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The Impact of External Debt and Adjustment Policies on the  
Realization of the Right to Development as a Human Right

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## BACKGROUND PAPER

### THE IMPACT OF EXTERNAL DEBT AND ADJUSTMENT POLICIES ON THE REALIZATION OF THE RIGHT TO DEVELOPMENT AS A HUMAN RIGHT

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#### Introduction

During the decade of the eighties, three major issues occupied the attention of the world, particularly the developing countries. These are the issues of development, the global debt crisis, and human rights.

Using development models recommended by well-meaning multilateral institutions, aid-giving industrialized countries, and by their own foreign-trained nationals, developing countries struggled mightily but unsuccessfully with ever increasing levels of poverty. Because the problem of poverty remains unresolved and development goals have not been attained, more and more countries are questioning development models premised on increased levels of external borrowing, massive foreign investment, import liberalization, and other related economic policies. They are now engaged in efforts to work out development models which maximize the utilization of local resources, preserve the environment, reduce the intolerable debt burden, and directly confront the problem of poverty.

The decade of the eighties also saw the escalation of the global debt crisis to unmanageable proportions. Strategies recommended by creditor banks and creditor countries, notably the Baker Plan, and now the Brady Plan failed to staunch the continued negative outflow of resources from the indebted developing countries to the creditor institutions and countries. Even as these indebted countries willingly underwent harrowing adjustment programs at tremendous human and social cost, it is now conceded that they are no better off than in 1982 at the start of the global debt crisis. At the same time, the World Bank observed that "During the past three years, growth in the industrialized countries has actually exceeded earlier expectations." Thus, the decade of the eighties saw continued grinding poverty for indebted developing countries even as industrial countries experienced buoyant economic growth.

The persistence of the global debt crisis in spite of the plethora of "menus" and "options" which have been proposed and

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implemented at great human cost, clearly indicates that the crisis cannot be solved by impressive technical solutions directed at the debt problem exclusively. It is becoming more obvious that the problems of external debt are clearly linked to economic policies and development strategies.

The decade of the eighties likewise saw intensified struggles of the peoples of many developing countries to evolve more democratic systems and assert national sovereignty in determining paths to development. This has brought about greater concern for human rights, both of nations and of individuals.

The experience of the developing countries during the decade of the eighties has explicitly shown that the issues of development, external debt, stabilization programs and human rights are closely interrelated.

The specific experiences of indebted developing countries indicate that models of development implemented by these countries constitute a major factor in the escalation of external debt to unmanageable proportions. The development models followed by many developing countries are premised on massive external borrowing as an indispensable component of "development finance". The values permeating concepts of development place premium on external borrowings as a sine qua non for development. It can therefore be safely stated that the models of development, the strategies for attaining development goals, and the proliferation of debt-financed "development projects" pushed developing countries to excessive, uncontrolled external borrowing which in turn triggered the global debt crisis.

On the other hand, adjustment policies which were undertaken by developing countries as part of their recovery programs proved disastrous to development goals and aspirations. If we take into consideration the United Nations definition of development where man is the object of development, and not its victim, it is obvious that adjustment programs, ironically had anti-developmental effects. As conceived and implemented, adjustment programs are targetted towards perceived problems in the economy. These are instruments of economic policy with very heavy social and human implications. •

At the same time, adjustment policies as implemented by indebted developing countries had very serious human rights implications. These policies ~~were~~ implemented without **public** consultation. The **sectors most affected were the poor, the** marginalized, the women and children.

As the decade of the nineties commences, it is therefore most appropriate that a global consultation is being conducted on development as a human right, and related issues, among the most serious of which is the external debt.

## I. THE GLOBAL DEBT CRISIS: A NEVER-ENDING STORY

Although the external debt problems of developing countries had been accelerating and worsening during the decade of the seventies, it is generally agreed that these reached unmanageable global proportions in 1982-

Since then, the debt crisis engulfed practically the entire continent of Latin America, a number of countries in Asia including the Philippines, Africa and even Europe. The crisis resulted from a combination of exogenous and domestic factors.

Among the exogenous factors was the tremendous pressure exerted on developing countries to expand levels of external borrowings. The seventies saw the growth of unregulated and uncontrolled money markets. Petrodollars deposited in European and US banks were relent to developing countries at very attractive interest rates. At the same time, governments of developing countries were attracted to grandiose development models demanding massive external financing.

While developing country governments were frenziedly putting up development projects financed from external borrowing, they were hit by a series of global shocks which pushed them to further borrowing. The first of these oil shocks were the higher oil prices in 1973-74 and 1979-80. These shocks automatically resulted in an increase of \$260 billion in the external debt of non-oil developing countries from 1974-82. The second global shock which hit the hapless debtor countries was the escalation of interest rates in the United States, a major creditor country. At the height of the crisis, it has been estimated that a 1% increase in interest automatically resulted in an increase of \$2.5 billion in interest for indebted developing countries. The third global shock which drove the debt-strapped countries deeper into debt was the worldwide recession from 1980-82. In 1981 alone, developing countries lost \$79 billion in export volume.

