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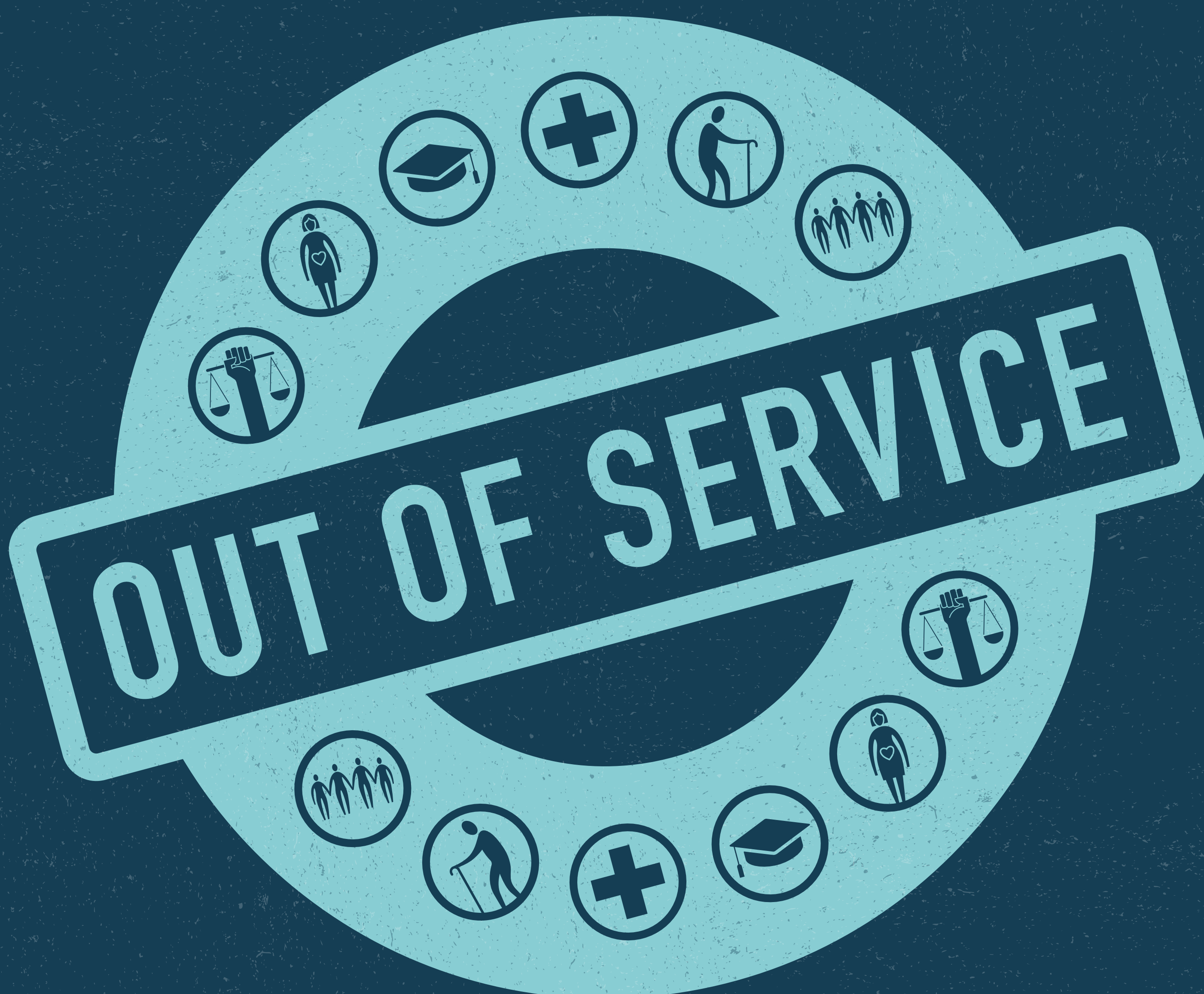
Out of service

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

By Iolanda Fresnillo • February 2020



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List of acronyms

AAAA	Addis Ababa Action Agenda
CEDAW	Convention on the Elimination of all Forms of Discrimination against Women
CSO	Civil Society Organisation
DRM	Domestic Resource Mobilisation
DRF	Debt Resolution Framework
DWM	Debt Workout Mechanism
DSA	Debt Sustainability Assessments
GADN	Gender and Development Network
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
HRIA	human rights impact assessment
IDA	International Development Association
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary Fund
L&LMIC	low- and lower-middle income countries
LIC	low-income countries
ODA	Official Development Aid
PPP	Public Private Partnerships
PSI	Public Services International
SDG	Sustainable Development Goals
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development

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Executive summary

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 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 promotion of privatisation strategies, along with public-private partnerships (PPPs), ultimately endanger the capacity of public services to advance human rights and achieve 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.

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.

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 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.

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.

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 buffering 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 commitments to promote human rights, including gender equality and women's rights, this report recommends that governments protect the necessary resources to provide universally accessible, gender sensitive and quality public services. Specifically, 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 'bail-out' 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 this, 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.

1. Introduction

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).[1] Providing universal access to quality and gender-responsive public services is a key way to fulfil that commitment.

The commitment of states to protect human rights, fight inequality and work towards a sustainable future for all was re-affirmed in 2015, when the entire membership of the United Nations (UN) adopted the Sustainable Development Goals (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.[2]

In previous debt crises, unsustainable debt levels have too often 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 in the past through the diversion of resources from public services to debt servicing, as well as through the impacts on public services of policy conditionality.[3] This is a threat that is more present today than ever as austerity is becoming "the new normal".[4] As a new debt crisis is unfurling throughout the global south, especially in sub-Saharan Africa, we should pay special attention to the impacts of rising debt levels and payments on public services to avert future crises.

This report focuses precisely on those impacts, since public services play a key role in advancing human rights in the social, political, cultural and economic spheres of life. The provision of education, healthcare and care services – together with sanitation and water, energy, transport, infrastructure, justice and social protection – are vital to ensure everyone's right to have a decent life. Public services, which include any service rendered by the state in the public interest, should contribute to an equitable redistribution of wealth. In this way, public services become a crucial tool to tackle economic, social and gender inequalities. This is especially relevant in relation to essential services, including health, education, housing, energy, water and sanitation. However, increasing debt levels and debt payments can put that at risk, diverting much-needed resources from public services to creditors and therefore threatening the delivery of SDGs and the protection of human rights.

Essential public services are crucial for helping countries around the world to fulfill 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, as we will see in this report, a substantial impact on women.

In fact, governments are responsible for removing those barriers and for ensuring that the measures taken to address a debt crisis do not increase existing gender inequalities. Both the Convention on the Elimination of all Forms of Discrimination against Women (CEDAW) and the Beijing Platform for Action require states to work specifically for the elimination of gender discrimination and inequality. However, when a debt problem occurs, instead of protecting human rights, most governments cooperate with international financial institutions. Often this serves to reinforce the obstacles for gender equality and raise further barriers to the fulfilment of economic, cultural and social rights, especially for women and girls.

As we are about to commemorate the 25th anniversary of the Beijing Platform for Action,[5] it is important to remember its first Strategic Objective: to "Review, adopt and maintain macro-economic policies and development strategies that address the needs and efforts of women in poverty".[6] Despite that commitment, gender perspectives are often missing in macroeconomic discussions today and, specifically, on debt-related analysis and policies. This paper aims to offer some evidence that allows us to make that link between debt and gender equality more visible.

The need for gender-responsive public services that can actually challenge gender inequalities and intersectional barriers to human rights can only be addressed by an increase in government funds invested in public services. However, current approaches to dealing with debt crises – typified by repeated emergency IMF loans with austerity-focused conditionalities, and ad hoc restructuring processes – unduly jeopardise public service provision. A risk that is increased by the trend towards privatisation of public services and the promotion of public private partnerships (PPPs), a tendency pushed by the World Bank and the International Monetary Fund (IMF).

This report aims to shed light on how the new unfolding debt crisis in impoverished countries is already having negative impacts on people's rights, and specifically on women's rights and gender equality, through endangering the provision of public services. If we want to avoid the looming debt crisis overwhelming the most vulnerable, immediate action needs to be taken. This includes working towards a multilateral, fair and transparent debt resolution framework that ensures human rights, including women's rights, are guaranteed when crafting a debt crisis resolution.

2. Public services: a key to human rights

Public services play a critical role in advancing human rights and fighting inequality. Throughout the world, but particularly in impoverished countries, states need to address their obligation to deliver public services as they are of particular importance when it comes to fulfilling people's rights to food, health, education, adequate housing and work, and to the achievement of the SDGs. Providing public services is especially key to advancing women's rights and gender equality. In order to achieve universal human rights through gender-sensitive quality public services, fiscal resources to finance infrastructure and the production of public services need to be increased. However, in many countries, the resources being allocated to public services are actually decreasing.

> "Public services are at the core of democratic societies founded on human rights, the rule of law and social solidarity. Public services can provide equitable redistribution of wealth and in their delivery should ensure that people are treated with equal respect, provided equal protection, and live free of discrimination without regard to age, gender, religion, national identity, race or ethnicity, disability and sexual orientation."
>
> Public Services International, 2012[7]

2.1 Public services promoting and protecting human rights

States have the duty to deliver human rights and, concretely "to promote social progress and better standards of life".[8] Responding to that duty, governments are obliged to allocate sufficient resources to create, implement and sustain a network of institutions, infrastructure, policies and programmes to ensure the provision of public services.[9] Public services include all those activities provided by the state, at whatever level, in order to facilitate citizens' enjoyment of their rights and coverage of their needs, in order to guarantee a decent life for all. This includes a wide range of areas and services of public interest contributing to an equitable redistribution of wealth, such as education, health, care services, sanitation, water, energy, transport, environmental protection, justice, economic promotion and social protection. In order to fulfill its essential redistributive goal, public services should guarantee universal access for all citizens, without discrimination of any kind, and should be offered in a compulsory and continuous way to all communities.

Without an adequate provision of public services, commitments regarding the SDGs cannot be met by the 2030 deadline.[10] This is especially relevant in relation to essential public services, including health, education, housing, energy, water and sanitation. In fact, through paragraph 12 of the Addis Ababa Action Agenda (AAAA), adopted by consensus in July 2015, all member states of the United Nations, recognised the importance of delivering social protection and essential public services for all, and committed to providing resources to invest in quality services.[11]

Box 1: Delivering social protection and essential public services for all

Paragraph 12 of the AAAA states that: "to end poverty in all its forms everywhere and finish the unfinished business of the Millennium Development Goals, we commit to a new social compact. In this effort, we will provide fiscally sustainable and nationally appropriate social protection systems and measures for all, including floors, with a focus on those furthest below the poverty line and the vulnerable, persons with disabilities, indigenous persons, children, youth and older persons. We also encourage countries to consider setting nationally appropriate spending targets for quality investments in essential public services for all, including health, education, energy, water and sanitation, consistent with national sustainable development strategies. We will make every effort to meet the needs of all communities through delivering high-quality services that make effective use of resources. We commit to strong international support for these efforts, and will explore coherent funding modalities to mobilize additional resources, building on country-led experiences."[12]

2.2 Gender-responsive and gender-transformative public services

The design, funding and delivery of quality public services play a critical role in advancing women's human rights and addressing gender inequality. When designed to take into account existing gender inequalities, as well as women's practical and strategic needs and interests, public services can help to address the barriers that women face in access to healthcare and education. Public services can promote the creation of decent jobs for women in the public sector; and they can help to lower the burdens of unpaid care work by providing childcare services and support services for dependents.[13] Only if they are gender-responsive can public services become gender transformative – that is, contribute to challenging and transforming the structural causes of gender discrimination.

