JOINT POSITION PAPER ON THE HUMAN RIGHTS IMPACT OF INTERNATIONAL FINANCIAL INSTITUTIONS IN THE EURO-MEDITERRANEAN REGION

EUROMED RIGHTS

Jointly drafted by EuroMed Rights, its members and partners

As human rights and civil society organizations working on the issues of economic and social justice in the Euro-Mediterranean region, we present this position paper ahead of the World Bank and International Monetary Fund (IMF) Annual Meetings in Marrakech, Morocco.

International financial institutions, the IMF in particular, play a crucial role in shaping economic policies in the Euro-Mediterranean region, particularly in countries in the Middle East and North Africa, a region under substantial financial stress and socio-economic instability. The upcoming Annual Meetings in Marrakech are a key moment for civil society from the region to expose economic policies that are violating human rights and call for alternatives.

EuroMed Rights, its members and partners witness directly or indirectly the influence of international financial institutions in our work: by seeing the effect of their policies on vulnerable populations, by monitoring the developments in national policies influenced by international bodies, by engaging directly in actions of advocacy and raising awareness. We therefore gathered our analyses in this joint position paper, to present common demands in the upcoming Annual Meetings.

The IMF: A key regional player with an undemocratic governance structure

International financial institutions (IFIs) act as multilateral lending institutions, that are made up of several country member states. The IMF is one of the most significant IFIs for countries in the Middle East and Nort Africa (MENA), and therefore it will be the focus of this position paper. In the past decade, the IMF has signed eighteen loan agreements[1] with countries in the wider Arab region, notably:

- Three agreements with Egypt between 2016 and 2020, with a new deal agreed in December 2022.[2]
- Four deals with Morocco between 2012 and 2018.
- Three deals with Jordan between 2012 and 2020.
- Three deals with Tunisia between 2013 and 2020, with ongoing negotiations for a new deal.

Finally, the IMF and Lebanon are also in a process of negotiation for a deal after a staff-level agreement was reached in April 2022.[3]

The fundamental issue with IFIs, like the IMF, is their governance structure. First of all, because of the historic World Bank and IMF Gentleman's Agreement, the IMF managing director has always been European and the World Bank president from the US.[4] Moreover, even if the IMF's membership is global, the voting power of each member is highly unequal as it is based on a quota system, where each country is given a quota seemingly reflecting its relative importance in the global economy.[5] This creates a disproportionate power imbalance: "*the US holds sufficient voting power to veto major decisions within the Fund, and along with other members of the G-7 and the European Union, has an overall voting majority*".[6] At its executive board, the Global South is also severely underrepresented among its 24 executive directors.[7]

The organizations who jointly drafted this position paper are from the countries which reflect this power imbalance: European states which, on the one hand, have larger decision-making power and influence over the policy orientation of the IMF, and states in the Middle East and North Africa region which – despite being heavily affected by IMF policies – hold very little decision-making power.

Because of this, **we call for an urgent reform in the IMF governance structure so that it gives an equal and democratic representation and decision-making power to all its members**.

IMF policy conditionality

Another key issue of concern is the conditionalities that the IMF attaches to its loans. IMF conditionalities refer to policy changes required from countries facing economic crisis and debt in order to approve the loan. As the IMF has an overall focus on neoliberal macroeconomic policy that centres around open market principles and investment growth, the conditionalities include cost-saving policies, known as **austerity**, that result in the shrinking of the public sector, privatization, reduction of social protection and removal of labour rights safeguards.

Because of the very serious economic situations faced by countries seeking IMF loans, they are in a weak position during the negotiations, which can lead them to accept policies that may be detrimental to the enjoyment of human rights by their populations because of their urgent need for economic and financial support. Likewise, they may be forced to accept other unfair loan conditions, like the IMF's additional fees, surcharges, that almost double the loan costs of countries like Jordan, Tunisia and Egypt.[8]

Moreover, IMF conditionality narrowly targets economic reform, with little to no political awareness in its approach, risking reinforcing national dynamics that bolster inequality.[9] Instead, conditionality should be used to promote good governance, transparency, civil society inclusion, democratic accountability and rule of law,[10] rather than being used to enforce neoliberal reforms.

