

B. Response:

1. Introduction:

Debt and Development Coalition Ireland (DDCI) is a membership organisation comprised of 56 development, faith-based, community and trade union organisations. DDCI challenges structures of power that perpetuate injustice and exploitation of people in the global South,¹ specifically focusing on unjust transfers of wealth from countries of the global South to the global North, with particular focus on the development impacts of international debt and tax policy and practice.

DDCI has worked for 18 years on debt related justice issues and for 3 years on tax justice issues. DDCI has compiled this set of policy priorities and concerns in consultation with the members of DDCI, and with our international colleagues in Europe and in the countries of the global South. The concerns presented in this submission represent a clear set of concerns expressed on an ongoing basis by our international civil society colleagues in Africa, Asia, Latin America, Europe, the USA and Australia.

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. Progress Made:

Has the Government been successful in implementing the commitments contained in the White Paper on Irish Aid?

DDCI supports the Irish ODA programme which has been reviewed as one of the most effective among donor countries.² In this submission we focus our responses on the elements of the White Paper that are relevant to debt, tax and development. The current White Paper's commitments that are particularly relevant to these areas are its commitments to:

- principles of partnership and locally owned strategies
- ensuring policy coherence across government.

In practice, the White Paper commits to ensuring that:

- Irish Aid and the Department of Finance would work closely together to integrate a strong development perspective into the positions taken by Ireland in the international financial institutions (IFIs).
- Dáil and Seanad debates would be promoted on international development.
- Greater public learning about development would be promoted through Irish Aid's development education programme.

Overall Outcomes

Good Progress:

DDCI welcomes that

- Irish Aid and the Department of Finance work closely on IFI related decision-making and have undertaken to jointly review Ireland's current international debt policy.
- Irish Aid and Department of Finance officials meet jointly with civil society organisations on Ireland's development finance policies.
- The Joint Committee on Foreign affairs and Trade has taken a strong interest in debt and tax related development issues.
- An inter-departmental committee on policy coherence for development has been established.

Needs Improvement:

- While it is very welcome that Irish Aid and the Department of the Finance are jointly drafting an updated international debt policy, a draft policy has not been published and shared for comment with relevant civil society organisations.

² OECD, DAC, *Ireland DAC Peer Review*, 2009, OECD <http://www.oecd.org/dataoecd/50/1/42704390.pdf>

- This reflects a weakness in available specific, up-to-date policies within government on key policy areas relating to debt and development and Ireland's membership of the IFIs.
- The impact of the inter-departmental committee on supporting the formulation of more coherent development policies is still unclear.
- The ODA budget has been disproportionately cut by 30% since 2008.
- The importance of just international taxation does not feature in the current White Paper. However, it is very welcome that the *Consultation Paper for the Review of the White Paper on Irish Aid* refers to the importance of tax and development.

Addressing the Gaps

The Reviewed White Paper on Irish Aid should commit to:

- Supporting **increased debt cancellation for southern countries, international action to tackle illegitimate debts; an end to damaging policy conditionality** and building of fair North-South relationships through **just and binding lending-borrowing standards** as a long term alternative to policy conditionality; **democratic reform of the IFIs; support for just climate finance; and support for international tax justice** (see section 4).
- Ireland should meet its obligation to paying 0.7% of GNI in ODA spending by 2015. Development education funding should be protected within the ODA budget as a route to supporting people in Ireland develop critical understanding of the root causes of underdevelopment.

The White Paper should commit to specific actions including:

- the **publication of a revised, justice centered international debt policy** outlining Ireland's position on the key issues outlined in Section 4. A first draft of the policy should be **shared for comment with relevant civil society organisations**.
- Scheduling an **annual meeting of the inter-departmental committee on finance for development**. The schedule of meetings should be published in advance and civil society organisations invited to input their concerns to the meetings.

3. **Changing context:** What are the implications of the changes in the global and domestic context for the Government's aid programme in the future and how will these affect current priorities?