According to the trade union confederation Public Services International (PSI), in order to be gender-responsive and transformative, public services need to provide universal access, including accessibility, affordability and acceptability, and universal coverage. They also need to be publicly funded, delivered, managed and governed; transparent, participatory and accountable in decision-making; and must be delivered by public sector workers enjoying decent work.[14] The objective of designing, funding and delivering public services using gender-transformative principles is not making discrimination more bearable, but aim to transform the distribution of power and resources.

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. The intersectional nature of discrimination must also be considered, as well as social determinants such as class, race, ethnicity, age, sexual orientation and gender identity, migration status, geographic location and other social factors that magnify gender discrimination.

When trying to make public services relevant for gender equality, we have to consider women not only as beneficiaries of these services, but also as paid workers. Worldwide, the public sector has a higher share of female employees than the formal private sector.[15] Women are often concentrated in certain areas and positions of the public sector, where wages tend to be lower. They tend to be most affected by austerity measures, including front-line services (e.g. nurses, teachers, social workers), as well as lower level administrative positions and temporary and part-time positions.[16] Due to this vertical and horizontal occupational segregation,[17] derived from discriminatory gender stereotyped roles, women's average wages are 86 per cent of male wages in the public sector. Women tend to be disproportionately affected by wage cuts for several reasons: wage cuts tend to be concentrated in the lower positions, where women are often employed; also, when a same-percentage wage-cut is applied across the board, since women have lower salaries, the impact is greater for them.[18]

However, despite evidence of the positive impact of gender-responsive public services and states' obligations to ensure economic policies are not gender blind, underfunded public services tend to perpetuate inequalities, including "women's disproportionate responsibility for unpaid care and the lack of recognition of this work". [19]

Box 2: Gender inequalities that could be addressed through gender-transformative public services and social protection[20]

- Women perform 76.2 per cent of global unpaid care and domestic work. For instance, women and girls are responsible for water collection in 80 per cent of households without access to water. If women's unpaid work were assigned a monetary value, it is estimated it would constitute between 10 per cent and 39 per cent of GDP. Access to public services, especially in areas such as health, childcare, energy and water, can help to reduce the burden of unpaid care and domestic work.
- The labour force participation rate for women aged 25-54 worldwide is 63 per cent compared to 94 per cent for men. The share of women in informal employment in developing countries in 2018 was 4.6 per cent points higher than that of men. The amount of time devoted to unpaid care work is negatively correlated with female labour force participation.
- Women and girls are more likely to carry the burden of energy poverty and experience the adverse effects of the lack of safe, reliable, affordable and clean energy. Indoor air pollution from using combustible fuels for household energy caused 4.3 million deaths in 2012, with women and girls accounting for 6 out of every 10 of those deaths
- Based on data from 51 countries across Southern Asia, Latin America and the Caribbean and sub-Saharan Africa, women between 20 and 34 years of age are more likely to live in slums than men, which increases their lack of access to public services.
- Girls are 1.5 times more likely than boys to be excluded from primary school. Globally, 9 out of 10 girls complete their primary education, but only 3 out of 4 complete their lower secondary education. In low-income countries, less than two-thirds of girls complete their primary education, and only 1 in 3 girls goes on to complete lower secondary school.

2.3 Gender-responsive social protection

Gender-responsive quality public services must be accompanied by social protection policies that are equally gender responsive. Social protection includes a series of mechanisms for the redistribution of resources in order to facilitate equality of opportunity and to contribute to the achievement of individual and collective well-being. Social protection systems normally include social security or social insurance schemes – covering unemployment, sickness and healthcare, maternity or paternity, accidents at work and occupational diseases, disability and old age and social assistance – covering those who are not protected by social security. These are usually targeted at the poor and disadvantaged. Social safety nets refer to the collection of services provided by the state aimed at preventing individuals from falling into poverty, and are sometimes also considered within social protection.

Social protection has been recognised by the United Nations as a human right,[21] not only to prevent and reduce poverty, inequality and social exclusion, but also to promote equal opportunities and gender and racial equality. But not everyone has equal access to social protection benefits. According to the International Labour Organization (ILO), only 29 per cent of the world's population has comprehensive social security coverage. Fewer than 60 per cent of countries have schemes or benefits to ensure income security for children and only 68 per cent of people at retirement age receive some form of pension, dropping to just 20 per cent in many low-income countries.[22] In this context, women are in general less likely to receive social protection than men, due to gendered social, economic and working patterns.

In terms of social protection, and particularly social assistance, the IMF and World Bank have been promoting targeted social systems, instead of universal programmes, mainly in order to cut expenses. While universal social benefits are offered to all citizens or those belonging to a particular group (usually of a certain age), in targeted systems favoured by the IMF and World Bank only those most in need are considered eligible for benefits, or benefits come with conditions attached. Conditional cash transfers (one of the targeted systems promoted by the World Bank and IMF), can for instance be offered only to lower income households if they fulfil "behavioural conditions" such as sending children to school. When those conditions are not fulfilled families face sanctions or the loss of the transfer. According to feminist organisations, the conditions for social transfers usually reinforce gender stereotypes, rather than challenging them. In fact, they may even increase women's unpaid care.[23] Furthermore, targeted systems have proven to be inefficient at reaching those in need, commonly excluding over half of the intended beneficiaries.[24]

Similarly, contributory social protection systems, where benefits depend on prior financial contributions usually made through deductions from wages in the formal sector, disadvantage women. This is because women are more likely to take part-time jobs, take breaks from paid employment to assume care and reproductive tasks, receive lower wages and work in higher ratio in the informal sector.[25] In contributory systems, unpaid care work is not normally considered.[26] Maternity grants linked to contributions through paid work are also inadequate, and as a result, globally, only 41 per cent of mothers of newborns receive some kind of benefit.[27]

To be effective in the long run, social protection "needs to address and transform underlying unequal structures rather than just mitigating the deprivation caused by these inequalities", which requires not only more resources available for social protection, but also a transformation in the way it is delivered, as the Gender and Development Network (GADN) and Femnet argue.[28]

2.4 How public services are delivered matters to human rights

In order to guarantee universal access and quality of public services it is key to pay attention to how public services are managed and delivered, as this is highly relevant to human rights. For instance, as the UN Special Rapporteur on extreme poverty and human rights denounces, introducing profit motives in the delivery of public services tends to transform rights-holders into clients, diminishing quality and reducing the possibilities of protecting human rights.[29]

It is important to distinguish between public services provision (making sure the services are provided) and production (management and delivery of the services). Public administrations always remain the responsible entity and guarantor of the provision of the public services, regardless of whether there is also provision of an equivalent service from the private sector. However, governments can choose between managing the production of public services directly or, as often happens, outsource it to a private entity, usually a private corporation, hired for that purpose. When a private corporation is involved in public services, the responsibilities for its design, regulation, funding and control should always remain public.[30]

Following neoliberal austerity trends, states are increasingly relinquishing their obligations regarding both production and provision of public services, outsourcing not only the management but also design, regulation, funding and control of the services. For example, public private partnerships (PPPs) are one of the ways to outsource the production of public services favoured by international financial institutions (IFIs) and development agencies.

Through PPPs, the private sector normally takes responsibility for finding investors or financiers (although the funding repayment is normally guaranteed by the state). They share design and even regulation tasks. In fact, arguments defending PPPs include claims that the private sector will provide both easier and wider access to finance and innovation in the management of the service or infrastructure. This outsourcing of state responsibilities regarding public services is affecting their quality, as well as basic principles such as universal access and coverage, transparency, accountability or participation in decision making.[31]

Outsourcing and PPPs have both been pushed as "solutions" to the difficulties of states to mobilise domestic resources, but also as a form of reducing public spending in a government's balance sheet, in order to liberate resources to honour debt service. In fact, PPPs are often "off-balance sheet", meaning that their costs and liabilities are not registered in the accounting books, which means that the real cost of the project is hidden. Research by Eurodad and other CSOs has shown how, on many occasions, PPPs resulted in draining public resources and failing to deliver in the public interest.[32] Since PPPs rely on profit streams to ensure investors' returns, these schemes too often prioritise profit over people, undermining quality and universal access to the provided service.

There is also evidence that privatisation, PPPs and outsourcing have had particularly negative impacts on women,[33] as these measures often come with new or inflated user fees, increasing inequality by restricting access to services for women, who tend to have lower incomes.[34] The IMF and World Bank, together with other IFIs, have a specific responsibility since they have been aggressively promoting private management of public services, even including privatisation and PPP-enabling policy reforms, as key conditionalities in IMF lending programmes when debt crises hit[35] and in key debt relief programmes.[36]

Box 3: Public private partnerships and hidden debts

The so-called 'blended finance' instruments seek to mobilise private investment with the offering of public funds, mostly to finance infrastructure projects. These instruments, particularly PPPs, are being used as a financing solution for overcoming deficit limits and finance shortcomings in both global south and north countries.[37] When a government has difficulties raising financing for a project or has reached debt limits, it can turn to the private sector to establish an agreement in which it is either the private or the common entity created by both that raises the financial resources the project needs, in many cases in the form of debt. PPPs are appealing to governments as the acquired debts are normally hidden from the government's national balance sheet. However, they normally involve implicit or explicit government guarantees – so-called 'contingent liabilities'.[38]

As the volume of PPPs grows throughout the global south, so do the risks of hidden debts linked to them. The existence and proliferation of PPPs can mean that "the genuine level of public debt may be difficult to ascertain – clouding how sustainable debt stocks may actually be, and the level of any relief required".[39] This information gap is raised by IFIs such as the IMF, which recognised that substantial data gaps related to public guarantees (as well as to debt of 'off-budget' public sector entities, which also tend to participate in PPPs), can result in significant under-estimation of public sector liabilities, while undermining the value of debt sustainability analyses. According to the IMF, "one third of low-income countries do not report information on government guarantees for debts of state-owned enterprises, fewer than one in ten report debt of public enterprises, and risks from public-private partnerships are rarely reported".[40]

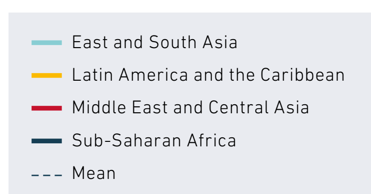
When a PPP project fails and the guarantees are activated, private debts are transferred to the public sector and the pressure is also transferred into public budgets, reducing the necessary resources for the achievement of SDGs, including gender equality and women's rights.[41] In an era of austerity and IMF conditionalities that end up in public spending cuts, the high costs associated with PPPs create higher risks for the provision of public services. This is also because PPPs have been used as a way of privatising public service delivery and infrastructure building. Contrary to what their promoters argue, evidence shows that privately financed projects tend to be less cost effective than those financed through direct government borrowing, with PPPs costing the taxpayer up to six times more. This tends to end up in lower quality public services and/or higher tariffs.[42]

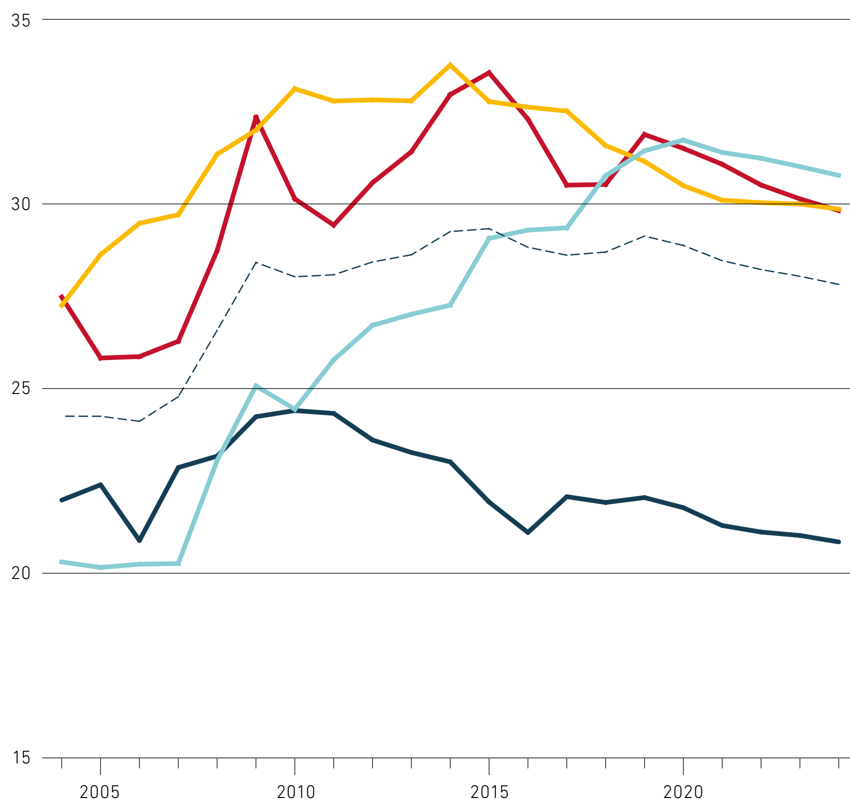
2.5 Shrinking resources for public services

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 meet SDGs, substantial investment in infrastructure, education and healthcare is required.[43] UNCTAD states that, to achieve the goals related to economic infrastructure (i.e. power, transport, telecommunications, water and sanitation), investment needs to 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.[44] But contrary to what is needed, government expenditure[45] is decreasing in many countries in the global south. Regionally we have seen a decrease in the last four to five years in all regions except for emerging and developing economies in Asia and Europe.

