MULTIPLE CRISES, FISCAL SYSTEMS AND HUMAN RIGHTS

SUBMISSION TO THE INDEPENDENT EXPERT ON FOREIGN DEBT, OTHER INTERNATIONAL FINANCIAL OBLIGATIONS AND HUMAN RIGHTS

AMNESTY INTERNATIONAL

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INTRODUCTION

Amnesty International submits this input in response to the call for contributions[1] to inform the thematic report on "Multiple crisis, fiscal systems and human rights", to be presented at the 78th session of the UN General Assembly.

Placing it within the wider context of a global debt crisis this submission draws on a range of recent research carried out by Amnesty International. Our findings demonstrate how a number of countries in Africa, Europe and South Asia are having to deal with multiple and intersecting socio-economic crises and the consequential impact on the enjoyment of human rights. Based on this analysis it draws some overarching conclusions and makes a series of recommendations. These focus on the need to urgently address indebtedness and at the same time provide comprehensive social protection.

WHAT IS OUR UNDERSTANDING OF DEBT CRISIS AND DISTRESS?

The organisation Debt Justice defines a country as being in debt crisis when it has large financial imbalances vis-à-vis the rest of the world. This can be indicated either by their net investment position (-30% of gross domestic product or worse), or the current account balance (-3% of gross domestic product or more), while simultaneously having to pay more than 15% of government revenue to external lenders. These measures take account of both public and private debt held in the country and indicate that a country is struggling to fund social protection and development expenditures (such as healthcare, education, and so on).[2] Mostly this analysis shows that debt repayments are consistently greater than income and savings over a sustained period. While the Debt Justice analysis does not explicitly take into account other aspects of a country's gross domestic product (GDP), issues such as tax evasion, black market activity, large informal economies, illicit financial flows and corruption, only exacerbate the debt problem – all of these being 'leakages' from the system.

On average, low-income countries spent 27.5% of their budgets on debt repayment – four times more than on health service provision and 12 times more than on social protection.[3] As of March 2023, around 21 countries are projected to be nearing simultaneous debt and food crises.[4] Around 60% of low-income countries are in debt distress or at a high risk of it.[5]

At the same time these high levels of debt are undermining the ability of low-income countries to sufficiently resource the adaption and mitigation that the climate crisis requires. Indeed, many of these countries are being forced to take on more debt to try and tackle the impacts of the climate crisis in the absence of sufficient international assistance from weather countries. This is despite the fact that poorer countries with the least responsibility for creating the climate crisis in terms of emissions are often the most impacted. [6]

The country case studies that follow show some of the external shocks, including the climate crisis, that are also impacting their debt situation.

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[1] https://www.ohchr.org/en/calls-for-input/2023/call-input-mandate-foreign-debt-and-human-rights-multiple-crises-fiscal
[2] https://data.debtjustice.org.uk/our-analysis.php (accessed 16 April 2023)
[3] Oxfam International, "G20 must tackle the 'cost of profit'" crisis causing chaos worldwide", 14 November 2022, oxfam.org/en/press-releases/g20-must-tackle-cost-profit-crisis-causing-chaos-worldwide.
[4] International Panel of Experts on Sustainable Food Systems, "Breaking the Cycle of Unsustainable Food Systems, Hunger, and Debt", March 2023, ipes-food.org/_img/upload/files/DebtFoodCrisis.pdf, p. 7.
[5] IMF, "Crisis Upon Crisis: IMF Annual Report 2022", September 2022, imf.org/external/pubs/ft/ar/2022/english/, p. 19. Debt distress is a situation where a country is not able to meet its debt related financial obligations and therefore at risk of defaulting on the debt repayment.
[6] Debt Justice et al, "The Debt and Climate Crisis", October 2022, Debt-and-the-Climate-Crisis-Briefing-October-2022-UPDATED.pdf (debtjustice.org.uk)

COUNTRY CASE STUDIES

The following five country case studies are based on research carried out by Amnesty International during the last five years examining the impacts of multiple and intersecting crises including, in some cases, climate vulnerability.

AFRICA

MOZAMBIQUE

Over recent years Mozambique has been hit by several climate events – like cyclones Idai, Kenneth and Freddy. These events have caused extensive destruction and led to communities losing their homes, food and access to education and healthcare.[7] Cyclone Idai was one of the deadliest cyclones recorded in the Indian Ocean and one of the strongest recorded on the African continent.[8] Five weeks after cyclone Idai, Mozambique was hit by cyclone Kenneth. Over 1.1 million people were affected by the cyclones, and subsequent floods and cholera.

