European network on debt and development

Out of service

How public services and human rights are being threatened by the growing debt crisis

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Public services play a critical role in advancing human rights and fighting inequality. However, growing levels of external public debt, especially in the global south, threaten the very services on which citizens depend in order to have even a basic standard of living.

External debt levels are once again increasing around the world and a new wave of debt crises is unfolding. The current trend of addressing debt sustainability problems through neoliberal austerity policies reduces, rather than increases, available economic resources. The resulting budget cuts and the promotion of privatisation strategies, including via public-private partnerships (PPPs), ultimately endanger the capacity of public services to advance human rights and achievement of the Sustainable Development Goals (SDGs), including women's rights and gender equality.

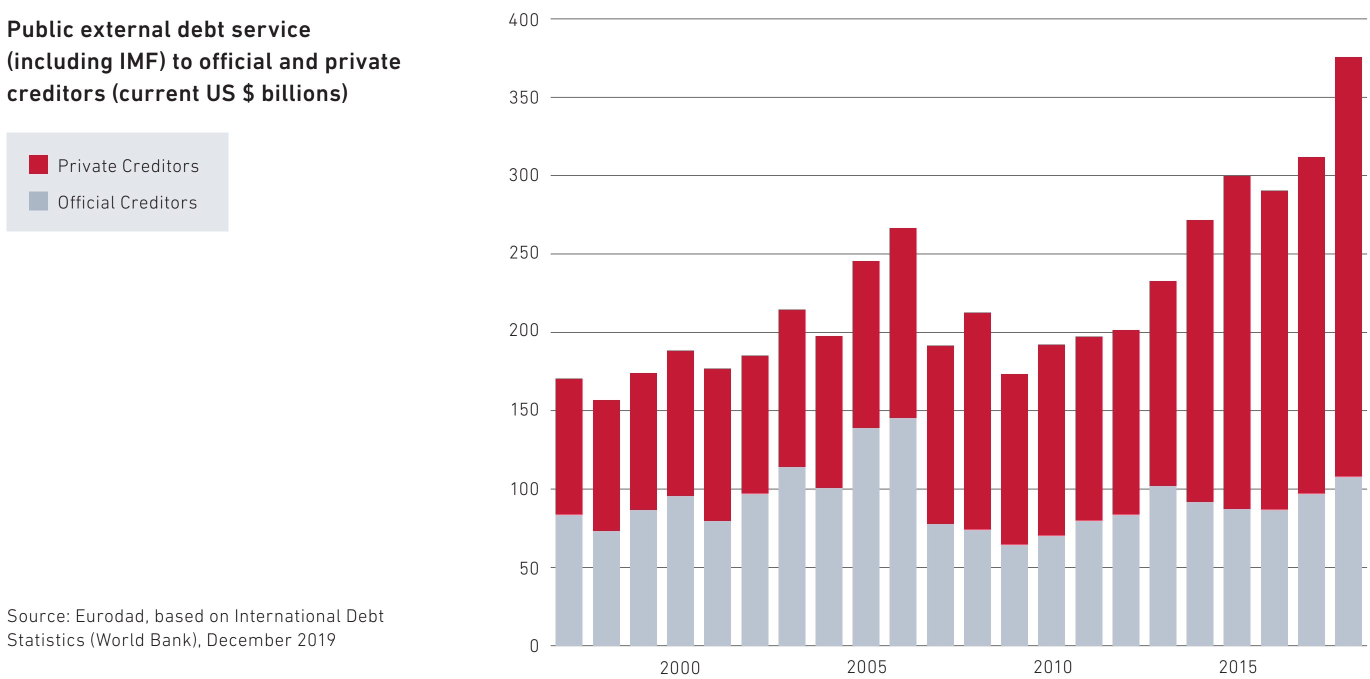
This report takes a closer look at the impact of debt crises on public services and how in impoverished countries in particular there is a negative impact on people's rights – particularly on the rights of women.

When existing gender inequalities, along with women's practical and strategic needs and interests, are taken into consideration in public services design, they can help address the barriers women face in a range of sectors and situations. But when resources for public services are not available, achieving gender equality becomes extremely difficult.