In sub-Saharan Africa, government expenditure has decreased from 24.33 per cent of GDP in 2011 to 21.9 per cent in 2018. Meanwhile, interest payments, which are included in government expenditure data, have grown from 4.5 per cent of government expenses in 2011 to 8.3 per cent of expenses in 2017. This means that spending on non-debt related expenditures – excluding interest payments – has actually decreased by 13 per cent in sub-Saharan Africa since 2014. In Latin America and the Caribbean, non-debt related expenditures have also decreased by 18.42 per cent from 2014 to 2018.

Figure 1
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).

As section 4 of this report shows, debt service is increasing across the global south and absorbing larger portions of government revenue, leaving smaller fiscal space for public services. And most worryingly, IMF projections show that, while debt levels will still keep on growing over the coming years, government expenditure will suffer a continuous decrease until 2024 in all regions, reaching a historical minimum government expenditure in sub-Saharan Africa of only 20.74 per cent of GDP (from 23.01 per cent in 2014). In Latin America and the Caribbean, government expenditure will also suffer a reduction from 33.76 per cent in 2014 to 29.85 per cent in 2024, and in the Middle East and Central Asia from 32.96 per cent in 2014 to 29.82 per cent in 2024.[46]

At a country level we find cases such as the Democratic Republic of Congo, where government expenditure has diminished from 61.7 per cent of GDP in 2014 to 22.5 per cent of GDP in 2018. Similarly, Mozambique has cut its government expenditure from 42.5 per cent of GDP in 2014 to 31.1 per cent of GDP in 2018, and IMF projections show that it will keep going down to 26.9 per cent in 2024. Grenada also suffered a decrease in government expenditure from 29.1 per cent of GDP in 2014 to 22 per cent in 2018, and is expected to reduce this ratio even more, down to 20.9 per cent in 2021. All three countries have been struck by debt crises recently.

If we take a look specifically at education expenditure (designated by the UN system as one of the indicators for the report on *Progress towards the Sustainable Development Goals*), [47] we also find examples of countries where resources to education services are decreasing. For instance, in Côte d'Ivoire, government expenditure in education as a percentage of GDP has decreased from 21.76 per cent in 2014 to 18.62 per cent in 2017, and the government expenditure per student, in primary education has decreased from 15.7 per cent of GDP in 2015 to 13.05 per cent of GDP in 2016. The Gambia – a country that the IMF has assessed to be in debt distress – also decreased its government expenditure on education from 17.61 per cent of GDP in 2010 to 11.75 per cent in 2014 and 10.35 per cent in 2016.[48]

Growing debt levels and increasing debt service payments – together with a decrease in government revenue, mainly due to commodity prices and export income decline, but also because of the prevalence of tax dodging, harmful tax competition and insufficiently progressive tax systems – are among the factors leading to a decrease in public expenditure. Faced with the realty of shrinking resources, governments are driven to free up resources from the general budget for debt service payments and, responding to the tendency to apply austerity policies, they normally do so through public spending cuts, in response to the dominant neoliberal mindset and/or advice from the IMF and other IFIs.

By doing so, instead of finding a fair and sustainable solution to the debt crises, governments place the costs of the adjustment on their populations and thus jeopardise their well-being. Moreover, instead of solving debt unsustainability and contributing to economic recovery, austerity pushes countries into recession, dampens demands, reducing GDP and, consequently, the country's capacity to carry debt burdens even further.[49] The UN's Conference on Trade and Development (UNCTAD) has indeed 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, with further damage in terms of rising inequalities and insecurity.[50] 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.

These fiscal choices that prioritise servicing increasing debt payments, such as adopting austerity measures and public service cuts, have substantial gendered impacts. According to their commitments to the human rights framework and, specifically, commitments to gender equality, states should prioritise fiscal policies that provide sufficient resources for the provision of universal quality public services, ensuring that fiscal policies promote redistribution, fight inequalities and do not increase the burden on women.[51]

3. The unfurling of a new debt wave

Borrowing remains a key tool for countries in the global south to meet their spending needs, particularly in the absence of effective institutions to curb tax evasion and harmful tax competition and with the ongoing failure to provide aid effectively. But debt can also become a risk for human rights when offered by creditors and contracted by governments recklessly, when provided on usurious terms, or when reaching unsustainable levels. As debt levels in the global south become more unsustainable, the unfolding of a new debt crisis is becoming more inevitable – and the new complexities to deal with it and risks in terms of people's rights become more evident.

> "In advanced economies, public debt is at levels not seen since the Second World War. Emerging market public debt is at levels last seen during the 1980s debt crisis. And if recent trends continue, many low-income countries will face unsustainable debt burdens."
>
> Christine Lagarde, former Chair and Managing Director of the IMF, 2018[52]

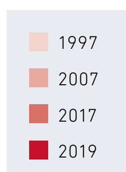
3.1 A world with unprecedented debt levels and spiralling public debts

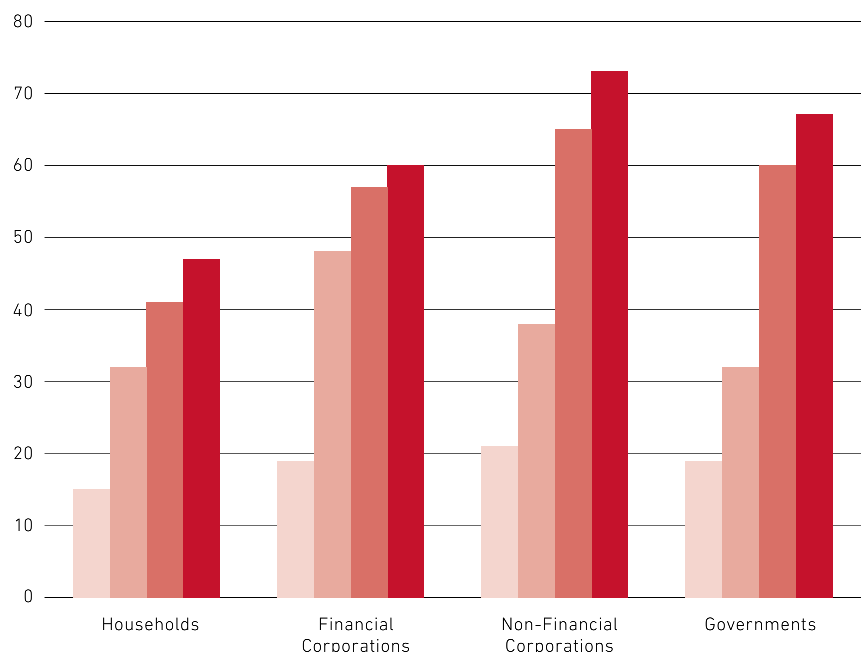
Debt is reaching unprecedented levels, increasing the risks of a new financial crisis that could, once again, impact on the ability of governments to provide public services and fulfil their commitments to advancing human rights and achieving SDGs. In absolute terms, global debt is expected to have exceeded US $255 trillion in 2019, reaching a historical record of 320 per cent of the world's GDP, meaning that for every dollar that is produced, an additional $3.20 in debt is created.[53]

This unsustainable debt growth has been a simultaneous trend in advanced, emerging and impoverished economies in the past decade, although advanced and emerging economies are responsible for most of it.[54] A recent publication by the World Bank argues that we are at present in the middle of the fourth wave of debt accumulation since the 1970s. This latest debt wave began in 2010 and has seen, according to the World Bank, the largest, fastest and most broad-based increase in debt in emerging and developing countries in the past 50 years. While previous waves were largely regional in nature, this fourth wave has been widespread, with total debt rising in almost 80 per cent of emerging and developing countries and rising by at least 20 percentage points of GDP in just over one-third of these economies.[55]

These debt growth dynamics include increases in government public debt but also in financial and non-financial corporations' debt and households' debt. All four categories have seen an increase over the last decades, but the growth is especially strong in non-financial corporate debt and public debt, which is reaching all-time records in advancing, emerging and developing economies.

Figure 2
Global sectoral indebtedness (US $ billion - Q1 of each year)





Source: Institute of International Finance, Global debt monitor, August 2019.

Box 4: The risks of high corporate debt

To analyse the impact of this unprecedented debt increase on public services and human rights, we will focus on public debt. However, it is important to acknowledge the risks of elevated corporate debt, since, as has happened many times in the past, when the private sector encounters difficulties in repaying its debts, it looks towards the state for a bail-out. Thus, private debts suddenly become public debts. A recent IMF working paper actually demonstrates that excess private debt systematically turns into higher public debt, even when the credit boom has not resulted in a crisis. The paper's authors demonstrate that this debt migration is not always due to explicit bail-outs and operates mainly through growth and counter-cyclical government responses to private sector deleveraging. The paper advises policymakers and analysts to "move away from looking at private and sovereign debt in silos and pay closer attention to the total stock of debt in the economy, as the line between the two tends to become blurry".[56]

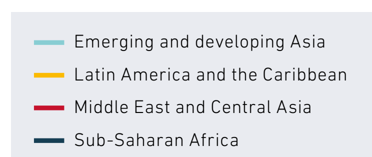
Therefore, we have to consider the implications of global non-financial private sector debt almost doubling since 2007. Although in low-income countries non-publicly guaranteed external private debt has remained a small portion of their total external debt, it has substantially increased in a decade, from US $3.99 billion in 2008 (5 per cent of total external debt in low-income countries or LICs) to US $14.25 billion in 2018 (9.49 per cent of total external debt in LICs). For middle-income countries, the risk is higher as private external debt was one third of their total external debt in 2018.[57] Additionally, as the World Bank states, when both private debt and government debt rise together - as they have in recent years in advanced, emerging and developing economies - the likelihood of a currency crisis is higher than when government or private debt accumulate individually.[58]

The massive rise in public debt in the years following the global financial crisis is due to several elements, especially to the high costs of bailing out private banks, lower tax revenue due to the economic recession and the persistent tax evasion and harmful tax competition, and higher expenses for economic stimulus.