What must be emphasized here is that the blame for the global debt crisis cannot be laid exclusively at the feet of debtor countries. Admittedly, they overborrowed and went overboard on their "development orgies". However, a substantial portion of their debts is accounted for by revaluations, escalating interest rates, the oil shocks, global recession, and other developments in the international financial environment which were beyond their control.

While the debt crisis is the result of overindulgence on the part of debtors and creditors, it is the debtor countries who are singlehandedly bearing the crushing weight of debt servicing..

Inspite of efforts to contain it, the total external debt of the developing countries has been increasing. In 1985, it was recorded at \$992 billion. By 1986, it had jumped to \$1.035 trillion. In 1987, it was estimated at \$1,190 trillion. By the

end of 1988, it had reached «1.3 trillion—around 50%/. of the combined GNPs of developing countries.

It has been eight years since the start of the global debt crisis. . Assessments by experts indicate that the threat to the international banking system has abated. One recurring fear which gave \*nightmares to creditors was the possibility of the collapse of the international banking system if major defaults of debtor countries would occur. This has been averted but at tremendous cost and sacrifice on the part of the debtor countries. Yes, the international banking system was saved' but the debt crisis continues. The industrialized countries continue to progress while the debtor countries continue to grovel in poverty.

Proposed solutions to the debt crisis have ranged from the traditional and cautious to the radical' and confrontational. There has been no lack of "solutions" coming from the creditor countries and institutions, debtor- countries, multilateral institutions, international agencies, non-government organizations, professionals, and concerned individuals. These efforts notwithstanding, the phenomenon of negative net resource transfer continues. This refers to the outflow of resources from the debtor countries to their creditors. In 1985, developing countries paid out \*26.3 billion more than what they received from their creditors. In 1986, they paid \*29 billion more. In 1988, net transfers reached a staggering \*50 billion. The developing countries continue to hemorrhage even as the banks have happily recovered from the crisis.

## II. ADJUSTMENT POLICIES: A CURE-ALL?

In 1985, the dominant thinking was that the global debt crisis could be solved by adjustment programs with growth as the aim. This was the prescription imposed by multilateral lending institutions and supported by commercial bank creditors and creditor countries.

Adjustment policies were implemented by debtor countries as a conditionality for additional loans primarily from the multilateral institutions like the World Bank and the IMF. Likewise, new money from the commercial banks was contingent on the successful implementation of adjustment programs which were closely monitored by the multilateral. Developing countries, most of them in Sub-Saharan Africa, and a number in Latin America, and Asia, have been subjected to this shock treatment.

What is structural adjustment? According to the World Bank, structural adjustment includes "a range of measures intended to reduce internal and external deficits, increase efficiency in the economy, and reduce government expenditure. Typically, «they would include (1) changing the exchange rate to reflect more closely the true value of the currency... <2) reducing government payrolls, (3) selling to private interests or dismantling

government-owned enterprises; (4) raising agricultural prices closer to world market levels... and (5) reducing subsidies both on consumption items, including food, and to producers."

While the objective is to "adjust" the economy, the real targets of adjustment are the people. They get thrown out of jobs; their incomes are reduced because of rising prices; and they pay more for basic commodities and necessities. Adjustment involves changes in economic policies; actually it is people who are adjusted out of jobs, homes, schools, and in extreme cases, out of existence.

Between mid-1980 and February 1988, The World Bank and IDA undertook more than 130 adjustment operations in 55 countries. These were complemented by adjustment programs undertaken under IMF supervision. Debtor countries who borrowed from both the World Bank had the double misfortune of being subjected to several adjustment programs. More than 70 countries have undergone adjustment programs under the tutelage of the World Bank and the IMF during the eighties.

What has been the result of these massive adjustment operations? The World Bank itself has admitted that "an end to the debt crisis remains elusive.... Debt disbursed **and** outstanding has doubled, and debt service payments on a cash basis are one-third higher....Despite adjustment measures, growth rates in the HICs (highly indebted countries) and in low-income Africa are still low and investment levels well below those reached during the 1970s.

So much has been sacrificed, and millions of people have been subjected to hardships for such unsatisfactory results.

Thus far, the evidence on adjustment has shown that it is the people of the debtor countries who are paying for the adjustment programs with their very lives, but it has only been the banks and the industrialized countries, and the international financial system which have recovered.

### III. ADJUSTING OUT DEVELOPMENT

What has been the impact of adjustment on indebted countries? While adjustment has become the rallying cry for the eighties, it has actually been a standard cure-all of the IMF since the sixties. However, criticisms against adjustment operations has increased dramatically because of the experience of the eighties.

The harrowing experience of adjustment during the eighties has brought about universal recognitions of the untold suffering wreaked on hapless peoples. Criticisms have been raised by concerned international institutions, primarily the United Nations, non-governmental organizations, religious organizations,

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and academics. The World Bank and the IMF themselves recognize the direct link between their adjustment programs and rising levels of poverty.