A deteriorating debt landscape

Since 2011, general government gross debt to GDP ratios have increased across all regions in the global south. The snowballing growth in public debt has been triggered by a number of factors, including: a lending boom triggered by the monetary policies introduced in the global north in response to the 2008 financial crisis; the increasing issuance of sovereign bonds by low- and middle-income countries; the increasing credit available from non-traditional bilateral lenders; and, especially since 2014, volatile commodity prices. As a consequence, public debt service on external debt has been growing in low- and middle-income countries, not only due to an increase in the amounts borrowed, but also due to higher borrowing costs.

Public external debt service (including IMF) to official and private creditors (current US $ billions)



Source: Eurodad, based on International Debt Statistics (World Bank), December 2019

This report outlines how:

- Between 2010 and 2018, external debt payments as a percentage of government revenue grew by 83 per cent in low- and middle-income countries, from an average of 6.71 per cent in 2010 to an average of 12.56 per cent in 2018.
- In Sub-Saharan Africa specifically, the proportion of government revenue destined for external debt service payments more than doubled, from 4.56 per cent in 2010 to 10.8 per cent in 2018. Such an increase threatens to undermine gains seen in the region following debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) initiatives of the late 1990s and early 2000s.
- Additionally, at least 20 governments in the global south spent more than 20 per cent of their revenue to service external debts in at least one of the last five years. In some cases, such as in Angola, Djibouti, Jamaica, Lebanon, Sri Lanka or Ukraine, more than 40 per cent of government revenue was destined for external public debt service at some point between 2014 and 2018. Worryingly, in most cases, this is due to an increase in debt payments, rather than a decrease in revenue, and IMF projections do not indicate a reversal of this trend in coming years.

Public external debt service to government revenue ratio

	2014	2015	2016	2017	2018
Angola	14.34%	19.23%	40.42%	24.62%	31.78%
Chad	23.65%	6.46%	11.02%	10.65%	10.31%
Costa Rica	16.77%	15.10%	12.84%	13.86%	25.42%
Côte d'Ivoire	9.03%	6.86%	15.71%	23.97%	14.86%
Djibouti	7.60%	6.87%	9.16%	10.03%	63.34%
Dominican Republic	23.65%	32.91%	18.06%	13.61%	15.60%
Gabon	7.80%	13.79%	14.71%	26.16%	23.06%
Ghana	10.33%	13.11%	19.79%	22.83%	26.92%
Jamaica	36.71%	33.34%	44.58%	29.28%	23.52%
Jordan	11.50%	20.19%	21.89%	14.19%	14.70%
Lao PDR	7.67%	8.58%	14.68%	19.01%	24.39%
Lebanon	36.31%	40.85%	43.80%	41.23%	41.07%
Maldives	17.69%	8.66%	8.18%	9.03%	20.80%
Mauritania	17.96%	16.90%	19.65%	23.00%	24.04%
Mongolia	6.41%	5.23%	7.21%	8.76%	22.58%
Montenegro	13.51%	28.99%	25.61%	15.03%	30.77%
Sri Lanka	44.45%	27.60%	22.11%	30.68%	37.45%
The Gambia	25.74%	19.86%	19.37%	15.21%	17.89%
Tunisia	13.70%	15.68%	18.18%	26.55%	22.65%
Ukraine	14.28%	43.20%	9.93%	13.93%	14.48%

Source: Eurodad based on International Debt Statistics and World Development Indicators (World Bank), December 2019

The impact of debt crises on public services and human rights

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 policy 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. As a result, fewer and fewer resources are being allocated to public services.