The response of rich countries' central banks to the global financial crisis has also been a key driver of this debt build-up, creating excess liquidity on international financial markets and triggering a lending boom to the global south. Poorer countries could therefore scale up borrowing, tapping the excess liquidity and making use of relatively low interest rates. As we will discuss below, the rise in public debt, especially in the global south, is already impacting on governments' capacity to provide quality public services for all.

The risk of a new global debt crisis triggered by increasing interest rates, the impact of trade wars or yet another real bubble bursting has been in the financial press headlines for some time now. No one doubts that the signs of a new global economic crisis are already there, as the global economy already faces, in IMF's words, a "synchronized slowdown".[59] The difference this time is that low- and middle-income countries, unlike in 2008, already have high public debts and decreasing revenues due to low commodity prices. There is very little fiscal space to react to the impacts of a global financial crisis, and their effects on the most vulnerable could be worse this time.[60] The IMF has recognised that, in fact, "public debt ratios are now significantly higher than before the global financial crisis in all country groups; and emerging market and developing economies face notably higher interest burdens."[61] This is a reality that civil society has been warning about for some years.[62] Global public debt has been increasing in absolute and relative terms since 2009, on the heels of the global financial crisis. Advanced economies have in fact had an almost non-stop growth in public debt since the mid-1970s, while in emerging markets, middle-income economies and low-income countries, the present trend of increasing public debts starts being significant from 2013 onwards.[63]

Figure 3
General government gross debt (% of GDP)



Source: Eurodad based on IMF World Economic Outlook

Table 1. External public debt stocks (current US $billion)

	1998	2003	2008	2013	2018
Low- and middle-income countries	1,368.44	1,466.61	1,421.36	2,299.54	3,087.42
Low-income countries	91.92	93.88	67.71	90.70	126.95

Source: Eurodad based on International Debt Statistics

Total external public debt stocks in the global south more than doubled in the last decade. Public debt as a percent of GDP[64] has gone from a mean of 38.7 per cent between 2010 and 2014, to 47 per cent in 2019 in low-income countries, according to IMF forecasts. General government gross debt to GDP ratios have been growing in all regions across the global south since 2011, and IMF predictions do not foresee any decrease over the coming years. As a result of the debt stock increase, government external debt service as a proportion of government revenue has also increased in low- and middle-income countries.[65]

The unfurling of a new debt crisis in the global south is today undeniable. The IMF assesses that 47 per cent of low- and middle-income countries with debt sustainability assessments (DSAs) (33 out of 69) are either in debt distress (9 countries) or at high risk of debt distress (24 countries).[66] The percentage of countries in debt distress or at high risk of debt distress has gone up from 21 per cent in 2013 to 47 per cent in 2019.

We need to consider that debt sustainability analysis methodology, through which the IMF and World Bank assess which countries are at risk or are already in debt distress, actually analyses the risk of defaults, and not the implications. For instance, it does not look at debt service payments on the government's capacity to deliver public services or protect human rights.

The lack of Human Rights Impact Assessment (HRIA), the nonexistence of indicators regarding economic and social inequalities, the exclusion of indicators on government's capacity to provide quality public services for all, the absence of gender perspective or the non-consideration of climate vulnerabilities, mean that DSA methodology fails to sound alarm bells when an unsustainable debt is threatening human rights and development (see Box 5).

Nonetheless, over-optimistic growth projections and assumptions by the IMF also mean that accurate assessments of sustainability, even by the IMF's own standards, are missed. This makes it even more difficult to make judgements on the social impacts of debt burdens. As a consequence, when the IMF and World Bank set up the alarms indicating that a country is at high risk of debt distress, it is often too late to redress the situation and avoid the debt crisis and its consequences on human rights. Furthermore, DSAs are limited to LICs "that have substantially long-maturity debt with terms that are below market terms (concessional debt), or to countries that are eligible for the World Bank's International Development Association (IDA) grants". This omits a good number of countries in the global south that might be facing debt problems.[67]

Jubilee Germany Global Sovereign Debt Monitor,[68] which analyses the debt situation of all developing countries on the basis of five debt indicators,[69] shows that almost 80 per cent of countries examined are critically in debt (122 out of 154). In almost three-quarters of the 122 critically indebted countries, the majority of debt indicators have worsened over the last few years. According to Jubilee Germany, the situation is particularly alarming in Bhutan, Mongolia, Gambia, Cape Verde Islands, Jamaica, Bahrain and Lebanon. In total, 16 countries[70] have suspended debt payments between 2015 and 2017.

Box 5: Debt sustainability as if people mattered

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".[71] 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".[72] 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".[73]

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.[74]

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 DSA 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 consider the environmental and climate vulnerabilities of indebted countries. Debt sustainability analyses should consider the resources countries need to tackle poverty and guarantee SDGs 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 considering social spending in DSAs, including on the judgement of the political feasibility of austerity measures, they have failed to do so in a systematic way, as recent situations in Chile, Ecuador, Haiti or Argentina show. UN guidance and civil society participation in an open review of DSA could help evolve towards a more adequate debt sustainability concept, one that includes human rights and other social, gender, environmental and development considerations at its core.

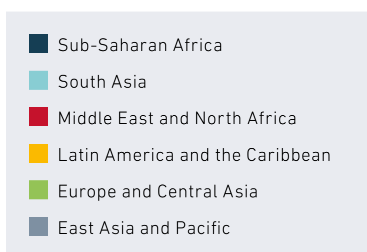
3.2 A lending boom

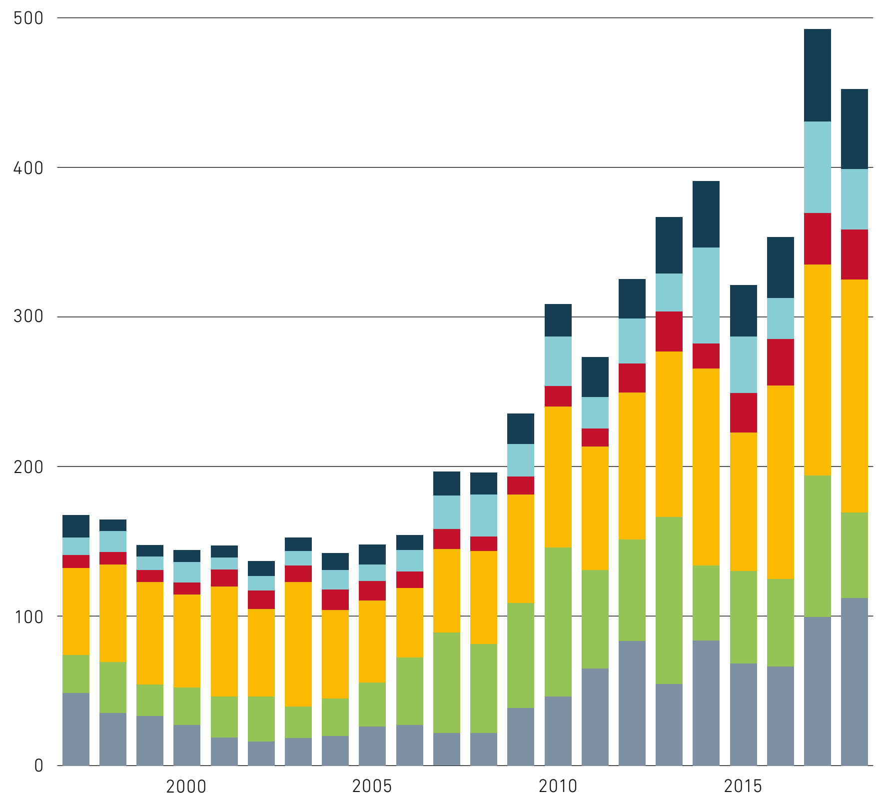
The snowballing public debt growth has been triggered by a number of factors, including: a lending boom that originated in the global north monetary policies in response to the 2008 financial crisis (which also made the explosion in bond issuance in emerging and low-income countries possible); the easier access to bond markets by low- and middle-income countries; the increasing credit available from non-traditional bilateral lenders like China; and, especially since 2014, a decrease in commodity prices.

Since 2008, investors have been looking for high returns outside the advanced economies, where Quantitative Easing and low (even negative) interest rates made them less profitable. Moreover, developing countries suffer under unfair global tax rules, which facilitate tax dodging by the rich and by transnational corporations. Tax dodging and illicit financial outflows cost their economies many billions of dollars every year. Developing countries have been trying to change global tax rules through the United Nations, but their initiatives have met with fierce political resistance by richer countries.[75]

Additionally, there has been a reduction in concessional lending as well as, especially from 2011 onwards, a decline of 2.5 per cent in received net official development assistance and official aid in low-income countries (current US $). According to the Head of UNCTAD's Debt and Development Finance Branch, Stephanie Blankenburg, "unfulfilled ODA [official development assistance] commitments already amounted to USD 2.7 trillion between 2002 and 2017."[76] The decrease in ODA is especially relevant in post-HIPC countries, where received net official development assistance and official aid decreased by 12.5 per cent between 2011 and 2017. In this light, borrowing and issuing bonds has been the easier path to finance infrastructure and public services, in order to achieve development goals and growth.[77] As a consequence, annual lending to low- and middle-income countries has spiked from US $185 billion in 2007 to US $452 billion in 2018.

Figure 4
External debt disbursements to low- and middle-income countries by regions (current US $ billion)





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

Box 6: A boom in bond issuing

In the increase of financing towards the global south, bond issuing has a very relevant position. Sovereign bond issuing had increased slowly between 1999 and 2009, with an average of US $54.4 billion throughout the decade in low- and middle-income countries. In 2010, bond issuing in low- and middle-income countries reached US $100 billion. Data shows an 'up and down' tendency between 2010 and 2016, with an average US $130 billion annual bond issuing, but in 2017 it reached historical levels of US $225 billion.

According to the Jubilee Debt Campaign, at the beginning of 2019 there were 25 low- and lower-middle income countries (L&LMIC) with publicly traded international bonds.[78] Latin American and East Asia Pacific countries are the bigger bond issuers, followed by European and Central Asia L&MIC, but the growth in bond issuing in South Asia and sub-Saharan Africa, especially since 2013, is also noticeable. The first sub-Saharan African country to issue Eurobonds[79] in the international financial markets for decades was Seychelles, in September 2006. In 2007 Ghana became the first country to issue sovereign bonds in international markets after being granted debt relief through the HIPC initiative. The 18 sub-Saharan African countries that issued bonds in international markets in the last decade are Angola, Benin, Cameroon, DRC, Côte d'Ivoire, Ethiopia, Gabon, Ghana, Kenya, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Tanzania and Zambia, with new bond issuing being particularly relevant in 2018.[80]

When issuing in financial markets, countries often face higher borrowing rates, and are exposed to exchange rate fluctuations (when bonds are issued in foreign currencies) but also to investors' appetite and expectations. For instance, while average low- and middle-income countries paid 2.16 per cent in interest rates in their official new debt in 2017, average interest rates for new debt from private creditors was 4.56 per cent. Research on African government bonds show that issuing between 2006 and 2014, the price for African bonds is about 2.9 per cent more than their macroeconomic indicators or credit risk ratings would indicate. Higher coupon payments are not explained by observable risk measures and they can only be described "as a penalty on African governments due to investor bias".[81] In a context of higher US interest rates, a stronger US dollar (and devaluing local currencies), and lower commodity prices, access to new financing from financial markets for developing countries could be reduced, lowering refinancing chances. This risk is particularly worrying as Eurobond calendars show a peak in debt repayments over the next few years, particularly in 2020, 2024 and 2025.[82]

The new lending that has been flowing towards countries in the global south could have potentially made more resources available for making progress towards achieving SDGs and for gender equality and women's rights, but the reality is that this has not always been the case. In many instances, borrowing has been used to refinance debts, or to cover losses from tax dodging, illicit financial flows and capital flight.

