International Service for Human Rights

The Reports in Short

ISHR's summaries of documents for the 4th session
of the Human Rights Council

Report of the independent expert on the effect of economic reform policies and foreign debt on the full enjoyment of all human rights[1]

Mandate Holder

Bernards Mudho

Mandate

In resolution 2000/82, the Commission on Human Rights (the Commission) requested that the independent expert present an analytical report on (a) the effects of the foreign debt and the policies adopted to face them on the full enjoyment of human rights, in particular, economic, social and cultural rights in developing countries; (b) measures taken by Governments, the private sector and international financial institutions to alleviate such effect in developing countries, especially the poorest and heavily indebted countries; and (c) new developments, actions and initiatives being taken by international financial institutions, other United Nations bodies and intergovernmental and non-governmental organizations with respect to structural adjustment policies and human rights.

In resolutions 2004/18 and 2005/19, the Commission further requested the independent expert, in the discharge of his mandate, draft general guidelines to be followed by states and by private and public, national and international financial institutions in the decision making and execution of debt repayments and structural reform programs, including those arising from foreign debt relief, to ensure that compliance with the commitments derived from foreign debt will not undermine the obligations of fundamental human rights.[2]

Activities

Analytical annual report

Annual Report[3]

Scope

[1] Summary prepared by Rami Chalabi, Intern, ISHR. Supervised and edited by Hannah Klein, Intern, and Gareth Sweeney, Information Program, ISHR.
[2] 2005/19 also requested that the independent expert seek advice from States, international organizations, UN agencies, funds and programs, regional economic commissions, international and regional financial institutions and NGOs on the draft of his general guidelines, and explore the linkage between trade and other issues, including HIV/AIDS when examining the impact of structural adjustment/foreign debt.
[3] A/HRC/4/10, 3 January 2007.

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The report analyzes recent debt relief initiatives and their impact on poverty reduction and the full enjoyment of all human rights. The report proceeds to review possible human rights implications of standard reform policies promoted by multilateral financial institutions.

Summary and key conclusions

- The International Monetary Fund and the World Bank have responded to past criticism of past debt relief operations[4] by adding more country specific and 'forward looking' elements, with the objective of avoiding future situations of debt unsustainability.
- The new framework, however, can still be criticized because **the approach relies heavily on subjective World Bank analytical tools and projections** that have been overly optimistic in the past. Furthermore, the new framework still regards a country's ability to service its debt as the main objective and criteria for sustainability.

The mandate holder assessed the major elements of the economic reform policy put forward by international financial institutions as follows:

- **Debt relief operations** by the HIPC[5] and MDRI[6] will total over $100 billion. However, this magnitude of resources does not directly translate into poverty reduction or human rights related expenditure. Debt relief operations increase the concerned governments 'fiscal space' which can be used for increased public spending in areas related to human rights if the adequate policy decisions are made.
- However, empirical data collected by the World Bank and the IMF show that in the context of the HIPC initiative, **developing countries' poverty reduction expenditures have increased following the debt cancellation**. Thus these operations are too small to have a significant impact on human rights, and there is a need for further comprehensive debt relief by multi-lateral institutions.
- It is widely recognized that broad **macroeconomic stability** lays the basis for economic growth, which is an **essential prerequisite for poverty reduction and the achievement of human rights.** However, there is no general consensus as to the level of macroeconomic stability that leads to economic growth.
- **Privatisation** has constituted a key part of the economic reform package suggested by international financial institutions, on the grounds that private enterprises are more efficient than state-run operations. However, past privatisation operations have shown mixed results. It also remains unclear to what level this has contributed to economic growth. Moreover, it has often been accompanied by negative impact to poverty and human rights (increased unemployment, price rise of basic services).
- **Trade reform/liberalization** is often seen as a way to increase productivity and investment. However, it has often caused many local firms to shutdown and has led to the **massive loss of employment**, particularly in small to medium enterprises that could not withstand the increased competition.
- **Governance** related reforms are generally very closely related to human rights. Corruption is unlikely to flourish where there is access to information, freedom of expression, participation and accountability. It can also be said that no debt relief measure or economic reform measure can contribute to the better realization of human rights if it is not implemented within the enabling context of a good governance framework.

[4] Criticisms were directed at the inappropriate use of undifferentiated analytical criteria, such as the debt-to-export ratio of 150 percent, to judge the sustainability of a country's debt.
[5] Heavily Indebted Poor Countries Initiative
[6] Multilateral Debt Relief Initiative

- **Public sector reform** is a key part of governance related improvement. However, in the past, public sector reform programs have often focused too much on downsizing, with dramatic negative consequences for the effectiveness of sector management.

Key recommendations

- Within future debt relief initiatives, **special status should be given to debts owed by developing countries that are deemed to be illegitimate because they result from irresponsible lending and borrowing**. The independent expert calls on all multilateral and bilateral creditors to address this problem on a voluntary basis and to define appropriate transparent criteria for the illegitimacy of debt. **Such debt should then be cancelled immediately without preconditions.**
- **Conditionality** between debt relief and economic reform should be limited to the macroeconomic and structural framework directly relevant to the core objectives of debt relief (sustainability and achievement of MDGs).
- The **creation of country-owned and participatory peer-review mechanisms** could, and should, provide alternative and complementary views on debt sustainability by focusing on achievement of the Millennium Development Goals and mainstreaming human rights as key thresholds for sustainability.
- **Privatisation** decisions should be taken on the basis of broad and sensible economic considerations, but also on an analysis of their strategic economic and social functions.
- While competitive sectors can be open to immediate liberalization, others should be given **adequate transition periods,** allowing local producers to adapt to the new context and increase their competitiveness.
- **Public sector downsizing** decisions should be taken within a larger frame of reference that includes clear ideas on the appropriate role of the public service, a system for setting performance objectives and a reformed pay structure to attract, retain and motivate highly qualified staff.
- **Structural reform of health and education sectors** should be guided by international human rights obligations.