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# Debt sustainability analyses: the need for a new human rights based approach

## Eurodad, May 2024

The preeminent approach to debt sustainability is fairly limited to that of capacity of repayment. As a result, the existing methodologies for analysing debt sustainability, led by the IMF and World Bank Debt Sustainability Frameworks (DSFs), remain a challenge to countries facing multiple vulnerabilities that are ignored when assessing the sustainability of these countries' debts. For instance, the financial needs to tackle climate vulnerabilities, risks and impacts, or structural income inequality are not considered in the IMF and WB DSFs. Furthermore, human rights are not considered at all in the existing IMF and World Bank frameworks and methodologies. As a matter of principle, debt should not be considered sustainable if its servicing prevents a country from affording to advancing the Sustainable Development Goals (SDGs), including reducing economic, social and gender inequalities.

### Debt and human rights[1]

Under international human rights law, states have a duty to promote social progress and better standards of living, including by allocating sufficient resources to public service provision. Yet, in a global context where a neoliberal approach dominates, austerity measures are being implemented in the name of fiscal discipline and non-debt related government spending has decreased significantly in recent years. In previous debt crises, unsustainable debt levels have had an adverse impact on the realisation of human rights, undermining governments' ability to guarantee economic, social and cultural rights for all their citizens. The threat that excessive debt burdens pose on people's rights has materialised, both in the past and in today's debt crisis, through the diversion of resources from public services to debt servicing, as well as through the impacts on public services of policy conditionality.[2] As a result, fewer and fewer resources are being allocated to public services.[3]

The current trend of addressing debt sustainability problems through neoliberal austerity policies reduces, rather than increases, available economic resources. Indeed, instead of solving debt unsustainability and contributing to economic recovery, austerity pushes countries into recession, dampens demands, reduces GDP and, consequently, worsens the country's capacity to carry debt burdens even further.[4] UNCTAD has pointed out that austerity measures, in the form of spending cuts and increases in value added taxes, diminish prospects for future growth, as well as hitting social protection systems and public investment,

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[1] This section is based in the report by Iolanda Fresnillo, 'Out of service: How public services and human rights are being threatened by the growing debt crisis', Eurodad, February 2020 https://www.eurodad.org/outofservice

[2] Lumina, Cephas (2018) "Sovereign Debt and Human Rights. Making the Connection" in Bantekas, Ilias; and Lumina, Cephas (eds) (2018) Sovereign Debt and Human Rights. Oxford University Press, Oxford, November 2018, https://global.oup.com/academic/product/sovereign-debt-and-humanrights-9780198810445

[3] Oxfam, 'World's poorest countries to slash public spending by more than $220 billion in face of crushing debt', October 2023 https://www.oxfam.org/en/press-releases/worlds-poorest-countries-slash-public-spending-more-220-billion-face-crushing-debt

[4] Juan Pablo Bohoslavsky, 'Responsibility for complicity of international financial institutions in human rights violations in the context of retrogressive economic reforms'. United Nations General Assembly, September 2019, https://undocs.org/A/74/178

with further damage in terms of rising inequalities and insecurity.[5] The resulting budget cuts and promotion of privatisation strategies, along with public private partnerships (PPPs), ultimately endanger the capacity of public services to advance human rights and achieve the SDGs, including women's rights and gender equality. In the end, government spending cuts in a time of crisis when public services and social protection are most needed, result in a high risk of human rights violations.

The obligation for governments to guarantee the enjoyment of human rights for all is preserved in numerous binding instruments of international human rights law, including the International Covenant on Economic, Social and Cultural Rights. According to their commitments, states must take the necessary actions, within the limits of their resources, to fully realise the economic, social and cultural rights for all men and women, without discrimination of any kind (race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status).[6] Providing universal access to quality and gender-responsive public services is a key way to fulfil that commitment.