In Argentina, for instance, and according to Fundacion SES analysis, most borrowing from 2016 to 2018, including the massive US $57 billion IMF loan, was used to cover current account deficit, capital flight and debt interest payments.[83] In other cases, such as in Mozambique recent history, funds lent have been stolen, their destination is unknown or the resources have been wasted in useless goods – white elephant infrastructure – or corporate and bank bail-outs.

Box 7: Mozambique hidden debts

In 2014, the Mozambique state-owned company, Ematum, had borrowed $US850 million from international investors at an 8.5 per cent interest rate to pay for tuna fishing fleet (US $760 million plus US $90 million in fees for the banks that arranged the loan). English branches of Credit Suisse and VTB, which arranged the initial loan, additionally lent US $1.4 billion to state-owned companies in Mozambique. None of the loans, or the government guarantee, were approved by the Mozambique parliament, breaking a constitutional rule. The independent audit that took place after the hidden debts were exposed found out that, of the US $760 million initially lent, all had gone to the fishing boat contractor in Abu Dhabi, never entering Mozambique. The Mozambique government argues that US $500 million from the operation was for military equipment, but no evidence has been presented. Two of the bankers involved have already pleaded guilty and in June 2019 the Mozambique Constitutional Council ruled that at least one of the loans was illegal. However, the Mozambique government reached an agreement on paying the original debt, which according to the Jubilee Debt Campaign and the Mozambique Budget Monitoring Forum (FMO), a network of 21 Mozambican civil society organisations, could see speculators make 270 per cent profit out of Mozambique's debt crisis.[84]

Although investing in social infrastructure like care, health and education can also benefit growth,[85] create jobs – especially for women – close gender and economic inequality gaps by increasing the wage share of income, and help reduce women's unpaid care burden, infrastructure-focused borrowing tends to still be focused on other sectors such as transport, industrial agriculture and natural resource exploitation.[86]

When contracted under responsible borrowing principles[87] with a gender perspective, loans for investment in road systems could improve women's well-being and reduce inequality, for example, by providing easier access to services and facilities used heavily by women such as hospitals, healthcare centres and local markets. However, gender blind multilateral lending for infrastructure too often prioritises the industrial sector, agroindustry or extractive industry's needs, focusing on megaprojects that also lack alignment with the Paris Climate Agreement or the SDGs.[88]

Mega-infrastructures financed through loans are not only being funded by multilateral development banks, but also by private and official bilateral lenders. The Chinese "Belt and Road" initiative, is one of the examples of how bilateral lenders are also promoting and financing infrastructure construction throughout the global south. For instance, lending from Chinese financial institutions is mostly destined to transport infrastructure (roads and ports, as the 'belt and road' initiative stands for a 'belt' of overland corridors and a maritime 'road' of shipping lanes, presenting itself as the 21st century version of the silk route).[89] Export-Import Bank of China, financing about a quarter of the projects under the initiative, has US $149 billion in outstanding Belt and Road loans[90] while the whole budget for the initiative is supposed to be over US $8 trillion.

In a nutshell, bilateral, multilateral and private lending for infrastructure is rarely used to improve essential public services. This lending is generally decided and designed with a lack of gender, social and environmental perspective, but rather aims to increase the country's potential in the globalised economy, benefiting mainly the country's elites, transnational corporations and global capital investors.

3.3 New complexities for a new debt crisis

As Eurodad has been reporting, debt scenarios and vulnerabilities have suffered from important changes, especially in the last decade.[91] New debt has been contracted in the global south, increasingly from private sources, producing a radical shift in the composition of creditors. In total, private creditors were holding 59.35 per cent of low- and middle-income countries' public external debt in 2018, while a decade ago most debt was owed to public creditors (53 per cent) and only 47 per cent to private creditors. The growing importance of bonds in the composition of public external debt is particularly important, representing 45 per cent of all outstanding external debt in low- and middle-income countries, while in 2008 it was only 30 per cent and in 1998 merely 20 per cent.

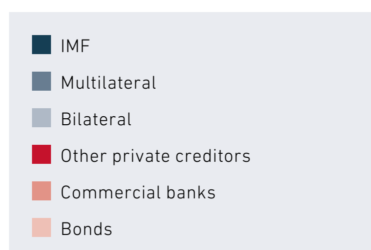
Although in general there has been a decrease in the importance of bilateral creditors since 2005, it is also important to mention the shift from traditional bilateral lenders (mostly Organisation for Economic Co-operation and Development (OECD) countries) towards non-Paris Club bilateral lenders such as China, Kuwait, India and Saudi Arabia. In sub-Saharan Africa, the share of non-Paris Club creditors in total public debt doubled, from 15 per cent in 2007 to 30 per cent in 2016. At the same time, the share of Paris Club bilateral debt plummeted from 25 per cent to 7 per cent.[92]

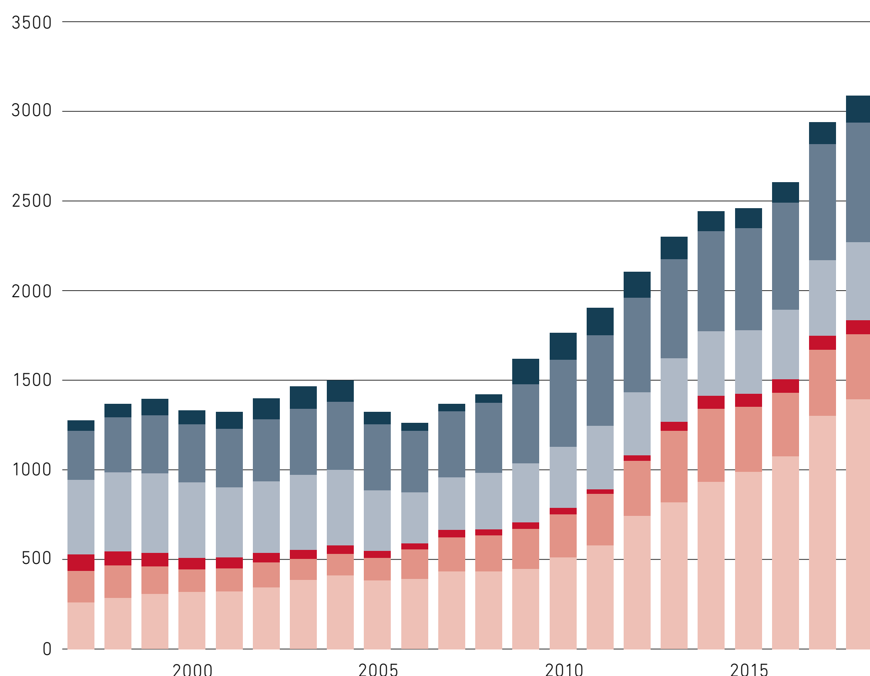
As we have seen, China has been highlighted as one of the most important new sources of credit, especially for sub-Saharan African and Asian countries, although it is also an increasingly important creditor in Latin America and even in Europe.

However, recent figures showed that China's role as a lender in sub-Saharan Africa, although growing, has been less important than often stated, especially in regard to countries facing debt crises. According to the Jubilee Debt Campaign data, only around 20 per cent of external debt owed by African governments is owed to China and only 17 per cent of interest payments are made to this creditor. As interest rates tend to be higher on private sector loans, the private sector receives 55 per cent of interest payments from African countries.[93]

This new lenders' landscape means higher costs for developing countries. On the bilateral side there has been a decline in concessionality or lending at rates below market levels, while private lending tends also to be more expensive.[94] In low- and middle-income countries, average interest rates on new external debt commitments was 2.58 per cent in 2018 in the case of official creditors, but 4.71 per cent when these new debt commitments were with private creditors. For sub-Saharan African countries, the difference is even higher, as new lending from official creditors has average interest rates of 2.16 per cent, but with private creditors the average interest rate rises to 6.58 per cent. Higher interest rates mean, as we will see, growing debt service payments, which puts increasing pressure on the governments' budgets and ability to provide quality public services. For instance, in sub-Saharan Africa, interest costs as a share of government revenue doubled in just five years, going from 5 per cent in 2012 to 10 per cent in 2017 (reaching levels as high as before HIPC debt relief in the early 2000s).[95]

Figure 5
Debt stocks in low- and middle-income countries – Public and publicly guaranteed (current US $ billion)





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

Moreover, interest rates on private external debt, especially on bonds, are determined in global markets, which makes those rates very variable. UNCTAD calculations show that the proportion of variable rate debt – that is, public debt whose interest rate floats with markets rates such as the London Inter-Bank Offered Rate (LIBOR) – increased from 11 per cent to about 32 per cent between 2010 and 2015.[96] Besides, as market rates change over time, a country that has turned towards bond issuing as an important source of financing never knows at which rate debt can be refinanced or 'rolled-over' in the financial markets. This means that, for many countries, it is impossible to know exactly how 'expensive' their debt is going to be. As a consequence, private debt is not only more expensive, but it is exposed to interest rate shocks, which makes borrowing from private sources more uncertain and riskier. In the end, the uncertainty and risks are transferred into the government's fiscal space to fulfill their duties in relation to guarantee human rights. And, as we will see, when the risks are triggered, they become unaffordable debt service, and it is the most vulnerable, and especially women and girls, who will suffer the most from the shrinking quality of and access to public services.

There has also been an increase in domestic debt, owed to residents in affected countries, but the international statistics available do not include data on domestic debt. Domestic debt in Latin America, for instance, has been a growing resource of government finance since the early 2000s. However, according to Latindadd, domestic bonds issued in local currencies are usually offered with higher interest rates than external debt, reaching in some cases 9.5 per cent, as in Ecuador, or even 10 per cent interest rate in Brazil. Although the domestic debt issuing is done through local financial corporations, there is not sufficient information to identify if bond-holders are actually national, and, Latindadd states, the elevated interest rates actually attracts foreign investors. Domestic debt is particularly important in countries like Brazil (with 80 per cent domestic debt to GDP) but also in Colombia, El Salvador, Mexico or Costa Rica (with domestic debt being between 30 per cent and 40 per cent of domestic debt to GDP).[97] As stated in the case of private debt, the higher costs of domestic debt increases the pressure on government budgets and therefore on their capacity to ensure the provision of quality public services.

The new complex creditor landscape has also seen the growing use of collateralised lending and leveraged private finance in development, which can end up in hidden debts. The term 'hidden debt' is usually used to refer to public guarantees or other liabilities, such as those associated with PPPs that are not included in the government's debt data (are 'off-balance'), but are a compromise or guarantee for future payments in certain circumstances, and can add to the debt stocks.[98] This can also suppose a sudden growth in debt repayments, adding uncertainty and risk to the accomplishment of the government's fiscal objectives and the realisation of public services budget (see Box 3).

