of huge opposition from the public and all party TDs and Senators, the government agreed to contribute. Since then three Annual Reports on Ireland's Participation in the World Bank and IMF have been produced. These provide evidence on which to judge: **a) has the IMF programme changed; and b) what action was taken by the Irish government to influence the IMF programme.**



### A. What has changed at the IMF?

When the IMF changed the name of its structural adjustment programme to Poverty Reduction and Growth Facility in 1999, a promise was made that:

- ⊙ Poverty reduction would be the central aim of the programme.
- ⊙ The programme would be based on Poverty Reduction Strategies drawn up in the country with the participation of civil society rather than designed by the IMF.

**This sounds like real progress BUT recent IMF and World Bank reviews of the new approach found that:**

- ⊙ While there have been some increases in social spending these have been inadequate.
- ⊙ Economic policies are broadly the same as before because:  
Economic growth is still seen as the basis for poverty reduction but there is no analysis of how those who are marginalised will benefit from the growth. Our experience in Ireland shows how economic growth can lead to greater inequality. Recent ESRI figures<sup>2</sup> show that while absolute poverty has fallen in this country, the number of people living on less than half the average income is growing.

<sup>1</sup> Enhanced Structural adjustment Facility (ESAF), now known as the Poverty Reduction and Growth Facility (PRGF)

<sup>2</sup> ESRI Press Release 'Monitoring Poverty Trends' 7 August 2002

Civil society groups were consulted on social issues but they were excluded from discussions on economic policy. In Tanzania a programme was agreed with the IMF behind closed doors. This angered civil society groups who were well aware that the benefits of the growth Tanzania has experienced over recent years was not reaching people at community level.

No assessment is carried out on IMF policies which are likely to have a major social impact e.g. job losses or price rises for basic services, nor is any action taken to tackle these effects in most cases.

**There is a growing feeling among civil society groups that the same old IMF and World Bank adjustment policies are being introduced but now they are disguised as the chosen policies of the country.**

## B. What Action has Ireland Taken?

When the government decided to contribute to the IMF we assumed that monitoring this programme would be a priority for Ireland's representative at the IMF. **There is no evidence from the three Annual Reports on Ireland's Participation in the World Bank and IMF that this has been the case:**

- ⊙ There is no mention that keeping a close eye on the PRGF is part of the role of Ireland's representative to the IMF. In contrast, a clear priority for Ireland's representative to the World Bank is to ensure that Irish consultants get a substantial share of World Bank business.
- ⊙ None of the three reports describes any action taken by Ireland at the IMF to ensure the PRGF was not having harmful social or environmental effects.
- ⊙ The latest report is the only one to mention an Irish position on the PRGF. But this is a vague statement that IMF policies should not conflict with countries' poverty reduction goals. There no mention, however, of action the government will take to ensure this doesn't happen.
- ⊙ The government acknowledges the dominant role played by the IMF and World Bank in countries' Poverty Reduction Strategies but makes no proposal on change needed. The reason for IMF and World Bank dominance is that unless they endorse a Poverty Reduction Strategy, the country in question will not receive debt reduction or cheap loans.

## C. What does the Ireland Aid Review Say about the IMF?

**Almost nothing.** Given the controversy over Ireland contributing to the IMF, it is astonishing that the impact of the IMF on Ireland Aid partner countries is not discussed. For example the IMF's programme in Zambia was criticised by an independent body for having avoidable negative effects e.g. halving of social spending. Ireland Aid appears to accept the IMF position that growth will lead to poverty reduction. Ireland's economic success is highlighted as something which developing countries could learn from. The Irish model mirrors policies promoted by the IMF - i.e. free market policies, including the freedom for foreign investors to come and go. Will Ireland share the downside of this model - the growing inequality, the failure to improve health and education in line with economic prosperity and the galloping pollution with green house gases expected to be triple the level set for Ireland by the Kyoto agreement?

## D. Ireland and the World Bank

It is striking that both the Ireland Aid Review and the Government's latest Report on Ireland in the World Bank and IMF are more critical of the World Bank than of the IMF.

Strong concern at World Bank lending is expressed, in particular:

- ⊙ Lending for HIV/Aids programmes where donor countries like Ireland are ready to give grants. Ireland and other donor countries were very angry last year when the World Bank lent money to Zambia for HIV/Aids. Zambia is already heavily burdened with debt while 20% of the population are living with HIV/Aids.
- ⊙ World Bank adjustment lending: the government says this must be strictly monitored to ensure that it doesn't build up as unpayable debt.

# Conclusion

It is a positive sign that the government is now taking a more proactive position at the World Bank. However, it is disappointing that three years on from Ireland's decision to fund the Poverty Reduction and Growth Facility, there is:

- little evidence of fundamental change in IMF programmes
- no evidence that Ireland has played a strong role in trying to bring about change

We do not hold the government responsible for the lack of change. Ireland's vote at the IMF is only about 0.4% of total votes. What concerns us is that Ireland does not appear to have tried to bring about change.

**Our verdict is that the government has not fulfilled its commitment to make every effort to make sure the IMF's Poverty Reduction and Growth Facility met its new goal of poverty reduction.**



## PART 2: NEW DEBT POLICY

The driving force behind the new policy was the promised, substantial increase in Ireland Aid. The government was clearly keen to spend some of this increase on debt relief and the purpose of the policy was to set out how this would be done.