The devastation and humanitarian emergency caused by these two cyclones contributed to exacerbating the public debt crisis in Mozambique. The country had shown signs of economic recovery through 2018, despite burdensome debt levels (approximately USD 1.2 billion), and a relatively high budget deficit.[9] The estimated cost of damage caused by Idai and Kenneth was USD 1.5 billion – the most devastating and expensive natural disaster to effect the country.[10] In April 2019, the International Monetary Fund (IMF) approved a loan of up to USD 118 million to address fiscal gaps in the reconstruction post cyclone Idai.[11] Between February and March 2023, Mozambique (along with Madagascar and Malawi) were hit by cyclone Freddy. Cyclone Freddy was 35 days long – the longest-lived on record.[12]

Mozambique received aid funding following cyclone Freddy but continues to bear the burden of the public debt crisis, with less than 20% of debt owned domestically. Before the IMF loan in 2019, Mozambique's public debt was over 100% of GDP, some due to mismanagement and hidden debts by the state, but also burdened by the cyclone events.[13] According to analysis, debt payments as percentage of revenue peaked at 36.5% in 2020 and declined to 25.5% in 2021.[14] Economic recovery continues to progress, albeit slowly, and with recurrent setbacks. It is clear, though, that in the absence of a funding mechanism to support lower income countries affected by climate-induced loss and damage, Mozambique will likely remain reliant on debt to address destruction caused by extreme climate events.

CHAD

In 2018, a three-year research project by Amnesty International, culminated in the report "Strangled budgets, silenced dissent: The human cost of austerity measures in Chad". The report shows that Chad experienced an economic crisis since 2015, spurred by the drop in oil prices, increasing budget pressures and a lack of economic diversification. At the time, Chad held an oil-backed loan of over USD 1 billion from a syndicate led by Glencore, along with longstanding problems of tax evasion and corruption. As part of an effort to garner support from international financial institutions (IFIs) and donors, the government began implementing austerity measures. Any financing provided by IFIs and donors, was also conditional on this. Amnesty International reported that even though the IMF Extended Credit Facility (ECF) loan in 2017 contained spending floors for social protection, the limits were insufficient. This meant subsequent cuts to health and education budgets were regressive, further reducing access to these services - especially for the most economically vulnerable groups.

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[7] OCHA situation report, April 29, 2023, Mozambique: Tropical Cyclone Freddy, Floods and Cholera - Situation Report No.3 - Mozambique | ReliefWeb

[8] The Guardian, "Cyclone Idai ''might be southern hemisphere's worst such disaster', 19 March 2019, https://www.theguardian.com/world/2019/mar/19/cyclone-idai-worst-weather-disaster-to-hit-southern-hemisphere-mozambique-malawi (accessed 24 April 2023).

[9] IMF Country Report, 2020: https://www.imf.org/en/Publications/CR/Issues/2020/04/29/Republic-of-Mozambique-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-49383.

[10] IMF Country Report, 2020: https://www.imf.org/en/Publications/CR/Issues/2020/04/29/Republic-of-Mozambique-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-49383.

[11] IMF, "IMF Executive Board Approves US$118.2 Million Rapid Credit Facility Assistance to the Republic of Mozambique in the Wake of Cyclone Idai", 19 April 2019, https://www.imf.org/en/News/Articles/2019/04/19/pr19121-republic-mozambique-imf-exec-board-approves-rapid-credit-facility-assistance-cyclone-idai.

[12] The Daily Maverick, "Cyclone Freddy's deadly trail of destruction a grim reminder of the need to prioritise climate adaptation", 15 March 2023, https://www.dailymaverick.co.za/article/2023-03-15-cyclone-freddys-deadly-trail-of-destruction-a-grim-reminder-of-the-need-to-prioritise-climate-adaptation/ (accessed 24 April 2023).

[13] IMF Country Report, 2020: https://www.imf.org/en/Publications/CR/Issues/2020/04/29/Republic-of-Mozambique-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-49383.

[14] Debt Justice, Country analysis: Mozambique, https://data.debtjustice.org.uk/ (accessed 24 April 2023).