Collateralised lending, where loans are secured against existing assets (e.g. land or natural resources) or future revenues (e.g. sale of commodities or project returns), is an increasing form for non-Paris Club and non-traditional private creditors to ensure that they get their money back.[99] In 2016, the China Africa Research Initiative estimated that "33 per cent of Chinese loan finance in Africa is secured by commodities or exports of natural resources".[100] Not only China, but also other bilateral lenders and private creditors or commodity trading firms are promoting collateralised loans. These appear to have better conditions in the first place, but debtors can be required to sell commodities to the lender at below market prices or sell off public assets as part of the conditions when facing difficulties to repay the loans and their interests. According to the IMF, loan conditions can involve complex calculations of debt payments and creditor rights to attach key assets, such as ownership shares in natural resource operations or state-owned enterprises. These conditions are not always clear, which adds lack of transparency to the risks of hidden debts, together with the risk of over-exploitation and jeopardy of natural resources (not only for current, but also for future generations). Furthermore, collateralisation complicates debt restructuring as it reduces the room for manoeuvre for sovereign borrowers, since it grants the lenders of collateralised debts seniority. This means that the debtors have little option but to defer payments to them in the event of any restructuring (or they will pledge for the collateral).[101]

Box 8: Chad vs Glencore

Loans contracted by the Chadian government with commodity trader Glencore in 2013 were guaranteed by oil. In 2015, after oil prices crashed the previous year, debts were restructured to extend their maturity over six years, increasing total payments. By the end of 2016, Glencore held 98 per cent of Chad's external commercial debt, and 85 per cent of Chad's oil revenues (the primary source of revenue for the country) was directed towards paying Glencore back. That year, debt service to Glencore was US $231 million out of US $271 million oil sales revenue, leaving only US $40 million to the rest of the budget. As a result, between 2014 and 2016, public spending was cut by 10.8 per cent of non-oil GDP.[102] Despite major budget cuts, Chad went into arrears on some of its payments to multilateral and bilateral creditors, and looked up for assistance at the IMF. To get a bail-out from the IMF, Chad had to reach a restructuring agreement with Glencore. The whole process ended up with creditors receiving their payments and fiscal austerity continuing. Debt service as a proportion of government revenue spiked from 6.5 per cent in 2015 to 22.5 per cent in 2017. As the World Bank admits, "since the beginning of the crisis, dwindling fiscal resources have disrupted vital public services", delaying or halting, on various occasions, payments to community-based teachers and health workers, funding for student scholarships, social-programme benefits and the provision of agricultural inputs. Poverty reduction gains obtained after debt relief and during the oil boom have been threatened by the economic crisis triggered by the Glencore agreement. In February 2018, a general strike against the austerity programme ended with over 100 people being arrested.[103]

With increasing borrowing costs for impoverished countries, increasing risks and uncertainties due to hidden debts and speculative market fluctuations, commodity prices dropping again, and currencies falling against the dollar in many countries in the global south (exchange rate falls push up the real value of debt and interest payments), all alarm bells should be loud and ringing. As the IMF recognises, this new complexity of changing the creditor landscape bears more risks and poses "new challenges for potential debt resolution, including difficulties in ensuring the creditor coordination needed to produce comprehensive agreements acceptable to all major creditors".[104] The World Bank is also highlighting the additional vulnerabilities with the current, high levels of external debt such as: growing fiscal and current account deficits; high levels of short-term debt; lower reserves than in previous debt crises; and a shift towards a riskier composition of debt. The most recent analysis by the World Bank concludes that, "the current wave of debt accumulation could follow the historical pattern and culminate in financial crises in these economies".[105]

Eurodad warned in 2016 of the risks of a new debt crisis, noting that it would be different from the last crises, given the different composition of public debt.[106] One thing probably will not change, however: the impact on the most vulnerable. At the first stages of this crisis we can already see how increasing debt payments are affecting the ability of governments to maintain and increase resources for public services, as austerity is consolidated as the "new normal".[107] The non-existence of a multilateral debt resolution framework that could provide timely and sustainable crisis solutions means that the responses to the debt crisis will probably come too late, depending on the debtor country's capacity to influence a wide range of creditors and reach restructuring deals that actually do not impact on their ability to protect human rights. As happened with previous debt crises, "too little, too late" responses – which, according to the IMF, fail to deliver debt sustainability and lending access in a durable way[108] – always have a substantial impact on the most vulnerable members of society.

4. Debt service vs public services

As public debt levels are increasing across the global south, more economic resources are needed to repay those debts and the associated interest. The increase in debt service, together with the difficulties of increasing government revenue, are seriously endangering governments' capacity to deliver quality public services, as funds for non-debt related expenditures are absorbed or eroded. As a consequence, advancement towards the SDGs, climate resilience and gender equality is put at risk.

> "Spiralling debt payments divert precious resources from governments that can ill afford to spare them. Without spending money on basic services like clean water, sanitation and health, there is little hope of poor countries meeting the development need and human rights of their citizens."
>
> Christian Aid and Jubilee Debt Campaign, 2019[109]

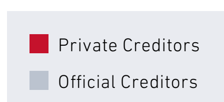
4.1 Debt service takes increasing portions of revenue

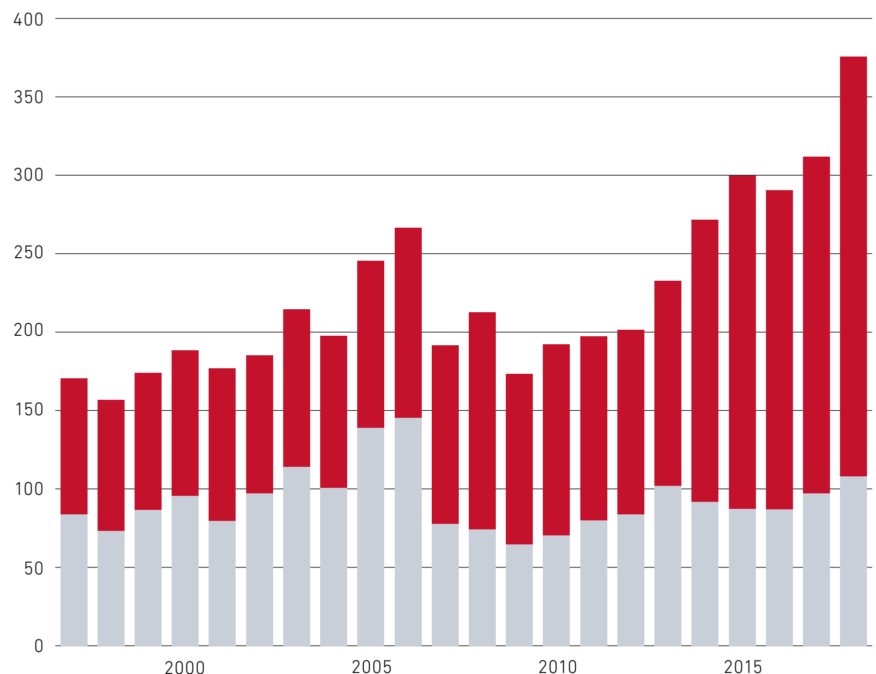
Public debt service on external debt has been growing in low- and middle-income countries from US $192.24 billion in 2010 to US $375.49 billion in 2018. This growth is not only due to the increasing amounts borrowed, but also to the kind of obligations making up that debt. As we have already identified, the bigger percentage of debt owed to private creditors means higher interest payments, and therefore higher debt service. In low- and middle-income countries, interest payments on external debt have more than doubled since 2010, from US $51.29 billion to US $113.30 billion in 2018.

Most of the debt repayments are going to private sector agents (66 per cent) – bond holders (34 per cent of total public debt service in 2017), commercial banks (26 per cent) and other private sector entities (6 per cent) – and only 33.62 per cent of debt service was being paid in 2018 to official creditors. The weight of private creditors as recipients of public external debt service has grown in the last decades, for instance, from 59.7 per cent in 2007, to 66 per cent in 2017.

External debt payments as a percentage of government revenue grew in low- and middle-income countries by 83 per cent between 2010 and 2018.[110] Taking into account country data from all low- and middle-income countries with available information,[111] debt service on public external debt grew from an average of 6.71 per cent of government revenue in 2010 to an average of 12.56 per cent in 2018. In sub-Saharan Africa, the gains from debt relief seem to be foregone, as the portion of government revenue destined to external debt service payments has more than doubled, from 4.56 per cent in 2010 to 10.8 per cent in 2018.

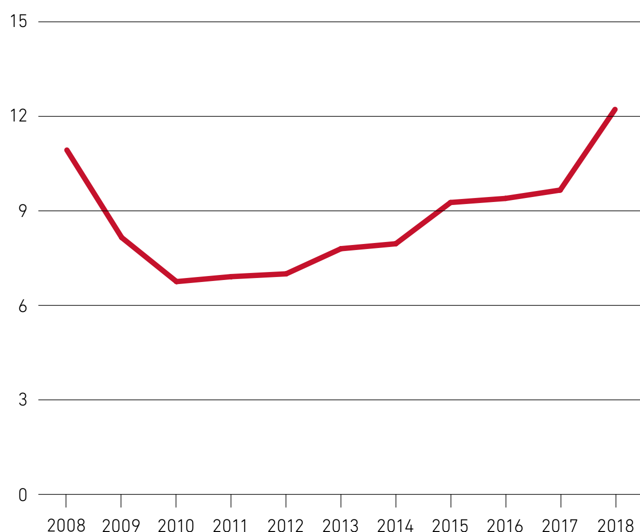
Figure 6
Public external debt service (including IMF) to official and private creditors (current US $ billions)





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

Figure 7
External public debt service as a percentage of government revenue (low- and middle-income countries)



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

The available data does not show the same dynamics across the global south, but at least 20 governments in the global south have been spending more than 20 per cent of their revenue on servicing their external debts in at least one of the last five years, looking at available data. Some of them, like Angola, Djibouti, Jamaica, Lebanon, Sri Lanka or Ukraine, have reached, at some point in the last five years, over 40 per cent of government revenue spent on external public debt service.

Most worryingly, this trend might get worse in the coming years. According to Jubilee Debt Campaign calculations, based on the analysis of 63 countries for which there is data, and under the IMF's scenario of an economic shock, average government external debt service will peak at 17.4 per cent of government revenue by 2022.[112] When also considering domestic debt interest payments plus public external debt service, the burden will peak from 12.1 per cent of government revenue in 2015 to 24.9 per cent in 2022 (under one shock scenario). For the Jubilee Debt Campaign, "it is virtually inconceivable that there will be no economic shocks across the 63 countries" analysed, and therefore, the most probable outcome is an increase of debt payments in relation to government revenue. Moreover, "there could be more than one economic shock in several or many of the countries, meaning average payments could be even higher".[113]

Table 2
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

4.2 More money on debt payments, less on essential public services

Increases in debt servicing, while government revenue does not increase - or does not increase sufficiently - habitually means that there will be fewer resources available for public services. In sub-Saharan Africa, spending on non-debt related expenditures – that is, government expenditure minus interest payments – has decreased by 13 per cent since 2014 to 2018, while debt service has almost doubled. In Latin America and the Caribbean, non-debt related expenditures have also decreased by 18.42 per cent from 2014 to 2018 while debt service grew by 80 per cent.

As recent Jubilee Debt Campaign research revealed, real public spending per person is falling in those countries with the highest debt payments. Jubilee Debt Campaign data shows that, for the 30 countries with the highest debt payments, taking into account those countries for which there is data available, average real public spending per person fell by 6 per cent between 2015 and 2018. In those countries with lowest debt payments, as a comparison, real public spending grew by 14 per cent.[114]

There are some limitations to a detailed analysis of the impact of increasing debt servicing in specific public services, since data on public budget distribution is not always detailed and accessible enough, especially when dealing with regional or country groups' data. Furthermore, most data regarding public services expenditure is not available for all recent years in all countries, and the latest available data normally corresponds to 2016. However, the limited available data shows alarming signs of the impact of the increase in debt service payments in public services.

One of the signs detected showing the impact of debt payments' increase on public services is, for instance, a decrease in the part of the government's budget dedicated to paying public servants' salaries. On average, in low- and middle-income countries, compensation for employees (including all government expenses related to public workers, from salaries to social security and in-kind payments) decreased from 32.53 per cent of all government expenses to 26.12 per cent from 2015 to 2017. This means that, while more resources are being allocated to debt servicing, fewer resources are being used to pay for public servants (who are partially in charge of delivering public services). This can be due to applying wage caps or reducing the number of public workers, either following IMF indications, fulfilling loan conditionality or by applying austerity measures at the government's own volition. Either way, this is a reality that affects women in particular since, as we have seen, the public sector has a higher share of female employees, and women are also employed at lower salary ranges in the public sector (which are normally more affected by wage caps).

