FOREIGN DEBT AND POVERTY: EXPLORING THE LINKAGES IN THE CONTEXT OF HUMAN RIGHTS

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by

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INTRODUCTION

Foreign (or external) debt and extreme poverty remain matters of serious concern for the international community.[1] The external debt burden exacerbates poverty in the indebted (mainly low-income) countries in which the majority of the world's poor live by relegating poverty reduction to a lower level of priority. According to a report by the New Economics Foundation, twenty countries spend more than 20 per cent of their budget on debt service.[2]

From a human rights perspective, it is sufficiently clear from the resolutions and decisions of the United Nations Human Rights Council and the former Commission on

[1] In 1995, the total external debt of low-income countries was approximately US$366 billion and in 2006, this had increased to over US$375 billion. It is important to note at the outset that the debt problem of low-income countries is compounded by many factors outside their control, including uncertainty in domestic production, volatility in global prices and deteriorating terms of trade.
[2] See S Mandel, *Debt relief as if justice mattered* (2008) 11.

Human Rights, as well as from the concluding observations of the treaty bodies on the State reports submitted to them that excessive debt burdens, high dependency on foreign assistance and extreme poverty pose a major challenge to the realisation of human rights in many countries around the world by undermining states' human rights obligations and the enjoyment of human rights by the poor in the indebted countries. Studies indicate that some countries are spending more each year on servicing debt than they do on human rights-related public services, such as education and health, combined.[3] Further, poverty is both a cause and consequence of human rights violations.

In this paper, I will briefly explore the linkages between foreign debt and poverty in the context of the promotion and protection of human rights, focussing on two key aspects of the linkage: debt relief and poverty eradication.

FOREIGN DEBT AND POVERTY

There are many reasons why poverty is widespread in low-income countries. However, it can be contended that the heavy debt burden exacerbates poverty in these countries and is a significant obstacle to their poverty alleviation and development goals. In seeking to honour their foreign debt repayment obligations many developing countries divert funds away from programmes aimed at reducing poverty and improving a variety of social conditions, including healthcare, education, nutrition, and life expectancy. This inevitably contributes to, and exacerbates, the conditions of poverty afflicting many of these countries. Illustratively, Liberia is struggling with a total external debt of US$3.7 billion but can only allocate US$7 million of its annual budget of US$120 million to combat the HIV/AIDS epidemic which

[3] For example, in 2005, Lebanon spent 52% of its budget on debt service as compared with 23.1% on health and education; Jamaica spent 27.9% on debt service and 16.1% on health and education; Bulgaria spent 23.0% on debt service and 11.6% on health and education.

affects about 8% of the population. Poor households bear the disproportionate burden of diversions from budgetary allocations for essential services.

DEBT RELIEF AND POVERTY REDUCTION

The reduction of foreign debt through debt relief is considered one of the principal ways to contribute to poverty reduction and debt sustainability.[4] There are two main measures currently implemented by multilateral lenders, such as the World Bank and the International Monetary Fund (IMF), with the aim of reducing the external debt of poor countries and helping them achieve debt sustainability: the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

The HIPC initiative links debt relief to poverty reduction, macroeconomic stability and structural reform. In order to qualify for debt relief under HIPC, a country must (1) have an unsustainable debt burden; (2) establish a track record of reforms and policies through World Bank and IMF-supported programmes; and (3) prepare a Poverty Reduction Strategy Paper.[5] Thus, debt relief is conditional on the progress made by qualifying countries in the preparation and implementation of social policies and strategies for reducing poverty.

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[4] The World Bank and IMF consider a country's debt unsustainable if either (a) the size of the country's foreign debt exceeds the value of its exports by a ratio of 150%, or (b) the ratio of the country's debt-to-government-revenues ratio is above 250%. In simple terms, these ratios provide an indication of a debtor-country's inability to repay its debts without exposing it to undue social and economic hardship. Unsustainable debt also undermines countries' human rights obligations.

[5] Poverty reduction Strategy Papers (PRSP) describe a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as related external financing needs. PRSPs are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the IMF.

The MDRI provides for 100 percent relief on eligible debt from three multilateral institutions[6] to heavily indebted poor countries and is ostensibly designed to help these countries progress toward the MDGs, which have the core objective of halving poverty by 2015.[7] All countries that reach the completion point under the enhanced HIPC and those with per capita income below US$380 and outstanding debt to the IMF as at the end of 2004 are eligible for the MDRI.