Global Context: Global Financial Crisis & Renewed Debt Crises

The global financial crisis and the debt crisis in Europe is impacting negatively on countries of the Global South through losses in ODA receipts, reductions in demand for exports and reductions in receipt of migrant remittances.³ Unstable food prices due to the financial crisis and climate change, have pushed the number of hungry people to over 1 billion, and millions more people under the poverty line.⁴ These crises are compounded by the global emergency of climate change which is causing catastrophic human suffering, declines in crop yields and increases in the frequency and severity of extreme weather events.⁵ Women are worst affected by these crises. An estimated 3.9 million women and girls die under the age of 60 each year. About two-fifths are never born, one-sixth die in early childhood, and over one-third die in their reproductive years. This number is growing in Sub-Saharan Africa, especially in childhood and reproductive years and in the countries hardest hit by the HIV/AIDS epidemic. Despite declines by nearly 25% in HIV infections worldwide, 34 million people are living with HIV. UNDP estimate that 2 people were newly infected for each person who started antiretroviral therapy in 2009 (UNDP).⁶

Despite rising civil society demands for justice, as evidenced in the so-called 'Arab Spring' in North Africa, or in the creation of the new nation state of South Sudan, pro-poor centered decisions are still not the norm. An estimated US\$ 94 billion is still required to meet the minimalist MDG targets relating to education, health and income poverty.⁷ Yet, governments continue to fail to deliver this finance and just development finance policies to support sustainable development.

³ Christian Aid, *The Morning After the night Before: The Impact of the Financial Crisis on the Developing World*, November 2008; Jubilee Debt Campaign, *A New Debt Crisis? Assessing the impact of the Financial Crisis on Developing Countries*, 2009

⁴ UN, *UN Secretary-General's message to high-level thematic debate of the General Assembly on Excessive Price Volatility in Food and Related Financial and Commodity Markets*, New York, 11 April 2012 - <http://www.un.org/sg/statements/index.asp?nid=5986>

⁵ Oxfam, *What is Grow*, <http://www.oxfam.org/sites/www.oxfam.org/files/grow-manifesto-may2011-eng.pdf>

⁶ UNDP, <http://www.undp.org/content/undp/en/home/ourwork/hiv-aids/overview.html>, accessed 19th April 2012

⁷ Concord, *Towards the UN MDG Review Summit 2010 CONCORD's recommendations to the EU*, 2010

Development Finance?

Despite 36 countries having received significant debt cancellation of \$122 billion,⁸ the external debt of Southern countries remains enormous, currently standing at US\$4.1 trillion.⁹ 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.¹⁰ The IMF estimates that one third of 'Low Income Countries' (LICs) are either in debt distress or are at high risk of debt distress.¹¹ As the existing debt cancellation scheme – the HIPC Initiative – draws to a close, many Southern countries still require increased debt cancellation. For example, in 2009, the UN called for special attention to the debt cancellation needs of Caribbean states.¹² The UN continues to call for action for countries with continued debt distress that have benefitted from debt cancellation; debt cancellation for countries excluded from HIPC/MDRI schemes, and for all LICs; binding responsible lending and borrowing standards; and shared responsibilities between lenders and borrowers in dealing with debt cancellation.¹³

Over the past 5 years, increasing international attention has been on the responsibilities of lenders and borrowers in creating debt crises that are ultimately paid for by very vulnerable people.¹⁴ The roles of the IFIs are also being re-framed – the IMF as a newly empowered arbiter of the global financial crisis, and the World Bank Group has been given a growing role in climate finance and private sector investment. The current debate on development finance has therefore shifted to analysing the:

- social impacts of HIPC/MDRI debt cancellation schemes and the continuing debt distress levels of Southern countries;
- problem of illegitimate debts and lender-borrower responsibilities in creating them (including responsibilities of the IFIs; 'traditional' lending countries; and more recent lenders such as China);
- continuing problem of policy conditions attached to loans and debt cancellation, and their impacts;

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

⁹ This applies to Low and Middle Income Countries for 2010. See World Bank's database: <http://databank.worldbank.org/ddp/home.do>

¹⁰ IMF, *Preserving Debt Sustainability in Low Income Countries in the Wake of the Global Crisis*, IMF 2010:3

¹¹ op cit, IDA & IMF, p 21

¹² UNDP, *Achieving Debt Sustainability in the small Island Developing States*, UNDP October 2010: 37

¹³ UN, Secretary General, *External debt sustainability and development: Report of the Secretary-General* http://archive.unctad.org/en/docs/a66d164_en.pdf, see paragraphs 63, 66 and 67

¹⁴ See a summary of the debate here: Jubilee USA, *Recent Developments on Odious and Illegitimate Debt*, Sept 2008, http://www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/408briefnoteodiousilldebt.pdf

- roles of the IFIs in relation to climate finance and the private sector;
- legitimacy and democratic deficits at the IFIs in a changing geo-political landscape;
- impacts of international taxation policies on development.