This report shows how:

- Between 2014-18 resources spent on public services dropped by more than 18 per cent in Latin America and the Caribbean and by 15 per cent in Sub-Saharan Africa. Looking ahead, the International Monetary Fund (IMF) predicts that this trend will continue in all regions.
- According to these projections, government spending in Sub-Saharan Africa will reach a historic low in 2024, at 20.74 per cent of GDP. In Latin America and the Caribbean spending is projected to fall from 33.74 per cent in 2014 to 29.85 per cent of GDP in 2024. In the Middle East and Central Asia from 32.96 per cent in 2014 to 29.82 per cent in 2024. Meanwhile the IMF predicts debt levels will continue to increase.
- This is already having a direct impact on basic services such as education or health. In at least 21 low- and middle-income countries, government education expenditure as a percentage of GDP decreased between 2015 and 2017, while debt service as a percentage of GDP was increasing. Similarly, in the 39 countries where data is available, the domestic general government health expenditure per capita decreased between 2014 and 2016, while debt service per capita increased.

Government expenditure (% of GDP). Evolution and projections in emerging and developing economies

Source: Eurodad based on World Economic Outlook database – IMF (evolution from 2007 to 2018, and projections from 2019 onwards).

External public debt service as % of GDP and government education expenditure as % of GDP decreases 2015-2017 (percent variation over period) – countries over 10% variation

	Variation on external public debt service as % of GDP	Variation on government education expenditure as % of GDP
Azerbaijan	166.94%	-15.95%
Burundi	27.41%	-25.25%
Ghana	65.15%	-19.79%
Niger	31.24%	-41.12%
Rwanda	14.56%	-14.55%
Senegal	25.63%	-11.76%
Timor-Leste	601.96%	-11.32%
Uzbekistan	78.18%	-11.15%
Vanuatu	19.24%	-15.40%

Source: Eurodad based on International Debt Statistics and World Development Indicators (World Bank), December 2019

External public debt service per capita and domestic general government health expenditure per capita 2014-2016 (percent variation over period) – countries over 20% variation

	Variation on external public debt service per capita	Variation on domestic general government health expenditure per capita
Azerbaijan	39.52%	-45.03%
Brazil	61.92%	-23.42%
Central African Republic	111.40%	-29.44%
Djibouti	50.63%	-25,03%
Jordan	75.89%	-27.30%
Kazakhstan	37.06%	-34.60%
Kyrgyz Republic	24.34%	-40.24%
Lesotho	32.75%	-25.16%
Mexico	105.91%	-21.38%
Nigeria	27.26%	-28.07%
Zambia	145.13%	-34.23%

Public service cuts and the impact on women and girls

The impact of austerity measures and, in particular, budget cuts to essential public services, falls more heavily on women and girls. It is mainly women who will carry the extra unpaid burden of the care tasks that public services will eventually stop providing (or as both quality and coverage decrease). Women are concentrated more heavily than men in lower-income sectors of society, thus women are more affected by cuts in social protection programmes and food or energy subsidies, or, for example, by the removal of vital services for survivors of gender violence. Public workers' wage caps directly impact women's income and economic security, as the public sector tends to be a major source of employment for women.

Cuts in education

This is especially worrying from a gender equality perspective, as about one-third of countries in the global south have not achieved gender parity in primary education, and girls face even bigger barriers to accessing secondary school and higher levels of education. A lack of primary education infrastructure also increases the burden of unpaid care work on women. Finally, children of educated mothers — even mothers with just primary schooling — are more likely to survive than children of mothers who have had no education

