



## TOPIC FOUR | DEBT FINANCING TO REALIZE RIGHTS

### Main Takeaways

- COVID-19 lays bare the inequalities in the international economy; the financial turmoil it is causing is predicted to trigger a cascade of sovereign debt crises for many low- and middle-income countries.
- Proposals to address this crisis include widespread debt forgiveness or cancellation, and increasing liquidity through the special allocation and redistribution of Special Drawing Rights by the IMF.
- These policy proposals would be in line with international human rights law, which obliges governments to mobilize the “maximum of available resources” to realize human rights and to cooperate internationally to this end.

### Why is this topic important in the context of COVID-19?

It's predicted that COVID-19 will plunge the global economy into the worst recession since World War II. High-income countries are using all the resources they can to weather the storm. But, low- and middle-income countries can't necessarily do the same.

Governments generate resources in two main ways: they raise money (see [Topic 3](#) in this series) or they borrow it—producing public debt (also known as sovereign debt). This creates an obligation to allocate resources towards paying that debt, plus interest. Debt can be domestic (owed to lenders in the country) or external (owed to foreign lenders). Lenders can be public (multilateral and bilateral) or private. The terms and conditions of a loan—including the currency it's in—affect how manageable debt payments are.

Debt payments have become onerous for many low- and middle-income countries. They're often forced to rely on underregulated international financial markets skewed in favor of private lenders and end up borrowing at high interest rates and in dollars. According to UNCTAD, in 2020 and 2021 payments on public external debt for “developing” countries are estimated at nearly US\$ 3.4 trillion.

High debt burdens threaten rights enjoyment. Even before the pandemic, 64 countries were spending more on external debt payments than health care, according to Jubilee Debt Campaign. When debt payments squeeze government budgets, cuts to essential public services and social programs result. This erodes their quality and their reach. Women often suffer the most; their unpaid care and domestic work is relied upon to fill the gap.

The financial turmoil caused by COVID-19 is predicted to trigger—or exacerbate—sovereign debt crises in many low- and middle-income countries. Borrowing has become more expensive. Record capital outflows and sharp currency devaluations make debt payments harder. At the same time, countries need to massively boost resources to meet acute health and social protection needs.

Without adequate global action on debt, inequalities within and between countries will get worse. The World Bank estimates that COVID-19 will push between 40-60 million people into extreme poverty. Intersecting inequalities—along the lines of gender, race and class—put particular groups at greater risk.

### What is being proposed?

**Debt Relief:** Proposals vary in terms of—

- Borrowers (or debtors) eligible: some proposals are linked to a country's economic classification; others to eligibility for financing programs (e.g. the Poverty Reduction and Growth Trust).
- Lenders (or creditors) involved: most proposals focus on multilateral institutions (both regional and international), in particular the IMF and World Bank; some target governments lending bilaterally; and others include private lenders.
- Type of relief: debt cancellation (full waiver); forgiveness (partial waiver); moratoriums (temporary freeze); and restructuring (change in the terms and conditions of the loan).

The proposals taken up by governments so far only offer a temporary freeze. For example, in April the G20 announced a moratorium on official bilateral debt owed by the world's 76 poorest economies until December 2020. This just postpones the problem.

By contrast, over 150 civil society organizations have called for all payments on public external debt due in 2020 to be permanently cancelled for all countries in need. This would include all principal, interest and charges, to bilateral, multilateral and private lenders. This would free up an estimated US\$ 25.5 billion for lower income countries.

**Special Drawing Rights (SDRs):** These are an asset created by the IMF to supplement members' official foreign reserves. They're based on a "basket" of five currencies. They can be traded among central banks or exchanged for a currency in the basket. This allows countries to access foreign currency sources without additional debt.

After the global financial crisis, the IMF allocated US\$ 250 billion worth of SDRs. Dollar-denominated debt in "developing" countries is roughly four times higher than it was then. On this basis, SDRs should be at least four times higher too, argues the ICTU. Other proposals go up to 3 trillion. Countries are allocated SDRs in proportion to their IMF quotas (larger for richer countries). So, an accompanying proposal is to set up a mechanism for richer countries to transfer (not loan) their allocations.

Calls for a massive extension of SDRs have received widespread support. But the US has effectively exercised a veto. It has the largest voting share in the IMF (whose quota system has been subject to urgent but so far fruitless calls for reform).

**Resolving heavy debt burdens:** Calls for a comprehensive, transparent, timely and enforceable process to systematically restructure (or fairly resolve) heavy debt burdens go back decades. They've faced resistance, particularly from richer countries and private lenders. But COVID-19 has shown the global threat posed by the failures of the current international financial architecture. This presents an important political opening.

EURODAD outlines key principles to guide a new debt resolution process. These include establishing an independent body to level the playing field between creditors and debtors; setting out transparent and participatory negotiation procedures; and considering how a country's debt burden impacts its ability to realize rights.

## What are the human rights arguments in favor of these proposals?

Most of the world's governments have signed up to binding treaties that commit them to taking concrete steps to guarantee people's rights and to remedy inequalities of all kinds using the *maximum of their*

*available resources* (see [Topic 1](#)). Resources include those available internationally. This means when governments do not have sufficient resources, they must seek international assistance. There is also a duty to provide assistance. This flows from the *extraterritorial* obligations that governments have (see [Topic 2](#)). These include cooperating internationally and avoiding action likely to harm people's rights overseas or prevent others from meeting their human rights obligations.

The United Nations Guiding Principles on foreign debt and human rights outline how these obligations apply when governments take on foreign debt. They stress that borrowers and lenders share responsibility for onerous debt. The principles call for a framework to ensure transparency and accountability in loan negotiations. Including human rights impact assessments in debt sustainability analyses is a key part of that process.

In line with these obligations, borrowing governments should ensure debt payments do not divert resources from social services essential for realizing rights. Reflecting their co-responsibility for debt, lenders (who in reality are in a stronger bargaining position) should help facilitate this. Providing debt relief may well be necessary to meet these obligations.

So far, the global response has been wholly inadequate. Savings from short term deferments may well end up going to private creditors, instead of meeting urgent health and social protection needs. This will have a steep social cost.

These proposals provide low-cost emergency liquidity (or cash flow). In combination with other actions, this can free up vital fiscal space to boost spending on health, support people's livelihoods, and protect other services vital for protecting rights from the economic fallout of COVID-19.

### Critical Questions

- ▶ How much of the government's budget goes to debt payments? How does this compare to allocations for health, education, and other goods and services essential for realizing rights?
- ▶ What information is available about sources of public debt, the terms and conditions on which it was created and its use?
- ▶ How is the impact of debt on people's rights assessed?
- ▶ Is your country a lender? How does it assess the impact of its lending decisions on people's rights overseas?
- ▶ What is your government's position on the proposals outlined above?