The World Bank Group

Policy Conditions

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 continue to give the World Bank high influence in primary industries and natural resource management, fiscal policy, public sector reforms and long-term sustainable development. The reduced number of conditions is positive. However, the negative effects of these far reaching conditions remains a major challenge for Southern countries.

Democratic Deficit

Voting power at the World Bank remains based on outmoded interpretations of decision-making and economic power. Reforms in 2010 brought about small increases in voting shares at the World Bank 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.

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 continued 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.

Private Sector Lending

The World Bank Group is increasingly investing in private finance through the International Finance Corporation (IFC), with unclear development outcomes. Funding for the IFC in the World Bank Group has grown enormously over the past decade, with finance sector lending making up over half of all new project commitments in 2010. While a vibrant private sector can support development, the Bank's growing support for private rather than public investment is highly questionable. This is because 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 richer countries.¹⁵

The IMF

Policy Conditions

The IMF Conditionality Guidelines in 2002 sought to decrease the number of structural conditions, and in 2009, the IMF 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. This is welcome. However, DDCl remains very 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.¹⁶

Democratic Deficit

Decision making at the IMF is still 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

¹⁵ Eurodad, *Development Diverted: How the International Finance Corporation fails to reach the poor* 2010.

¹⁶ Eurodad, *Standing in the Way of Development*, Eurodad 2010; see also concerns raised in Roy and Ramos, *IMF Article Iv Reports: An Analysis of Policy Recommendations*, Working Paper number 86, International Policy Centre for Inclusive Growth (IPC - IG), Poverty Practice, Bureau for Development Policy, UNDP, February, 2012

(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. However, major governance reform is still needed as G8 countries currently hold approximately 46% of IMF voting shares.

Capital Controls

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.¹⁷ Despite this step forward, civil society organisations remain 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, 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.¹⁸ 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 is required.

Tax Justice

Barriers to Southern countries' right and capacity to raise tax domestically has come to increasing attention over the past 5 years. The European Commission indicates that the tax-to-GDP ratio of most Southern countries is roughly half that of Northern countries.¹⁹ Fair international tax rules are crucial for Southern countries, as tax represents one of the few sources of independent income available to Southern governments. Tackling this is all the more urgent given the research now available that shows that US\$ 865 billion in illicit financial flows have left Africa between 1970 and 2008.²⁰ Christian Aid estimate that all Southern countries lose US\$ 160 billion per year due to transfer mispricing and falsified invoices alone. This could save the lives of 350,000 children's lives under the age of five every per year.²¹

Tax and development is moving up the official multi-lateral agenda, including positive, although limited, steps being taken to ensure greater financial transparency by multinational companies such as in the US through the recently introduced Frank-Dodd Act

¹⁷ 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.

¹⁸ Gallagher et al *Capital Account Regulations for Stability and Development: A New Approach*, Frederick S Pardee Centre, November 2011.

¹⁹ European Commission *Staff Working Document on Tax and Development*, 2010

²⁰ *Global Integrity Index*, 2009 <http://report.globalintegrity.org/globalIndex.cfm>

²¹ Christian Aid, *Death and Taxes: The True Toll of Tax Dodging*, Christian Aid, 200-8, p. 2

(2010) and at EU level through the current revising of the EU Directives on Transparency and Accounting.

Local Context: Ireland

Ireland has responded to these changes in the development finance debate as follows:

Ireland has

- Established a strong track record on supporting debt cancellation for Southern countries. This has included clear support for debt cancellation payments as being additional to ODA payments.
- Made prompt payments into debt cancellation schemes.
- Protected Ireland's largely grant based (as opposed to loan based) Official Development Assistance (ODA) programme.
- Committed to focusing on many of the world's poorest countries in Ireland's ODA budget.
 - Supported funding the most 'pro-poor' elements of the World Bank's work.
 - Supported a third chair for Africa on the Board of Directors at the World Bank.
- Supported project-by-project reporting on the process of revising the EU Transparency and Accounting Directives.
- Committed to principles of partnership, locally owned strategies and policy coherence in Ireland's White Paper on Irish Aid.