Essential public services are crucial for helping countries around the world to fulfil human rights, but especially for vulnerable groups, who tend to be disproportionately and cumulatively impacted by the lack of those essential services. These groups include the poor, immigrants, indigenous groups, the elderly, children and youth, ethnic and religious minorities, people with disabilities, LGTBI communities and other marginalised groups. Among them, women, and especially those impacted by intersecting axes of inequalities and discrimination, also face multiple barriers to enjoying their human rights. Those barriers increase when a debt crisis hits, as the resources invested in public services decrease and certain economic reforms are adopted or imposed to address fiscal imbalances. Both decreasing resources for public services and neoliberal austerity policies have a substantial impact on women.

The commitment of states to protect human rights, fight inequality and work towards a sustainable future for all was reaffirmed in 2015, when the entire membership of the United Nations (UN) adopted the SDGs. Again, providing universal, gender-responsive and quality public services is critical to realising the challenges that the SDGs pose. This is particularly the case when it comes to: ending poverty and hunger; ensuring healthy lives and inclusive and equitable education; achieving gender equality; or ensuring access to water, sanitation and energy (SDGs 1 to 7). According to the Addis Ababa Action Agenda (AAAA) adopted by consensus in July 2015, all member states of the United Nations committed their governments to providing resources to invest in quality services, in order to facilitate the fulfilment of the SDGs. These commitments also define the framework within which macroeconomic policy should be designed and executed. This means that any measure taken by a government to address, for instance, a debt crisis, should not violate established human rights standards. Nor should demands by international institutions or other parties undermine any governments' capacity to guarantee those human rights.[7]

If we are to avoid yet another "lost decade" for human rights and development as the new debt crisis worsens, there is an urgent need for International Financial Institutions (IFIs) and governments to adopt a new approach to sovereign debt crisis prevention and resolution. One that puts people first and protects their rights over creditors' profits.

Governments and IFIs must rise to their obligations under international law, and adopt proactive approaches to embedding human rights and gender equality in public policy-making, including through integrating gender sensitive human rights impact assessments into policy planning and debt management. Moreover, adopting a more comprehensive approach to assessing debt sustainability, that encapsulates

[5] UNCTAD, 'Trade and development report 2019. Financing a New Green Deal'. United Nations Conference on Trade and Development – UNCTAD, New York, September 2019, https://unctad.org/en/PublicationsLibrary/tdr2019_en.pdf
[6] Article 2 and 3 of the ICESRC, https://www.ohchr.org/en/professionalinterest/pages/cescr.aspx
[7] Juan Pablo Bohoslavsky Íbid 2019

human rights, alongside other social, gender, environmental and development considerations, will be critical to strengthening debt crisis prevention and buffering populations from the impacts of over-indebtedness.

**Debt sustainability if people's rights matter**

One of the challenges in terms of preventing debt situations from becoming detrimental to human rights is the debt sustainability concept itself. For the IMF and the World Bank, and therefore for most creditors, global institutions and analysts, debt remains sustainable as long as it can be repaid. In situations where debt is not sustainable anymore, to avoid a default, resources for continuing debt service come from cuts in other sectors, such as in social and development sectors. As Eurodad has already stated, "examination of debt burdens should go far beyond a country's capacity to repay debts. Instead debt sustainability assessments, including the World Bank-IMF DSA, should integrate development priorities and independent human rights impact assessments to assess countries' ability to cover the needs of their populations".[8]