### A. Total Debt Cancellation

**According to the policy, the government:**

- ⊙ supports total debt cancellation in principle with savings directed towards social services
  - ⊙ says there is a strong case that debts of countries with high rates of HIV/Aids should be cancelled as soon as possible
- but**
- ⊙ believes that this would have to be largely funded by rich countries as the IMF and World Bank don't have the resources
  - ⊙ believes it will be difficult to get rich countries to pay up
  - ⊙ intends, therefore, to continue to support the Heavily Indebted Poor Countries Initiative, and this is the main focus of the Debt Policy



### B. Heavily Indebted Poor Country Initiative (HIPC)

The Debt Policy is critical of the Heavily Indebted Poor Country Initiative.

**'We are concerned, however that the HIPC process is not working effectively and is not delivering on its stated objective of debt sustainability.'** (para 10).

#### Irish Government's Proposed Changes to HIPC

The Debt Policy calls for only one major change in HIPC - in how debt sustainability is assessed. For the IMF and World Bank a sustainable debt is one which a country can pay on time, without needing debt relief and without a negative effect on economic growth. According to the Debt Policy the IMF and World Bank should **'pay more attention to human development'** especially to protecting social expenditure when assessing how much debt a country can afford to pay.

We agree that debt payments should not take priority over human need but the statement above doesn't state clearly what exactly Ireland is calling for.

We argue that:

- ⊙ The resources required for basic needs and to improve the livelihoods of poor people should first be assessed.
- ⊙ Debt service should only be paid from any surplus, if any, remaining after meeting the social and economic needs of the country.

Jubilee Research UK estimates that 30 out of the 41 countries in Africa need total debt cancellation if they are to meet the Millennium Development Goals, e.g. halving poverty by 2015.

## Other Major Problems with HIPC Not Directly tackled by the Debt Policy

- Countries are overwhelmed with conditions they must fulfill to receive debt reduction. Many have had debt reduction promised by the IMF suspended because of failure to meet IMF targets (e.g. Guyana, The Gambia, Guinea Bissau, Honduras, Malawi, Nicaragua, and Zambia).
- Only 6 countries (Uganda, Mozambique, Bolivia, Tanzania, Burkina Faso, and Mauritania) have qualified for all the debt reduction agreed.
- HIPC is controlled by creditors with no independent decision making body. Creditors act as judge and plaintiff in their own case.

The Debt Policy does not state that HIPC must be reformed before Ireland will provide further resources.

**We are concerned that Ireland may continue to support an unchanged HIPC.**



## C. Can the IMF and World Bank Afford to fund Debt Cancellation?

We do not accept the government's argument that the IMF and World Bank can't afford to cancel their debts. Some may question why debt cancellation needs to be funded. The argument is: the IMF and World Bank lend money to low income countries at very low interest rates. Repayments on these loans are used for further cheap loans. The IMF and World Bank, therefore, declare that any cancellation of these loans must be financed or there will be less money for further lending to low income countries.<sup>3</sup>

The IMF and World Bank always plead poverty. However, under pressure from the Jubilee campaign, the IMF sold some a small portion of its gold reserves to fund debt reduction. There is absolutely no reason why they can't repeat this exercise to fund more cancellation.

The World Bank has reserves of \$29bn and makes a profit of about \$1.5 bn a year. The Bank has used some of its profit to fund debt cancellation since 1997. A firm of London Accountants was asked by Drop the Debt UK to examine World Bank resources. They concluded that the World Bank could use some of its reserves to cancel debt without negative effects on the Bank.

**We ask, why is the government so reluctant to press the World Bank and IMF to use some of their own resources to cancel debt?**



## D. How will Ireland Aid Money for Debt be Spent?

The policy sets out a number of options - many of which are quite vague.

- ⊙ Funding to help Ireland Aid partner countries (Uganda, Mozambique, Ethiopia, Zambia and Tanzania) repay some of their debt.
- ⊙ Funding capacity building for debtor governments in managing their debt. Euro 1.5m has already been allocated to this.
- ⊙ Funding for civil society in Ireland Aid partner countries working on debt and poverty reduction.

No budget has yet been set to fund debt reduction other than the Euro 1.5 mentioned above.

We will need to carefully monitor how Ireland Aid money is used for debt reduction.

## Conclusion

Ireland's support for total debt cancellation is very welcome and a fitting response to the 850,000 people around the country who signed the Jubilee Petition. We also welcome the support promised to debt groups in the South. Our job now is to press the government to pursue their objective of total cancellation. It is clear that in the light of the very real obstacles in the way, they prefer to support an unreformed HIPC which the government admits is failing to meet its objectives.

The Minister for Finance's failure to publicise Ireland's new debt policy at the IMF and World Bank AGM is a clear warning that we must keep a watchful eye on the government. We must keep up the pressure to ensure that:

- ⊙ Ireland makes every effort to gain other countries' support for total debt cancellation.
- ⊙ The government starts to fulfill its promise to take a critical stance on IMF.

<sup>3</sup>Debt and Development Coalition has always questioned whether the IMF should be lending to low income countries at all.