However, Ireland's current White Paper does not engage with the full changing context of development finance as outlined above. The revised White Paper should focus on debt and tax justice as a key to ensuring Southern countries retain finance that is rightfully theirs and as a route to reducing long term dependency on aid, external debt and its related pressure on Southern countries to adhere to often damaging and rigid policy conditions of the IFIs.

4. Key Issues

The problems outlined above are cross cutting to the issues highlighted by Irish Aid in the *Consultation Paper on the Review of the White Paper - of hunger, country fragility, climate change, lack of access to basic needs, poor governance and human rights abuse, and gender inequality*. There are clear policy actions within the development finance agenda that can help overcome these problems, if the political will is present among

donor governments. The significant commitments that should be included in the reviewed White Paper on Irish Aid include supporting the set of policy proposals outlined below.

The actions below should be supported by the Irish government and advocated for in multi-lateral fora such as through Ireland's membership of the European Union (EU), the World Bank Group, the International Monetary Fund (IMF) and Asian Development Bank. DDCI proposes that these policy positions, based on justice and sustainable development for the people of Africa, Asia and Latin America, should be clearly supported by the Irish government **in the reviewed White Paper and through an updated international debt policy for Ireland.**

Increased Debt Cancellation

Ireland should support

- Increased debt cancellation for Southern countries that need it, including of unjust and illegitimate debts ie: loans extended irresponsibly by lenders without due diligence, and which have not benefited the people of those countries.
- A formal multi-lateral process to support action to tackle the problem of historic illegitimate debts.
- Increased transparency at national level in Southern countries through political and financial support to national debt audits that support citizens and parliaments to judge the legitimacy or otherwise of their external sovereign debt.

Specific Actions:

Ireland should

- Champion the needs of Southern countries at risk of, or in high debt distress, including in its programme countries and the Caribbean countries with whom it shares a constituency at the World Bank Group and IMF.
- Establish a dialogue toward action among like-minded governments on the problem of illegitimate debt
- Directly support national parliamentary and/or citizen debt audits in order to enable greater access to information among citizens about the scale and nature of their debts.

Support an end to the practice of loan policy conditionality as the framework for policy decision-making in borrowing countries, and support the formulation of internationally fair and responsible lending and borrowing standards

Ireland should

- Support an immediate end to damaging loan policy conditions, such as particularly sensitive economic policy conditions in Southern countries. 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.

- Do this with the longer term goal of shifting the current relationships between lending and borrowing countries to one of equals through working toward an end to the practice of loan policy conditions and instead building international support for fair and responsible lending and borrowing standards.

Support toward Fundamental Governance Reform of the World Bank and IMF through

Supporting IMF and World Bank governance reform to give greater voice and vote to Southern countries, including a more accountable leadership selection process that includes far greater representation for Southern countries.

Support Just Climate Financing through

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

Support International Tax Justice

Ireland should

Work to stop the losses of billions of euro each year from Southern countries as a result of tax evasion by multi-national companies by strengthening financial reporting standards for multi-national companies.

Specifically, Ireland should support:

- Full country-by-country financial reporting by multi-national companies on profits and taxes, and project-by-project reporting for multi-national companies in relevant sectors vulnerable to abuse, for example in the extractives and forestry sectors and in sectors that involve public-private partnerships.
- Automatic information exchange between jurisdictions on tax matters.

4.7 Are there other issues? Given the limited resources and the need to focus these, which issues should the Government prioritise in its future aid programming?

Delivering on the commitments outlined above is achievable with little financial cost to Ireland. However, action at a policy level in these areas would reap enormous economic and social benefits for Southern countries now and into the future.

4.8 Ways of Working: How can the Government further strengthen its ways of working in delivering an effective aid programme, with a view to delivering real results in poverty reduction?