While it is recognised that some low-income developing countries have benefited from debt relief under the HIPC initiative and the MDRI through reduced debt-service payments and increased expenditure on 'pro-poor growth programs', there have been many criticisms against these debt relief initiatives particularly with regard to the conditionalities attached to the debt relief measures. I do not propose to revisit these here. Nevertheless, it is important to highlight some key concerns.

First, despite the debt relief provided by HIPC and MDRI, many countries still have substantial debts[8] which undermine their human rights obligations and make it difficult for them to achieve the Millennium Development Goals (MDGs),[9] including poverty eradication.

Second, the criteria for assessing debt sustainability[10] under the multilateral debt relief initiatives generally focus on the needs of the creditor rather than those of the debtor i.e. the priority is on improving levels of debt service, rather than on poverty reduction – a situation that contradicts one of the primary aims of debt relief

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[6] The IMF, International Development Association (the concessional branch of the World Bank) and African Development Fund.

[7] See IMF, The Multilateral Debt Relief Initiative (MDRI) – A Factsheet, March 2008, available at http://www.imf.org/external/np/exr/facts/mdri.htm (accessed 31/08/08).

[8] The total debt of the 29 heavily indebted countries remains high - at some $500 billion.

[9] The eight MDGs are time-bound development targets which aim to promote development by improving social and economic conditions in the world's poorest countries.

[10] According to the IMF, 'the primary aim of the debt sustainability framework for low-income countries is to guide borrowing decisions of low-income countries in a way that matches their need for funds with their current and prospective ability to service debt, tailored to their specific circumstances'. See IMF, *The Debt Sustainability Framework for Low Income Countries,* October 2007.

initiatives.[11] Significantly, the debt sustainability framework does not reflect a specific concern for the needs of poor people and ignores the fact that equity, social inclusion, women's empowerment and respect for human rights are necessary conditions for poverty reduction.

Third, the impact of debt relief is often diluted by reform policies that indebted countries are often required to implement as well as difficult trade conditions. For example, studies indicate that user fees impede access to health facilities especially of poor women.

Fourth, while debt relief has freed up resources for poverty reduction expenditures, its impact appears to be limited and of short duration. In some cases, the savings from debt relief benefit only certain sections of the population in the debtor countries.

Finally, it is important to recognise that debt relief alone cannot facilitate development and poverty eradication in the low-income countries. Debt relief must be complemented by additional development assistance, particularly in the form of concessional loans or grants. It is notable, however, that ODA has been declining to levels well below the 0.7 per cent target reaffirmed in the Monterrey Consensus.

Both the MDGs and the Monterrey Consensus recognise that debt relief[12] is an important condition for achieving development and poverty eradication. Two of the eight MDGs – Goal 1 and Goal 8 - are designed to eradicate extreme poverty and develop a global partnership for development, respectively. Goal 8, which places

[11] According to some critics, the World Bank and IMF's concept of debt sustainability does not take a country's ability to provide people with basic services into account and should therefore be referred to as the concept of debt *repayability*. See Mandel, *Debt relief as if justice mattered* (2008) 11.

[12] Debt relief is the act of excusing heavily indebted developing countries from all or part of their 'unsustainable' debts. It can include buybacks, debt exchanges, debt service reduction, forgiveness, rescheduling and refinancing.

additional responsibility on the international community to assist developing countries to realise the other seven goals, contains a number of specific commitments concerning increasing aid for the poorest countries as well as debt relief.

Nevertheless, for many low-income countries progress towards achievement of these goals has been unremarkable largely due to their heavy external debt burdens which continue to divert funds from national social and economic programmes, including those aimed at alleviating poverty.

CONCLUSION

The external debt burden contributes to extreme poverty and therefore constitutes an obstacle to the realisation of all human rights, particularly in low-income developing countries. Although debt indicators of developing countries show some progress, a number of important challenges remain. Consequently, it is important to:

- Ensure consistency among trade, aid and debt policies and to ensure that debt relief initiatives are accompanied by concessional aid.

- Ensure that debt relief geared toward poverty reduction is adapted to specific country situations and does not undermine the human rights obligations of the state concerned and the enjoyment of human rights by the very same people it is designed to benefit ultimately – the poor in low-income countries.

- Promote transparency and participation by civil society – and the poor - in debt relief programmes in order to ensure that citizens are sufficiently informed about the use of resources and that the poor, in particular, benefit.