As shown in the Table 3, there are also slight decreases in government health and education expenditures, as well as in social protection indicators, between 2014 and 2016 (latest data available for country groups and regions).[115]

At a country level, increasing debt payments could already be having negative impacts on education expenditure. Only 43 out of 121 low- and middle-income countries have data available on government expenses on education (as a percentage of GDP) for the period 2015 to 2017,[116] of which 33 saw increases in their debt service payments (as a percentage of GDP) over the same period. Almost two thirds of the countries with debt service increases between 2015 and 2017 saw their government education expenditure as a percent of GDP decrease.

Table 3
Latest data available on government expenditure on health education, and social protection

	2014	2015	2016
Domestic general government health expenditure per capita in low- and middle-income countries (current US $)	US $ 127.30	US $ 124.80	US $ 118.22
Domestic general government health expenditure per capita in sub-Saharan Africa (current US $)	US $ 31.60	US $ 30.31	US $ 27.38
Government expenditure on education in low-income countries (% of government expenditure)	16.81%	16.55%	14.80%
Government expenditure on education in sub-Saharan Africa (% of government expenditure)	17.34%	17.75%	15.55%
CPIA Social protection rating (1=low to 6=high)[117]	2.97	2.97	2.95

Source: World Development Indicators (World Bank)

Table 4 shows the nine countries (where data is available) with a drop in government education expenditure as a percentage of GDP of more than 10 per cent, while debt service as a percentage of GDP increased over 10 per cent. It is worth noting that there are at least six countries – Argentina, Kenya, Mongolia, Peru, Serbia and Uganda – with a sharp increase in debt service this period, but where the decline in education expenditure as a percentage of GDP is below 10 per cent. In turn, two countries – the DRC and Malawi – show growth of less than 10 pe cent in debt service, but experienced a fall of around 30 per cent in education expenditure. Having more comprehensive data available over a longer period will help to assess precisely the mid-term impacts in individual cases.

Table 4

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

	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[118]	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

Globally, more than 258 million children and adolescents were out of school in 2018, comprising 59 million primary age children, 62 million 12-15 year olds and 138 million 16-18 year olds according to data from UNESCO Institute of Statistics.

Sustainable Development Goal 4 aims to "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all." However, this could be endangered if debt service increases continue to reduce the resources available to finance public education systems, from early-childhood through to higher education, including teacher salaries and training, tools and materials, school building and improvements to schools' water and electricity access. In fact, to meet SDG 4, 69 million new teachers must be recruited by 2030 – and this only includes the teachers at primary and secondary level.[119] This can only be done by increasing government budgets for 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.[120] 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.[121]

Regarding health services, of the 115 countries for which 2016 data is available, 78 saw an increase in debt service payments between 2014 and 2016.[122] Moreover, half of these experienced decreases in health expenditure per capita over the same period. Table 5 highlights the 11 countries with both a debt service increase and health expenditure decrease of over 20 per cent between 2014 and 2016.

While many countries with increasing debt service payments are experiencing decreases in public resources invested in health services, annual investment to meet SDG 3 on health in low- and middle-income countries is around US $360 billion.[123] This is because providing quality and gender-sensitive health services for all remains a very significant challenge in the global south. At least half of the world's population are still without access to essential health services and 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.[124]

Table 5

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

	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%

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

The impact of increasing debt service in public services might be putting the delivery of SDGs at risk, especially in sub-Saharan Africa,[125] and could even reverse the progress made towards Millennium Development Goals over the past decades, partly thanks to the fiscal space provided by debt relief under HIPC and the Multilateral Debt Relief Initiative (MDRI). While countries that benefitted from debt relief had the chance to increase their investments and government expenditure in public services and, specifically, poverty reduction policies (and they did, resulting in a general improvement of social indicators), IMF data shows that poverty-reducing expenditure as a percentage of government revenue[126] has decreased on average in post-HIPC countries from 55.4 per cent to 45.6 per cent between 2009 and 2017. Moreover, the IMF estimates that the ratio will decrease even further to 38.6 per cent in 2022 (lower than in 2001 when the first countries reach completion point).[127]

In summary, the growth of government resources being allocated to debt service in many countries in the global south, and especially in sub-Saharan Africa, means in most cases that a reduced part of the budget is and will be available for public services. The impact is so undeniable that even IMF's former Managing Director Christine Lagarde recognised that "rapidly growing debt burdens could jeopardize their development goals, as governments spend more on debt service and less on infrastructure, health, and education".[128] Furthermore, the trends identified on debt service payments' increases suggest that the first signs of impact detected on public services could get worse over the following years.

As outlined above, this new debt crisis in the global south is unfurling in a context of growing debt levels also in advanced economies. According to IMF fiscal projections, a new shock is due to start in 2020 or 2021, affecting around 130 countries, but "rather than investing in a robust recovery to bring prosperity to citizens, austerity has become the 'new normal'". A new report by Isabel Ortiz and Matthew Cummins reveals that most of those countries have been cutting public expenditure since 2010, and as many as 69 countries will probably undergo excessive contraction, cutting expenditure below pre-crisis levels in terms of GDP. According to Ortiz and Cummins' calculations, austerity will affect about 75 per cent of the global population, around 5.8 billion people both in the global south and the global north, by 2021.[129]

In this context, the absence of effective institutions for the prevention and resolution of debt crises makes it more difficult to address unsustainable debts in a timely manner, leading to defaults, conditional bail-out lending (normally from the IMF) and, ultimately, wider economic crisis. Economic crises can additionally lead to lower tax collection (due to lower consumption and economic output), which also has a negative impact on the resources available for public services, precisely in a time of bigger needs due to recession impacts on the population through greater unemployment or lower salaries and, therefore, increased poverty.

Moreover, IMF lending programmes normally come with the condition to undertake harsh fiscal and structural adjustments attached, with negative effects on public service provision.[130] As argued before, it is mainly women who will carry the extra burden of the care tasks that the public services eventually stop providing (or does provide with less quality and coverage). This is because, when health services or social protection benefits are cut, it is women who take care of the sick and the dependants.

4.3 Conditionality, an extra threat for public services

External debt burdens can also have an adverse impact on the realisation of human rights and development through macroeconomic conditionality linked to crisis lending by the IMF. This can result in direct cuts to public service expenditure.[131] Countries facing problems with repaying their debts or even defaulting on them, have very little option but to ask for debt refinancing to the IMF. Even if they succeed in restructuring their debts, after negotiating though separate processes with their bilateral Paris Club, non-Paris Club and private lenders, accessing an IMF loan is most common when facing debt distress.

IMF conditionalities attached to loan programmes generally include public spending cuts, social protection reforms (such as pension reforms and privatisation, and introduction of targeted social protection systems), labour market reforms (namely deregulation), promoting private sector involvement in management of public services and infrastructure (mostly through PPPs, which the World Bank promotes enthusiastically), privatisation of public assets, and consumption taxation increases, among other measures included in the neoliberal recipe of austerity. The expressed aim of those measures is to control public deficits and debt, but also to make sure that creditors will get repaid. However, those conditions come at a cost, in the form of, as the UN has recognised, "adverse consequences on the enjoyment of human rights".[132]

IMF conditionality has been a concern for human rights defenders for many decades, and unfortunately, even though IMF rhetoric has changed in recent years, harmful conditions linked to IMF loans are still a reality. In fact, in May 2018 the Independent Evaluation Office (IEO) of the IMF published its report on *Structural conditionality in IMF-supported programs*. They concluded that, from 2011 to 2016, the number of structural conditions per programme actually rose, especially in the last few years, questioning the impact of those structural conditions and expressing concerns about the lack of country ownership.[133] More recently, the IMF 2018 review of programme design and conditionality also concluded that the average number of structural conditions per programme approval per year rose by 30 per cent in 2018 in comparison to 2011.[134]

Both the IEO report and the IMF conditionality review confirmed Eurodad research published in 2018, investigating conditions attached to IMF loans for 26 country programmes approved in 2016 and 2017, revealing that the average number of structural policy conditions per loan was 26.8, while programmes approved between 2011 and 2013 only carried an average of 19.5 conditions per loan. The Eurodad research also found that conditionality can significantly increase after a programme has been approved, due to conditionalities added during reviews, and that the IMF is increasingly using 'hidden' forms of conditionality, embedded in the narrative of the IMF programme documents. The study found that 23 out of 26 programmes were conditional on fiscal consolidation, forcing borrowing countries to restrict their spending and/or increase their taxes. The research also identified the effects of IMF conditionalities on health system financing and access to health services, concluding that "budget constraints as a consequence of loan conditionality risk compromising a country's capacity to scale up public investment to provide essential health services, while public employment reductions have a heavy impact on the health sector and the enjoyment of the rights to health".[135] Globally, governments in more than two-thirds of countries throughout the world are applying austerity measures, disinvesting in human rights and putting women's rights and tentative advances towards gender equality at risk.[136] Although the IMF role is not direct in all of these cases, recent research concludes that the IMF influence appears as a central factor in deep and prolonged cuts to public spending in developing countries, both through surveillance (mainly Article IV reports[137]) and through lending conditionality.

Box 9: Conditionality in Ghana

Ghana made considerable cuts in public expenditure under the IMF programme that ended in April 2019, and the commitment to a national social protection floor[138] was affected by a 77 per cent drop in the 2019 Budget for the Ministry of Gender, Children and Social Protection. For ActionAid, the provision of public services in this country, both in urban and rural areas, "is being hampered by IMF-backed austerity policies that increase rather than reduce gender inequalities".[139] ActionAid's review of the IMF agreements with the government of Ghana indicate that, apart from extremely limited social safety nets for those in extreme poverty, social, gender and human rights impacts are not assessed in the design of adjustment programmes. Ghana raised US $3 billion in Eurobonds on the financial markets at an interest rate between 7.87 per cent and 8.95 per cent right after the IMF programme ended in April 2019.[140] For the IMF this is a sign that Ghana is back on track to being one of Africa's economic success stories, although debt remains a risk for public services and human rights, as Ghana was spending around 27 per cent of its government revenue on external debt service in 2018.

A recent report by Juan Pablo Bohoslavsky, 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, concluded that the "international financial institutions may be held responsible for complicity in the imposition of economic reforms that violate human rights".[141] Among the rights that could be negatively impacted by the introduction of fiscal consolidation mentioned in the report are labour rights, the rights to food, housing and social security. The report also mentions the reduction or elimination of subsidies, such as gas and fuel subsidies, with potential consequences for livelihoods, as we have seen in recent cases in Haiti or Ecuador, where the introduction of this measure – following IMF recommendations – has caused significant social unrest.

For Latindadd, these subsidy cuts represent a direct attack against the most vulnerable sectors of the population, while the tax incentives and privileges for the corporate sector are not questioned.[142] Finally, the report of the independent expert also refers to the impacts of austerity on women and girls, mentioning that the Committee on the Elimination of Discrimination against Women has underlined that, in general, public services cuts can potentially exclude women and girls from education and burden them with additional unpaid care work.