Gender inequalities and climate vulnerabilities, for instance, should be considered when assessing those impacts. In 2016, several CSOs shared a common position on the IMF and World Bank Debt Sustainability Framework Review claiming that "rather than judging based on ability to pay, whether debts are sustainable should be based on an assessment of whether the debt is preventing the meeting of basic needs".[9] In 2018, responding to the civil society claims, the European Parliament recognised that debt sustainability analysis should not focus solely on economic considerations, but "take into consideration the impact of the debt burden on the country's capacity to respect all human rights". The European Parliament also noted that there is a need to address the IMF-World Bank DSA pitfalls "most notably the monitoring of external private debt and the lack of integration of human rights".[10] Both the UN Guiding Principles on Foreign Debt and Human Rights and the UN Guiding Principles on Human Rights Impact Assessments of Economic Reforms, also recognised that lenders should conduct due diligence to ensure that lending does not push the borrower's external debt stock to unsustainable levels, not only making debt repayment difficult but hindering the realisation of human rights.[11] The UN General Assembly resolution on 'debt and debt sustainability', adopted on 22 November 2024 by all member states, acknowledges that debt sustainability 'depends on a confluence of many factors at the international and national levels', and that there are country-specific circumstances and external shocks -'such as volatile commodity and energy prices, more intense and frequent natural disasters and international capital flows'- that would need to be considered in debt sustainability analyses, and calls for an 'enhancement of debt sustainability assessment frameworks,

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[8] Gino Brunswijck , 'Delivering human rights and the SDGs: Does IMF Conditionality pass muster?' Eurodad, May 2019, https://eurodad.org/Entries/view/1547070/2019/05/29/Delivering-human-rights-and-the-SDGs-Does-IMF-Conditionality-pass-muster

[9] VVAA (2016) Civil Society position on the IMF and World Bank Debt Sustainability Framework Review. June 2016, https://eurodad.org/files/pdf/5a7c224a7e99c.pdf

[10] EP (2018) Motion for a European Parliament resolution on enhancing developing countries' debt sustainability. European Parliament, January 2018, http://www.europarl.europa.eu/doceo/document/DEVE-PR-601260_EN.pdf?redirect

[11] OHCHR (2012) Guiding principles on foreign debt and human rights. United Nations Office of the United Nations High Commissioner for Human Rights. Resolution A/HRC/20/23, June 2012, https://documents-dds-ny.un.org/doc/UNDOC/GEN/G12/128/80/PDF/G1212880.pdf?OpenElement
OHCHR (2018) Guiding principles on human rights impact assessments of economic reforms. United Nations Office of the United Nations High Commissioner for Human Rights. Resolution A/HRC/40/57, March 2019, https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/443/52/PDF/G1844352.pdf?OpenElement

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consistent with the 2030 Agenda for Sustainable Development7 and longer-term structural transformation'.[12]

For Eurodad, the IFIs' approach to debt sustainability has been flawed as it pays little heed to the consequences for human development and the enjoyment of human rights that such payments entail. Additionally, the current DSF model does not take into account the impacts of debt and debt service levels on economic and social inequality, gender equality and women's rights, nor do they sufficiently consider the environmental and climate vulnerabilities of indebted countries. As the V20 states, climate-vulnerable countries need comprehensive and enhanced DSAs, incorporating not only climate and other sustainability risks, but also "climate resilience benefits, as well as estimates of a country's financing needs for climate change adaptation, mitigation, and achieving the broader goals set out in the 2030 Agenda for Sustainable Development Goals. These risks and spending needs must be included to properly assess a country's debt sustainability capacity in the face of the climate crisis and to drive investments toward climate resilience".[13]

The updated IMF DSF for Market Access Countries[14] incorporates specific vulnerabilities in the long-term analysis, including climate risks, but these are not part of the actual assessment of indebtedness risks and are not compulsory. The Low Income Countries Debt Sustainability Framework (LIC DSF) by the IMF and World Bank, is set to be reviewed, starting in the second half of 2024, and incorporating climate risks is one of the IFIs commitments in this review.