Fast forward to December 2022, after the COVID-19 pandemic, and prolonged austerity measures; Chad became the first country to reach a debt treatment agreement under the G20 Common Framework. The Glencore loan still amounted to a third of the USD 3 billion owed to external creditors. Under the agreement, which took over 18 months to finalize, debt will be restructured and rescheduled for 2024. Creditors felt future oil prices are likely to rise, and therefore, Chad's debt levels would remain below risks of debt distress, and of course, creditors such as Glencore, will continue to receive oil in return for the loan.[15]

As some critics have mentioned, the agreement under the Common Framework, was unable to assist Chad when it was in distress during the COVID-19 pandemic. It is also reliant on oil prices – in contradiction to the rhetoric of moving away from fossil fuels. And after almost two years of negotiation, the debt has merely been pushed forward to another day – still without true relief, or an adequate investigation into the human rights impact, or the plugging of leakages like tax evasion and corruption. So, debt service payments continue to push out priority expenditures in areas such as housing, health, education and social protection.[16]

SOMALIA

Somalia became the 37th country to qualify for debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) in March 2020.[17] Somalia had accumulated USD 5.2 billion in external debt, which would be reduced significantly through restructuring and the enhanced HIPC initiative by the completion point. In March 2023, the IMF announced agreement with Somalia on its fifth review of the ECF – a step closer to the completion point.[18] As part of the HIPC process, Somalia was expected to reform the legal and institutional framework, debt recording, and reporting and monitoring. In addition, government was asked to raise domestic revenues, implement reforms that promote inclusive growth, build resilience to climate shocks (such as the drought and food crisis currently being experienced), and deepen financial access and inclusion - while maintaining fiscal sustainability.[19]

While there is expected to be additional funds available to social protection spending – as in Amnesty International's 2021 and 2022 research – the reform process has likely taken a toll on access to services, along with continued conflict, drought and economic challenges. One should also bear in mind that the debt relief process simply reduces payments on interest and settlement that were crowding out spending on other priorities and frees that money up. In all likelihood the principal loan amount has been spent. The enhanced HIPC process will make Somalia more appealing for donors and investors going forward. And if legal and institutional reforms are successful, along with the strengthening of public financial management capabilities, Somalia will improve domestic resource mobilisation from revenue, spending, debt and aid.

SOUTH ASIA

SRI LANKA

In October 2022, Amnesty International published a report on the human rights impacts of Sri Lanka's economic and debt crisis. This report highlighted the challenges people were facing accessing their rights to health and food, as well as some of the limitations of existing social security programmes in the country. The report focussed on experiences of people with precarious jobs, relying on daily wages as their only source of income, and on people from the Malaiyaha Tamil community, both of whom were likely to be particularly impacted.

Sri Lanka's public debt increased substantially over the past decade. In 2012, central government debt was 68.7% of GDP, reaching 108.6% by 2022. Public debt increased from 93.6% of GDP in 2019 to 118% by the end of

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[15] Afronomics Law, "Sixty-second sovereign debt news update: Chad becomes the first country to reach a Debt Treatment Agreement with official and private creditors under the G20 Common Framework", 31 December 2022, https://www.afronomicslaw.org/category/african-sovereign-debt-justice-network-afsdjn/sixty-second-sovereign-debt-news-update-chad (accessed 24 April 2023).

[16] The Bretton Woods Project, "Chad gets debt rescheduling not relief and is left dependent on oil revenues", 8 December 2022, https://www.brettonwoodsproject.org/2022/12/chad-gets-debt-rescheduling-not-relief-and-is-left-dependent-on-oil-revenues/ (accessed 24 April 2023).

[17] International Monetary Fund, "Somalia to receive debt relief under the enhanced HIPC initiative", 25 March 2020, https://www.imf.org/en/News/Articles/2020/03/25/pr20104-somalia-somalia-to-receive-debt-relief-under-the-enhanced-hipc-initiative (accessed 24 April 2023).

[18] The International Monetary Fund, " IMF Staff Completes Staff-Level Agreement on the Fifth Review of the Extended Credit Facility Arrangement for Somalia", 23 March 2023, https://www.imf.org/en/News/Articles/2023/03/20/pr2382-imf-staff-completes-sla-fifth-review-ecf-arr-somalia (accessed 24 April 2023).