Cuts in health

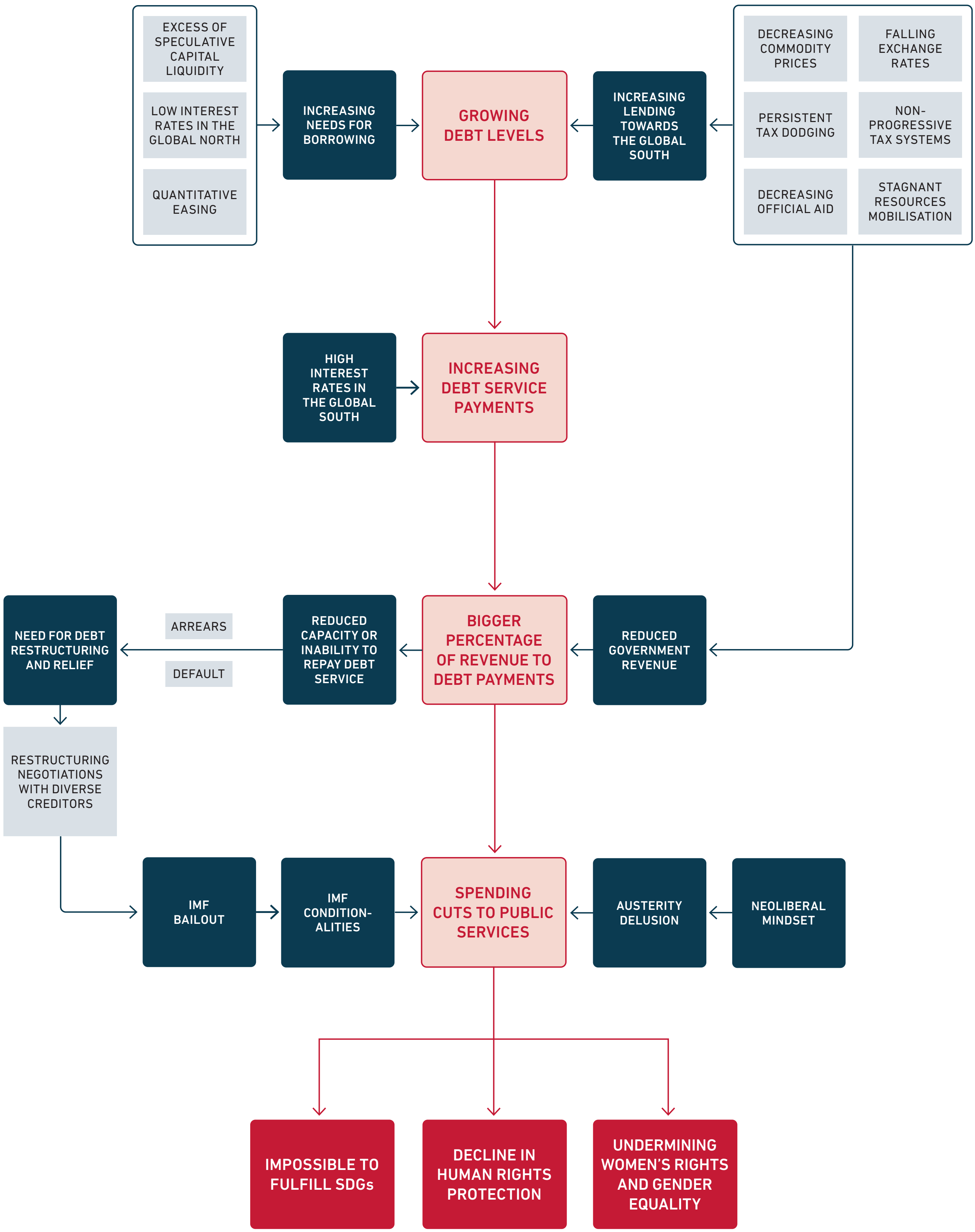
Only half of women in developing countries receive the recommended amount of maternal and reproductive health care. As a result, the maternal mortality ratio – the proportion of mothers who do not survive childbirth compared to those who do – in low- and middle-income countries remains 14 times higher than in high income countries.

Gender-responsive services

Public services can challenge gendered roles and sexual division of labour by, for instance, addressing the lack of childcare, healthcare and other services for people living with disabilities, or free and accessible water and energy. This helps to lower the burden of unpaid care work on women. Among other strategic objectives, gender responsive public services need to address domestic violence and promote women's rights to bodily integrity.

In order to advance towards gender-responsive public services and social protection, a substantial increase in public funding is needed. Even the IMF recognises that, in order to progress towards the SDGs, substantial investment in infrastructure, education and healthcare is required. UNCTAD states that to achieve the goals related to economic infrastructure (i.e. power, transport, telecommunications, water and sanitation) investment needs amount to US$ 1.6 to US$ 2.5 trillion per year between 2015 and 2030, and the additional annual investment to meet the SDG on health in low- and middle-income countries is around US$ 370 billion. But contrary to what is needed, government expenditure is decreasing in many countries in the global south.