Beyond climate risks, debt sustainability analyses should consider the resources countries need to tackle poverty and guarantee SDGs[15] and human rights for all, including all women and girls, through the systematic integration of gender-sensitive human rights impact assessments. It seems contradictory, and even negligent, that, while identifying massive SDG financing needs, the IMF still fails to include such considerations systematically in the debt sustainability framework. Although the IMF has been taking some steps to consider social spending in DSAs, including on the judgement of the political feasibility of austerity measures, they have failed to do so in a systematic and comprehensive way. Furthermore, the IMF and the World Bank could also take steps forward to increase transparency in their DSAs.[16]

**A new approach to debt sustainability is urgently needed**

In conclusion, a new approach to debt sustainability should not only look at climate vulnerabilities, risks and impacts, but should also incorporate gender-sensitive human rights and development impact assessments,

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[12] UN General Assembly, 'Debt and debt sustainability' Resolution A/C.2/78/L.50, November 2023 https://undocs.org/en/A/C.2/78/L.50

[13] V20 Presidency, 'V20 Statement on Debt Restructuring Option for Climate-Vulnerable Nations', October 27, 2021, Vulnerable Twenty Group, https://www.v-20.org/our-voice/statements/group/v20-statement-on-debt-restructuring-option-for-climate-vulnerable-nations

[14] Sovereign Risk and Debt Sustainability Framework (SRDSF) for Market Access Countries. See: https://www.imf.org/en/Publications/DSA/sovereign-risk-and-debt-sustainability-analysis-for-market-access-countries

[15] Matthew Martin, 'How to Ensure Debt Sustainability Accelerates Sustainable Development', Jubilee USA and Friedrich Ebert Stiftung - New York Office, May 2024 https://www.jubileeusa.org/how_to_ensure_debt_sustainability_accelerates_sustainable_development

[16] Gail Hurley, 'How Transparency Makes Debt Sustainability Analyses a Trusted and Effective Tool', Jubilee USA and Friedrich Ebert Stiftung - New York Office, April 2024 https://www.jubileeusa.org/how_transparency_makes_debt_sustainability_analyses_a_trusted_and_effective_tool

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in order to consider also the impact of a country's debt burden on its ability to meet its SDGs, climate resilience, gender equality and to create the conditions for the realisation of all universal human rights.[17]

As the European Parliament resolution in 2019 states, "debt sustainability analysis should not focus solely on economic considerations, such as the prospects for future economic growth of the debtor State and its ability to service its debts, but must take into consideration the impact of the debt burden on the country's capacity to respect all human rights". [18]

The UN independent expert on debt and human rights supports this view: "Debt sustainability assessments performed by multilateral creditors – IMF and the World Bank – allow for the label of "sustainable" to be applied unduly, in contexts where debt servicing may be depriving a State of resources needed to guarantee human rights. A country's debts should not be labelled as sustainable in the context of human rights violations and chronic underfunding of key essential services, while resources are diverted to creditors, leaving vulnerable populations unable to gain access to water, sanitation, schools, hospitals or housing, and leaving development goals unattained". [19] As Bretton Woods Project recently stated, "the integration of human rights variables into DSAs would signal the willingness of the IMF and its most powerful shareholders to truly honour the 75th anniversary of the establishment of the international human rights system".[20]

Despite the regular reviews of the IMF and World Bank debt sustainability frameworks every few years, the overall approach has not changed substantially. Increasing voices are calling for DSAs to be developed independently from creditors. UNCTAD also points at the need to strengthen borrowing countries' capacity to develop their own debt sustainability analyses, in order to be able to better reflect the financing needs to achieve the SDGs and climate transition, but also to empower country negotiators, through improved data, to be able to evaluate the IMF DSAs. "This requires developing countries to have their own models, but it also requires greater transparency of the IMF debt sustainability analysis models and assumptions". [21] For UNCTAD, "IMF–World Bank frameworks to assess debt sustainability are, at their core, risk management tools for creditors. As such, they are ill-suited to provide borrowers with a comprehensive overview of the linkages between debt sustainability and development financing requirements".[22] Beyond borrowing countries being able to develop their own alternative models, UNCTAD has developed the Sustainable Development Finance Assessment (SDFA), which identifies the development finance needs of a country in order to meet SDGs 1 to 4 (Poverty, Hunger, Education and Health).[23]