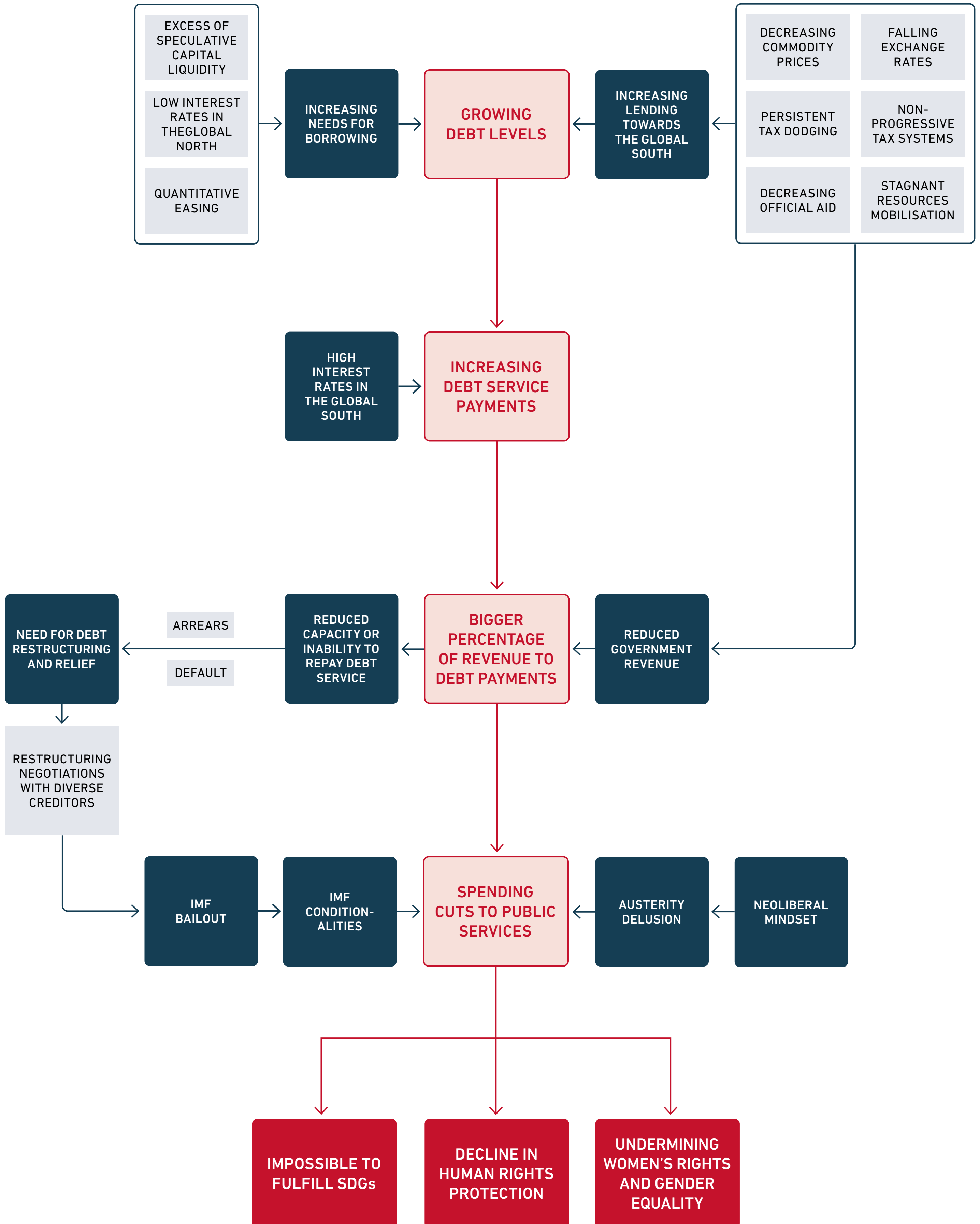
The ways in which structural conditionality and fiscal consolidation impact on women and girls are diverse and have been analysed in detail by several authors.[143] Unfortunately, however, the little data that is available on public services in the global south is rarely disaggregated by sex and, therefore, quantitative analysis on the gendered bias of the austerity impacts becomes almost impossible. However, qualitative analysis by numerous researchers can help us list some of the impacts austerity measures and fiscal consolidation have on women and girls.

General budget cuts impact women as they 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, and are directly affected by the removal of vital services for survivors of violence against women. 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. Decreasing public expenditure restricts women's access to essential services, which women particularly rely on due to their economic disadvantages or specific requirements (e.g. depending on maternal and child healthcare); while budget austerity increases women's unpaid care work and time poverty. In fact, as GADN and Femnet state, "the availability of women's unpaid care as a 'shock absorber' is a premise on which cuts to public services are based".[144] This unpaid care work totals, according to a recent Oxfam report, 12.5 billion hours every day around the world, and its monetary value is at least US $10.8 trillion annually – three times the size of the world's tech industry.[145]

Furthermore, increases in regressive taxes such as VAT and other indirect taxes impact on women differently due to different paid work, unpaid work, consumption and wealth patterns. Undermining labour protections, by promoting deregulatory processes also affects women disproportionately, since they tend to rely on more precarious jobs and are pushed towards the informal sector. Additionally, we have to consider not only the direct impact of conditionality and austerity measures, but also their "devastating" cumulative impact: "withdrawal of public childcare services, for example, compounds upon increases in consumption taxes and decreased enforcement of anti-discrimination labour standards to the detriment of women's accessing equal wages and decent work".[146]

Additionally, IMF-imposed reforms in the face of debt distress do not only have negative impacts on human rights, including women's rights, but they also undermine sovereignty, democratic decision-making and ownership.[147] They also affects governments' ability to decide and provide on gender-responsive public services, and therefore their capacity to fulfil their human rights obligations and commitments towards SDGs, gender equality and women's rights. It seems clear that a new approach is needed, not only in relation to economic reforms in the face of a debt crisis, but also to ensure that debt sustainability analyses incorporate the impact of debt on public services, human rights and gender equality. Furthermore, a new debt resolution mechanism that ensures debt sustainability and safeguards women's rights through gender-responsive and transformative public spending is urgently needed.

THE DEBT PATH TO DERAILING PUBLIC SERVICES AND HUMAN RIGHTS



5. Conclusions and recommendations

> "With the existing deficiencies of the current 'system' for sovereign debt restructuring only intensifying under the new debt dynamics, renewed international efforts to develop and agree upon a multilateral sovereign debt workout mechanism are ever more critical."
>
> Eurodad, 2019[148]

In impoverished countries, both current data and projected data reveal a scenario of growing debt distress and increasingly scarce resources being allocated to debt servicing and not to public services. Global debt and, specifically, public debt, are at exceptionally high levels. Around the world this poses a threat to human rights and the achievement of the SDGs. However, the situation in the global south is praticularly worrying, as the new debt crisis could jeopardise hard-won development gains.

According to the IMF, already 47 per cent of low-income countries are in debt distress or are at high risk of debt distress, which means they have already defaulted on some debts or are at high risk of defaulting. This assessment is made under a definition of debt sustainability that turns a blind eye to the debt service impacts on public service provision and human rights. The people living in countries affected by sovereign debt problems, especially the most vulnerable, including women, are already feeling the impact, as spending on public services is being cut in order to honour debt service.

This report shows that, as debt levels rise along with debt payments, scarce public resources are increasingly being diverted to international creditors and away from investment in vital public services. External debt service as a proportion of government revenue has been growing at worrying rates in the global south. For low- and middle-income countries, debt service has gone from representing 6.71 per cent of government revenue in 2010 to 12.56 per cent in 2018**.** Furthermore, at least 20 governments in the global south have been spending more than 20 per cent of their revenue in servicing their external debts over at least one of the last five years that data has been available. At least six countries have reached, at some point in the last five years, over 40 per cent of government revenue spent in external public debt service.

Meanwhile government expenditure in several countries is decreasing and is projected to continue to fall. In sub-Saharan Africa, for example, government expenditure dropped from 23.01 per cent of GDP in 2014 to 21.9 per cent of GDP in 2018, while, in the same period, debt service grew from 4.56 per cent of government revenue to 10.08 per cent. IMF projections show that, while debt levels will still increase in the coming years, both government revenue and expenditure will suffer a continuous decrease until 2024.

The growth in public debt and debt servicing, not only in sub-Saharan Africa but throughout the global south, is being spurred by low commodity prices, stagnant domestic resources mobilisation – due to scarce advancements in preventing tax dodging – decreasing official development assistance, growing interest rates and falling exchange rates. The clouds gathering on the horizon of a new global economic crisis worsens the economic expectations for countries in the global south.

These dynamics are not only playing out through the increasing diversion of government resources away from basic public services such as education and health but also through direct cuts. In the name of fiscal discipline, governments in more than two-thirds of countries around the world are applying austerity measures, disinvesting in public services and weakening the chances for governments to ensure advancement towards the SDGs and women's rights. Women and girls face, through these dynamics, additional barriers to access basic services such as education or health, suffer the most from public jobs and wages cuts, and see how the burden of their unpaid care work is increased. The response to debt crisis should always be based on respect for international human rights law and the realisation of international development commitments, including on gender equality. Independent, gender-sensitive human rights impact assessments (HRIAs) should be carried out before considering any economic reform in the face of an economic or financial crisis.

Too many governments prioritise the economic and social rights of their citizens below creditor claims. Instead of defaulting and restructuring their debts, they allocate scarce fiscal resources to debt service and/or borrow money from the IMF, subsequently having to surrender to harsh austerity and adjustment conditions. By doing so, they are not only aggravating the negative impacts on people's rights, and as we have argued especially on women and girls' rights. They are also aggravating economic recession, further reducing a country's capacity to carry debt burdens. As well as impacting on social protection systems and public services, austerity measures diminish the prospects of economic recovery. This is especially worrying if we consider the global economic situation and the alarms over a new economic crisis. If a new global crash happened, most probably commodity prices would fall, and developing countries would suffer from capital flight to safe havens, making it impossible to borrow at affordable costs. This leaves countries in the global south with a fully blown debt crisis, and very little fiscal space to deal with it.

Unavoidable debt restructurings could be more timely and more efficient – as well as leading to fairer and more sustainable outcomes – if there were more effective institutions to deal with them. The absence of a multilateral debt workout mechanism continues to be a gaping hole in the international financial architecture and the challenges of this new debt crisis make the need for the creation of such a mechanism evident once again. The creditor landscape has become more fragmented due to the increased importance of private creditors, especially bondholders (which in 2018 held 45.12 per cent of all external debt owed by low- and middle-income countries), and of non-Paris Club bilateral lenders. The outlook is for restructuring to be more complicated and drawn out in the future. Delayed debt restructurings, however, increase their costs and prolong the timespan for sovereign debt problems impacting negatively on public service provision.

As this report shows, increasing levels of indebtedness and growing debt payments throughout the global south are already diverting much-needed resources from public services to international creditors. Urgent action is needed if we do not want to face yet another 'lost decade' for human rights and development. There is an urgent need for a new approach to debt crisis resolution that puts people and development first. Addressing this need requires a widening of our understanding of what sustainable debt is, supported by the integration of the findings from independent gender-sensitive HRIAs into debt sustainability analyses.

These developments could support governments in triggering more timely debt restructuring processes, as the warning signals of a crisis will be broadened to include impacts on populations. This should be further systematised by the establishment of a multilateral sovereign debt workout mechanism, to provide a rules-based approach to orderly, fair, transparent and sustainable debt crisis resolution. The need for this mechanism is becoming more obvious and urgent as the new global debt crisis risks triggering a crisis in public services.

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 'bail-out' 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 this, 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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Present value of external debt in percent of GDP
Present value of external debt in percent of exports
External debt service in percent of export
External debt service in percent of revenue
Present value of total public debt in percent of GDP
See details here: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/39/Debt-Sustainability-Framework-for-Low-Income-Countries
Erlassjahr uses 5 indicators to evaluate 3 dimensions of debt (debt situation, the trend and theintermediate and ongoing suspension of debt service payements):
Public debt in percent of GDP
Public debt in percent of annual government revenue
External debt in percent of gross domestic product
Public debt in percent of annual export earnings
Debt service in percent of annual export earnings
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The European Network on Debt and Development (Eurodad) is a network of 50 civil society organisations (CSOs) from 20 European countries, which works for transformative yet specific changes to global and European policies, institutions, rules and structures to ensure a democratically controlled, environmentally sustainable financial and economic system that works to eradicate poverty and ensure human rights for all.

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