Like states, IFIs have a duty to refrain from formulating, adopting, funding and implementing policies and programmes which directly or indirectly contravene the enjoyment of human rights, including in the context of loan agreements.[11]

IMF conditionality must not limit a state's ability to respect the principles enshrined in the International Covenant on Economic, Social and Cultural Rights (ICESCR), in particular those of progressive realization, non-retrogression, and maximum available resources, stated in Article 2(1):

> *"Each State Party to the present Covenant undertakes to take steps, individually and through international assistance and co-operation, especially economic and technical, to the maximum of its available resources, with a view to achieving progressively the full realization of the rights recognized in the present Covenant by all appropriate means, including particularly the adoption of legislative measures."*[12]

As organizations working in one of the regions most heavily affected by these conditionalities, we believe that the IMF priority should be to ensure that its loans are not detrimental to nor actively contributing to the violations of human rights. In particular, the IMF should:

- **Eliminate all conditionality aimed to reproduce neoliberal economic models** and instead adopt an approach to conditionality that promotes **good governance, civic space, democratic accountability and rule of law**.
- **Ensure transparency and inclusion of civil society** in the process of negotiations of the loans.
- **Eliminate the unjust surcharges policy**.

Austerity

Austerity or fiscal consolidation are policies that aim to reduce public expenditure and are often put in place during times of financial crisis. They can entail cuts to social protection, removal of subsidies for food and basic goods, labour flexibilization measures, shrinking of the public sector and more.

In the framework of the policy conditionality required by the IMF, austerity measures are almost always demanded. The IMF itself foresees that in 2023, austerity will impact 85 per cent of the world population.[13] Austerity measures are rampant in the Euro-Mediterranean region, and the IMF plays a crucial role for that in the MENA region. This has led, for instance, to a decrease in the share of funding for education and health in Tunisia, a decrease in the share of spending for public health in Jordan, and a stark increase in electricity bills for the poorest and middle-income sectors of the population in Egypt due to the removal of subsidies.[14]

Austerity measures – especially when imposed in times of recession – can have devastating effects on the majority of the population, especially the most vulnerable groups, exacerbating social inequalities. These measures pose severe threats to the enjoyment of economic and social rights and are against the above-mentioned principles of progressive realisation, non-retrogression and maximum available resources. Indeed, they limit a state's ability to invest in the progressive realization of various rights enshrined in the ICESCR such as labour rights, the right to social security, the rights to health, education and an adequate standard of living. While states are usually the primary duty bearers, should IFIs prescribe economic reforms with foreseeable negative effects on human rights, they are then complicit in those violations.[15]

Finally, and contrary to dominant narratives promoted by institutions like the IMF, there are alternatives to austerity. Increasing progressive taxation, expanding social security coverage and contributory revenues for social protection, eliminating illicit financial flows, and adopting a more accommodative macroeconomic framework are some of the alternatives to go in this direction.[16]

Therefore, as organization witnessing the effects of austerity in the contexts we each work with, we call for the IMF to:

- **Immediately end all austerity measures** demanded as part of conditionality in loan negotiations.
- Build further on its own analysis stating that **austerity in times of crisis is not effective** in reducing debt and readjust its policy on austerity accordingly.[17]
- **Conduct regular human rights impact assessments of its policies**, including through **inclusion of civil society**, so that corrective measures can be taken when negative human rights impacts are identified.

Social protection

Often a part of austerity, cuts to social protection are one of the most concerning measures that impact vulnerable people. In the loan negotiations with countries, especially in the MENA region, the IMF has often required policy changes that aimed to shrink universal access to social protection.[18] And historically, the IMF has not promoted any forms of social protection. However, with the publication of the Strategy for IMF Engagement on Social Spending in 2019,[19] the Fund has acknowledged the need to increase social spending to support vulnerable groups. Nonetheless, its position remains problematic, as it aims to substitute universal social protection systems with targeted social welfare policies to alleviate the fiscal deficit and counterbalance the effect of austerity on the extreme poor.

This approach excludes the majority of the population from social protection measures, and it fails to structurally challenge how fiscal policy making should address social protection not as a form of mitigation, but because it is a human right.[20] Indeed, it is a state's responsibility to implement a universal social protection system which promotes social justice, through the use of social protection floors that guarantee minimum wage security and decent standards of living, not only to the poorest and most vulnerable, but also to the middle class that needs to be protected from the various risks of loss of livelihood.

Therefore, **we call on the IMF to end the promotion of targeted social protection** as well as any measures that may weaken universal social protection systems, and instead **promote steps to progressively achieve universal social protection**.

IMF and Gender

Austerity measures like cuts to social spending and shrinking of the public sector have significant gendered impacts, as they affect the most vulnerable sectors of the population, where there is a majority of women. This can be seen all across the Euro-Mediterranean region, where neoliberal measures are implemented by governments with dire consequences for women and other vulnerable groups.