Policy Coherence for Development

It is critical that the Department of Finance and the Department of Jobs, Enterprise and Innovation support coherent policies on development finance. Irish Aid should

- Continue to work in close dialogue with both departments
- Utilise the inter-departmental committee on policy coherence to develop a structured dialogue between both departments and civil society organizations.

Working with the International Financial Institutions

Ireland, as a member of the World Bank and International Monetary Fund (IMF) has a responsibility to ensure that both institutions pursue positive development strategies toward Southern countries. According to the 2010 report on Irish participation in the World Bank and IMF, Ireland paid € 50 million to the World Bank Group, in addition to €100,000 to the IMF's Poverty Reduction and Growth Facility, a lending facility to 'Low Income Countries'.²²

Ireland should

- Keep its promise to deliver 0.7% of GNI in aid by 2015 to Southern countries,
- Publish clear development criteria to guide funding decisions on Ireland's contributions to the World Bank, IMF and the Asian Development Bank.
- Work closely with its Caribbean counter-parts in its World Bank and IMF constituencies in order to ensure their views are heard in the constituency.
- Work to ensure that civil society views are heard and responded to by relevant departments, including supporting civil society organisations participation at strategic IFI and UN meetings.

Parliamentary Participation in International Debt and Taxation Policy

The Minister for Trade and Development should

Initiate an annual parliamentary debate on Ireland's membership of the IFIs, linked to the annual publication of the report on Ireland's participation in the World Bank and IMF.

Support for development Education

Ireland should

Protect the development education budget line of Irish Aid which supports people in Ireland to analyse the root causes of underdevelopment such as those outlined above. The development education budget line should be given special protection because it is a more challenging budgetary area to fundraise for from the public than other types of ODA.

²² Dept of Finance and Irish Aid, *Ireland's Participation in the International Monetary Fund and the World Bank*, 2010 March 2011:14.

4.9 Other comments

Ireland has a positive reputation on international debt issues, the review of the White Paper is an opportunity to **build on this positive history and to address the serious gaps in debt and IFI related policy** in the current White Paper on Irish Aid. DDCI proposes that the policy positions outlined above, based on **justice and sustainable development** for people of the global South should be clearly supported by the Irish government through the review of the White Paper on Irish Aid and through **committing to updating Ireland's international debt policy for Ireland in the reviewed White Paper**. Ireland should also utilise the opportunity of the review of the White Paper to assert itself as a **leader in supporting international tax justice** for Southern countries.

This submission is supported by the members of Debt and Development Coalition Ireland:

Action from Ireland (Afri), Africa Centre, Africa-Europe Faith and Justice Network, Amnesty International, Christian Aid Ireland, Columban Missionaries, Columban Sisters, Comhlámh, Development Studies Centre UCD, Dominican Sisters, Ethical Development Action Cork, Faithful Companions of Jesus, Friends of the Earth Ireland, Galway Fair Trade Group, Good Shepherd Sisters, Holy Faith Sisters, Holy Ghost Fathers, Irish Congress of Trade Unions, Irish Missionary Union, Irish School of Ecumenics, Irish Quakers Faith in Action, Jesuit Centre for Faith and Justice, Just Forests, Kerry Action for Development Education (KADE), Kimmage Development Studies Centre, Lay Dominican Sisters, Latin America Solidarity Centre, La Sainte Union Sisters, LASCO Derry, Little Sisters of the Assumption, Lourdes Youth and Community Services, Lucan Justice and Peace group, Marist Fathers, Mercy Central Leadership Team, Mercy Sister Northern Province, Mercy Sisters Southern Province, Mercy Sisters South Central Province, Mercy Sisters Western Province, Mill Hill Missionaries Justice Office, One World Awareness Society Mary Immaculate College Limerick, One World Centre Galway, Pax Christi, Presentation Sisters South Eastern Province, Presentation Sisters South Western Province, Presentation Sisters Northern Province, Religious of Jesus and Mary, Selesian Congregation, Sisters of Charity, Sisters of Our Lady of Apostles, Sisters of the Sacred heart of Jesus, Sisters of St Clare, SMA Fathers, Social Justice Ireland, St. Patrick's Missionary Society, Trócaire, Vincentian Partnership for Social Justice, Voluntary Missionary Movement (VMM).