[19] The International Monetary Fund, "Somalia: 2022 Article IV Consultation and Fourth Review under the Extended Credit Facility-Press Release; and Staff Report", 16 December 2022, https://www.imf.org/en/Publications/CR/Issues/2022/12/16/Somalia-2022-Article-IV-Consultation-and-Fourth-Review-under-the-Extended-Credit-Facility-527022.

2022.[20] In 2020, Sri Lanka's interest payments were 71.4% of government revenue (the global average is 6% and the average in South Asia is 21.1%), and 32.9% of government expenditure (the global average is 5.4% and the average in South Asia is 22.6%).[21] Simultaneously, there is concern about the amount of government funding allocated for social assistance programmes. Social assistance spending has grown in nominal terms from 2015 to 2020, but declined real terms – that is, it is failing to keep pace with inflation. This is despite an increase in the number of beneficiaries.[22]

In April 2022, Sri Lanka announced it would suspend debt repayments. In May 2022, Sri Lanka defaulted for the first time.[23] In March 2023, the IMF approved a 48-month extension under the Extended Fund Facility of about USD 3 billion to support Sri Lanka's economic policies and reforms.[24] Meanwhile, workers in Sri Lanka recently went on strike against increased taxes and electricity tariff hikes - measures the government purportedly implemented to secure IMF financing.[25]

EUROPE

GREECE

The economic and financial crisis that started in 2008 had a severe impact in Greece, with people facing increased levels of financial vulnerability, poverty, and inequality. Amnesty International released a report in 2020, finding that the austerity measures introduced eroded the accessibility and affordability of health care in Greece and increased the burden on health workers. The report also raised human rights concerns associated with Greece's debt and the role of Greece's creditors and highlighted the need to urgently support and resource Greece's health and social sectors. Greece's public debt stock and debt-to-GDP ratio both increased between 2010 and 2020. The profile of public debt, however, changed following the Economic Adjustment Programs (EAP). In 2009-2010, almost 84% of government debt was held by private creditors - mostly financial institutions invested in Greek government bonds. Through the course of the bailouts, these liabilities were replaced by debt held by EU nations, the European Stability Mechanism, the European Financial Stability Facility and the IMF.[26] Studies showing this transformation, find that less than 5% of overall bailout funds went to the Greek fiscal budget, with most of the money going to existing creditors in the form of interest and debt repayments.[27] [28]

As part of the debt-mitigation programme, Greece committed to achieving a 3.5% of GDP primary surplus.[29] This means revenue must exceed non-interest expenditure by this amount. To meet this target, government expenditure must be reduced so some revenue can go to paying debt service costs – this raises concerns around human rights protections in areas like health and education.

In a meeting with Amnesty International, representatives from the Greek Ministry of Health agreed the primary surplus targets constrained spending on health. A 2019 IMF report even recommended "the government and European partners build consensus around a lower primary balance path, given ample economic slack and critical unmet social spending and investment needs" and found that Greece should increase social spending and investment.[30] Similarly, a 2019 profile of Greece's health system, conducted by the OECD and European Observatory on Health Systems and Policies, noted "Greece's continuing obligations following its exit from the EAP require it to maintain a budget surplus of 3.5% at least until 2022. This means that growth in public spending on

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[20] Statista, "Sri Lanka: National debt in relation to gross domestic product (GDP) from 2012 to 2022", https://www.statista.com/statistics/728528/national-debt-of-sri-lanka-in-relation-to-gross-domestic-product-gdp/ (accessed on 8 May 2023).
[21] World Bank, Interest payments (% of revenue) - Sri Lanka, https://data.worldbank.org/indicator/GC.XPN.INTP.RV.ZS?locations=LK (accessed on 21 September 2022)
[22] Real spending on Samurdhi specifically has declined from LKR 37.2 billion in 2015 to LKR 34.5 billion in 2019. UNICEF, Budget Brief: Social Protection Sector, Sri Lanka 2021, p. 10.
[23] Guardian, "Sri Lanka defaults on debts for first time", 19 May 2022, https://www.theguardian.com/world/2022/may/19/sri-lanka-defaults-on-debts-for-first-time.
[24] https://www.imf.org/en/News/Articles/2023/03/20/pr2379-imf-executive-board-approves-under-the-new-eff-arrangement-for-sri-lanka.
[25] Aljazeera, "Sri Lanka workers defy strike ban to protest IMF bailout plan", 1 March 2023, https://www.aljazeera.com/news/2023/3/1/sri-lanka-workers-defy-strike-ban-to-protest-imf-bailout-plan.
[26] European Stability Mechanism, "Timeline of events: 2009-2018", https://www.esm.europa.eu/assistance/greece/timeline-greece-exit.
[27] Rocholl*, J., and Stahmer, A., 2016, "Where did the Greek bailout money go?", ESMT White Paper No. WP–16–02 (http://static.esmt.org/publications/whitepapers/WP-16-02.pdf).
[28] Debt Justice, "At least 90% of the Greek bailout has paid off reckless lenders", 18 January 2015, https://jubileedebt.org.uk/press-release/least-90-greek-bailout-paid-reckless-lenders.
[29] Council of the European Union, "Greece the third economic adjustment programme", May 2019, Greece: the third economic adjustment programme - Consilium (europa.eu) (accessed at 8th May 2023)
[30] IMF, "Greece Article IV Consultation", November 2019, Greece: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Greece (imf.org)