FROM RISING DEBT TO HUMAN RIGHTS AND GENDER EQUALITY AT RISK



A new approach to dealing with debt

If we are to avoid yet another "lost decade" for human rights and development as the new wave of debt crises unfolds, there is an urgent need for 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 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 human rights, alongside other social, gender, environmental and development considerations, will be critical to strengthening debt crisis prevention and buffeting populations from the impacts of over-indebtedness.

When crisis hits, and debt restructuring becomes unavoidable, delays increase the economic and social cost of restructurings and prolong the timespan during which sovereign debt problems impact negatively on public services. On the other hand, more timely, comprehensive, and efficient restructurings could lead to fairer and more sustainable outcomes.

Eurodad, other civil society organisations (CSOs), and critics have long highlighted the absence of a multilateral sovereign debt workout mechanism to provide this systematic approach to crisis resolution. This report illustrates that as the debt outlook deteriorates across the globe, international efforts to develop and agree upon such a mechanism must be renewed. In the interim, creditors and IFIs should work to promote more timely and effective restructurings, and cease to promote an orthodoxy that relies on harmful austerity-focused policies and loan conditionalities.

Against the background of a new global debt wave, the erosion of public service expenditure through direct, austerity-driven cuts and rising debt payments is already jeopardising viable routes to achieving the 2030 development agenda, the Beijing Platform for Action on gender equality, and the Paris climate goals.

The urgency is clear. Now is the time to enact long needed reforms to an international sovereign debt resolution system that is arguably out of service.

Recommendations

In order to honour their commitments to promote human rights, including gender equality and women's rights, governments should protect the necessary resources to provide universally accessible, gender-sensitive and quality public services. In many cases this means scaling up investment in infrastructure and public workers especially in essential public services. To do so without increasing the risks of debt vulnerabilities, or in the face of over indebtedness, governments and international financial institutions should implement the following recommendations:

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. 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 should incorporate gender impact assessments systematically. Furthermore, governments and IFIs should defend and promote gender-sensitive and transformative public services that provide universal access and universal coverage, are publicly funded, delivered, managed and governed in a transparent, participatory and accountable manner, and that are being delivered by public sector workers enjoying decent work. In this sense, the ideologically driven promotion of PPPs to finance and deliver public services should cease.

End austerity conditionality: IFIs should put an end to harmful economic policy conditionality, respecting democratic ownership of domestic policymaking by borrower countries. The IMF should especially refrain from promoting austerity as the default option through loan conditionality, especially in 'bailout' operations, as it shifts the burden of adjustment onto the most vulnerable in society, particularly through the undermining of public services provision.

Review debt sustainability: Governments at the IMF and World Bank should promote an open review of Debt Sustainability Assessments (DSA), with UN guidance and civil society participation, in order to evolve towards a more adequate debt sustainability concept, one that includes human rights and other social, gender, environmental and development considerations at its core.

Timely and sufficient debt restructuring: creditors and IFIs should facilitate debt restructurings in a timely, efficient and sufficient manner. In the case of the IMF loans, ex ante debt restructurings are of special importance to stop bailing out reckless lenders who have pushed a country into unsustainable and often illegitimate debts.

Debt workout mechanism: Governments and international organisations should support and work towards the creation of a multilateral sovereign debt workout mechanism that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent, and durable debt crisis resolution.

Domestic Resource Mobilisation (DRM): governments should be able to increase DRM, by effectively fighting tax dodging and harmful tax competition, as well as building and promoting sufficient and gender-responsive progressive tax systems, ensuring that the rich and multinational corporations pay their dues. In relation to it, IFIs should stop promoting regressive tax policies, in particular VAT.

Funds for public services: The international community should support affordable and responsible public financing options for gender-responsive and quality public services infrastructure and provision. This includes concessional loans by public financial institutions, but also fulfilling the donors' commitment to devote 0.7 per cent of national income as ODA, together with additional commitments for climate finance. Aid should be untied, unconditional and transparent, and following the international agreements on public procurement. Following the basic principles of effective development aid and introducing binding rules on responsible lending and borrowing would be key steps for making funds available for quality public services.

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