[17] Iolanda Fresnillo and Ilaria Crotti, 'Riders on the storm - How debt and climate change are threatening the future of small island developing states', Eurodad, October 2022 https://www.eurodad.org/debt_in_sids
[18] Ibid European Parliament, 2018
[19] A/76/167 Report of the Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights, Yuefen Li 'International debt architecture reform and human rights'
https://documents.un.org/doc/undoc/gen/n21/194/50/pdf/n2119450.pdf?token=QJ0XJ0sWl1aBOvLNGG&fe=true
[20] Bretton Woods Project, 'Debt sustainability assessment reform essential to address retrogression of international human rights', October 2023
https://www.brettonwoodsproject.org/2023/10/debt-sustainability-assessment-reform-essential-to-address-retrogression-of-international-human-rights-and-crisis-of-development/
[21] Íbid UNCTAD 2024
[22] Íbid UNCTAD 2024
[23] See UNCTAD Sustainable Development Finance Assessment (SDFA) :
https://mobilizingdevfinance.org/tool/unctad-sustainable-development-finance-assessment-sdfa

## RECOMMENDATIONS

Eurodad considers that there is an urgent need to implement key reforms not only to the methodology of the IMF and World Bank DSFs, but to the overall approach to the concept of debt sustainability. Some of the concrete proposal that we understand should be pursued, include:

- **Review approach to debt sustainability and IMF/WB DSFs:** UN member states should agree on a comprehensive review of approaches to debt sustainability, including the IMF and World Bank DSFs and the DSAs methodology, with UN guidance and civil society participation, in order to evolve towards a more adequate debt sustainability model, one that includes human rights and other social, gender, climate and development considerations at its core, and it is delivered independently from creditors. Such a review, should consider the possibility of the assessments being implemented by an independent multilateral body, including the following criteria and elements:
  - Sustainability should not be assessed by a country's capacity to repay its debt but by a country's capacity to fulfil essential investments and expenditures for the well-being of the population such as health, education, social protection, and climate. In this sense a new approach to DSAs should prioritise sustainability of life over debt sustainability.
  - Define what an unsustainable debt is using clear thresholds in a transparent way
  - Incorporate gender and human rights impact assessments in DSAs as recommended by the UN Guiding Principles on Human Rights Impact Assessment of Economic Reforms.
  - Include the comprehensive stock of public debt in DSAs, including domestic debt, state-owned enterprises and guaranteed debt, collateralised debt and other contingent liabilities.
  - Support countries in running their own DSAs with more comprehensive and realistic projections and assumptions, and with information publicly available for citizens.
- **Respect for international human rights law:** Governments should integrate independent, gender-sensitive Human Rights Impact Assessments (HRIA) into regular fiscal policy planning and debt management, including in their own DSAs. HRIA findings should guide decision-making in relation to debt restructuring and debt relief, such as on the revision of repayment terms, the need and size of possible 'haircuts', the distribution of losses by different creditors, etc., as well as in relation to further fiscal policy ex-post the debt restructuring. Restructuring or relief operations should not impel or compel a country to derogate from its international human rights obligations.
- **Respect for gender equality and women's rights commitments:** Governments should live up to their commitments towards gender equality and women's rights, such as those included in the Beijing Platform for Action (1995), including the review of macroeconomic policies and development strategies in order to incorporate a gender perspective to them. In this regard, financing mechanisms and debt management policies, including DSAs, should incorporate gender impact assessments systematically.
- **Multilateral debt legal framework and debt resolution mechanism:** UN member states to discuss and agree, through an intergovernmental process, on a multilateral sovereign debt legal framework, under UN auspices, to address prevention and resolution of unsustainable and illegitimate debts, including the creation of a permanent multilateral sovereign debt resolution mechanism that ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution, in a process convening all creditors.

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