health will likely remain bound by fiscal constraints. This may mean that OOP [out of pocket] spending is unlikely to drop in the short term".[31]

CONCLUSIONS AND RECOMMENDATIONS

The non-exhaustive list of case studies presented in this submission demonstrates the multiple socio-economic crises, including both debt and climate vulnerability, that many states are facing. At the same time there is clear evidence that excessive debt repayments are constraining states' ability to sufficiently invest in goods and services to realise economic and social rights including comprehensive social protection. Often the debt restructuring programmes that are implemented are insufficient to address the systemic problems faced by heavily indebted countries. At the same time the conditionality which can be imposed by creditors such as IFIs can further negatively impact rights enjoyment.

In response to this continuing global crisis we wish to make the following recommendations to both states and IFIs:

- Ensure timely debt relief for all countries in and at risk of debt distress and consider all options for such relief including debt restructuring and/or cancellation.
- Strengthen coordination between multi-lateral, bilateral and private creditors to offer debt relief to all countries in or at risk of debt distress, including:
  - Reforming the Common Framework, including by making the process more efficient, inclusive, and timely
  - Ensuring more countries are eligible for comparable relief and all creditors are required to participate in debt restructure and relief efforts
  - Considering proposals to ensure loan agreements provide for the suspension of payments in times of crises, including climate and economic crises.
- Refrain from stipulations in debt agreements that may undermine governments' ability to meet their economic, social, and cultural rights obligations.
- Ensure the terms of bilateral, multilateral, and private sovereign lending are transparent and available for, and subject to public scrutiny.
- Establish specific mechanisms to respond to external shocks, including natural disasters linked to climate change, with adequate resourcing including through appropriate debt relief to be provided by states based on the CBDR[32] principle.
- Urgently invest in social protection measures and take steps to progressively achieve universal social protection
- In line with the obligation of international cooperation and assistance, states that are able to, must assist other states in need, with financial and technical support to realize the right to social security. This includes ensuring that domestic and global social protection systems are shock responsive and can be adapted to increase coverage in the case of large-scale crises – such as climate change risks and shocks, pandemics, financial crises, conflict, etc.
- Mobilize the maximum available resources including through progressive taxation, debt relief, international assistance, and climate finance for climate-change related adaptation and loss and damage to provide comprehensive social protection coverage.

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[31] European Observatory on Health Systems and Policies, "Greece Country Health Profile 2019", November 2019, Greece: Country Health Profile 2019 | European Observatory on Health Systems and Policies (who.int). In its latest report in 2022 the IMF recommended that fiscal policy should remain accommodative but well-targeted for that year before returning to a gradual and growth-friendly consolidation with sustained primary surpluses thereafter. Across-the-board subsidies for high energy prices should be replaced with targeted support for vulnerable groups. The IMF Directors broadly agreed on the need to carefully assess the implications of the plans for permanent cuts in social security contributions and the elimination of the solidarity tax. They emphasized that the recent increase in health spending and public investment should be preserved, while pressures to raise pensions and civil service wages should be resisted. Directors recommended further enhancing the Guaranteed Minimum Income scheme to form the basis for targeted support during adverse shocks. See IMF Executive Board Concludes 2022 Article IV Consultation with Greece

[32] CBDR: common but differentiated responsibilities – a principle of international environmental law establishing that all states are responsible for addressing global environmental destruction, even if not equally responsible.

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