Even if the IMF has, in the last years, made some progress to acknowledge the linkages between economic policies and gendered impacts, there is still a critical gap between its thinking and its operational aspect. Indeed, research has showed that despite the progress in its narrative, IMF policies in the MENA region remain largely the same and treat gender as an add-on rather than a crucial element to be considered in the restructuring of macro-economic policies.[21] These policies have instead contributed to exacerbating gender inequalities by promoting austerity, cuts to social spending and privatization – all measures that increase poverty and inequality, hitting women the hardest.[22]

The IMF gender engagement in the region has in particular focused on increasing women's participation in the labour market, as the MENA region has the lowest participation of women in the labour market in the world (20.2 per cent).[23] However, the IMF has at the same time promoted policies that directly hinder or ignore the challenges faced by women to access decent work conditions.

> Women engaged in paid work do so in "*the lowest paid jobs with the least job security*", because of "*severe deficits of decent work in the private sector, low salaries, a lack of national childcare systems, the limited availability of safe, reliable and affordable public transport systems, unsafe environments, and the lack of productive job opportunities that match women's educational attainments.*"[24]

For these reasons, women tend to prefer employments in the public sector – which is downsized because of IMF policies. For all human rights adversely impacted by economic and fiscal policymaking promoted by IFIs, vulnerable groups are disproportionally impacted, often including women. This has to be reflected in IFIs' approach to gender.

The IMF must:

- Structurally change its gender engagement, by **adopting a humanist and feminist economic policy perspective** that promotes human rights, combat gender inequality and climate change.
- Live up to obligations[25] to **prioritise gender responsive budgeting**, which means effectively addressing women's poverty and the economic barriers to women's equality through the way that trade, investment, public services, and the care economy in particular are structured.

IFIs and debt

The issue of debt is central to the unequal enjoyment of economic and social rights globally. Between 2010 and 2020, the public debt of developing countries has increased to 62.3 per cent, from an average of 40.2 per cent of GDP, with a stark increase in 2020 due to the Covid-19 pandemic.[26] The MENA is the region in the world with the highest debt as percentage of GDP.[27]

During the pandemic, countries with already high debt had no other choice but to borrow more to face the following economic impact, thereby reinforcing an endless cycle of indebtedness which severely impact their ability to invest on the public sector and social spending. Debt servicing therefore obstructs their ability to invest in the protection of economic, social and cultural rights in accordance with beforementioned principles stated in the ICESCR.

Governments in indebted countries may not be without fault: in some cases, unsustainable loan-taking could have been avoided or reduced by having implemented a human rights approach to fiscal policy making.

There is an urgent need for debt restructuring and relief for countries under financial distress. Debt restructuring and relief should enable countries to service external debts without compromising their capacity to fulfil international human rights obligations, and all options for debt relief should be considered, including debt cancellation.

As pointed out by the UN, the current global debt architecture "has been ineffective in both preventing repeated episodes of unsustainable debt build ups and restructuring debts, when needed, in efficient, fair, and durable manner."[28] Therefore, a reform of this structure is of critical importance, especially given the financial crises forewarned. Such reform has to put the well-being and dignity of the people affected by poverty, inequality and discrimination at the centre, it must prioritize social justice, equity and human rights.[29]

Due to the aforementioned policies and procedures of the IMF, there has been a significant surge in poverty, in particular, the feminization of poverty. Additionally, these policies have been found to have contributed to corruption, inequality, discrimination and degradation of public health and public assets.

Moreover, they have provided support to undemocratic regimes, enabling them to retain power and exploit wealth and resources. Consequently, the affected countries have become locked in a vicious cycle of unsustainable long-term debt.

Therefore:

- The international community should establish **an independent international debt restructuring mechanism** in line with the UN guiding principles on debt.[30]
- The IMF should help countries **restructure their debts and back the cancellation of all middle- and low-income countries' debt payments** owed during the pandemic, and where necessary after the pandemic as well.
- We call on states to make use of their membership in international financial institutions and of various boards, and demand that international financial institutions **have human rights policies and monitor their implementation in line with human rights standards**.

Moreover, we call on states as borrowers to:

- Submit their fiscal policy and budget making to **democratic and public scrutiny** and debate, including on their debt management.
- **Exhaust debt relief, strategic default, debt restructuring and cancellation policies** before applying for IFI bailouts.

This position paper was collectively drafted by EuroMed Rights, its members and partners and supported by the following members of the Economic, Social and Cultural Rights Working group:

- Association Marocaine des Droits Humains (AMDH)
- Associazione Ricreativa e Culturale Italiana (ARCI)
- Association Tunisienne des Femmes Démocrates (ATFD)
- Arab NGO Network for Development (ANND)
- Center for Egyptian Women's Legal Assistance (CEWLA)
- Espace Associatif
- EuroMed Rights
- Lebanese Center for Human Right (CLDH)
- Palestinian Human Rights Organization (PHRO)
- Phenix Centre for Economics and Informatics Studies
- Social Justice Platform (SJP)
- Tamkeen
- Women's Budget Group

Endnotes

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