Perhaps the most comprehensive evaluation of the impact of adjustment on developing economies is the well-known study of the UNICEF, Adjustment With a Human Face. It is a moving plea for protecting the vulnerable who have been hardest hit by adjustment programs simultaneously conducted during the eighties. The case study on the Philippines is particularly graphic. The impact of the series of adjustment programs in the Philippines was evaluated in terms of effects on household incomes and consumption, consequences for rural welfare, impact on government expenditure, and social impact, e.g. on health, nutrition, education, housing, women and children. Severe deterioration in these areas was noted.

Another UNICEF publication, The State of the World's Children: 1989 discusses in horrifying numbers the effect of adjustment processes on the poor, particularly the children. Requirements for reduction in expenditure have resulted in sharply reduced budgets for health and education in most of the countries of sub-Saharan Africa, in more than half of the countries of Latin America and the Caribbean, and in one third of the nations of Asia. Reduced expenditures have not been marginal. In the 37 poorest nations of the world, spending per head on education was reduced by nearly 50% and on health care by nearly 25% in the last 10 years. A UNESCO report confirms deterioration in quality of education, stagnating enrolments, massive drop-outs, inadequate teacher's pay and other indicators.

More than any other group, the children of the developing countries were the innocent bearers of the terrible burden of adjustment. The UNICEF has reported that during the decade of the eighties, more than one million children died from malnutrition and deteriorating sanitary conditions. This was to a large extent due to the sharp reduction of expenditures for health, in compliance with adjustment conditionalities for reduced government spending.

During the decade of the 80's, more than 50% of government expenditures in developing countries went to national defense and debt servicing.

Even the IMF, the most ardent defender of adjustment had recognized the impact of such policies on the poor. The Managing Director of the IMF, Michel Camdessus, has been quoted thus, "Too often in recent years, it is the poorest segments of the population that have carried the heaviest burden of economic adjustment." Again, referring to the Philippines, a study on the impact of stabilisation policies and income distribution in the Philippines by two economists from the World Bank and IMF, respectively revealed the following conclusion:

"Clearly, the macroeconomic adjustment in the Philippines in the 1980s adversely affected the poor, mainly through the increase in underemployment that followed the stabilization program. The increase in underemployment had a high social cost because it had a more serious effect on those workers who had the least specific skills....The low income brackets were also hit by the increase in inflation. The poorest segments bear most of the burden of inflation."

An OXFAM study, Debt and Poverty: A Case Study of Zambia, details the impact of debt and adjustment not only in terms of numbers but more on people. Particularly moving is the account of the effects of the removal of food subsidy on the poor of Zambia. Impact was expressed not in number but of people with names, faces and shattered aspirations.

There is no lack of researches, reports, studies and evaluation of the effects of adjustment on the poor people of the developing countries. There is no lack of compassion either. Or even anger. What is lacking is effective action.

The UN Declaration on the Right to Development defines development as "comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active free and meaningful participation in development and in the fair distribution of benefits resulting therefrom."

If development means the improvement of the quality of life of the people of developing countries, then the effects of adjustment are clearly anti-developmental. What has resulted is deterioration, not improvement.

#### IV. ADJUSTING OUT HUMAN RIGHTS

At present, the impact of adjustment on the peoples of developing countries is well-documented. At the same time, escalating levels of human rights violations in developing countries have been assiduously recorded. Nonetheless, the fact that external debt and adjustment policies are contributory to human rights violations has not been sufficiently emphasized.

External debt and adjustment policies violate the right to development as a human right on at least six counts.

Firstly, when developing country governments went into an orgy of borrowing supposedly for development, this was done without consulting their citizens. Generally, it is the executive branch of government which enters into negotiations with lending institutions. More often than not, the Ministers of Finance and Planning, and the Governors of the Central Banks are the only ones who know the details of loan agreements and



negotiations. Decisions about expanding levels of borrowing and under what conditions are usually considered too technical and sophisticated to be shared with the man on the street. Thus, decisions to borrow are only made public after the negotiations have been completed.

While many developing countries had pretensions to being democratic, information about external debt were generally unavailable. Financial and economic matters are considered too important to be shared with the people. Nevertheless, it is they who pay for the consequences of such "technical decisions."

When decisions are made to add to the financial burdens of citizens without consultation, human rights are clearly violated.

Secondly, when economic crisis ensue as a consequence of the external debt, the immediate victims are the citizens. They suffer for decisions which they never made. When the global debt crisis erupted, many developing countries, particularly those in Sub-Saharan Africa and the Philippines had negative GNP growth. Statistics can not sufficiently describe the horrors of famine, ill-health, unemployment and other forms of suffering undergone by the poor of these countries, especially the children.

When people are made to suffer for crises they are not responsible for, human rights are flagrantly violated.

Thirdly, the standard cure which has been adopted - adjustment - has made the patient more sick than ever. This was pointed out in the preceding sections. In spite of all the noble intentions, adjustment policies, more often than not, had a negative impact on development as defined by the United Nations.

When people are suffering from a disease they are not responsible for, it is bad enough. When they are made to suffer even more from the terrible consequences of a cure, that is adding insult to injury and violates human rights.

Fourthly, in the continuing search for lasting solutions to the debt crisis, many developing countries do not consult affected and concerned groups. First of all, they consult their creditor banks and the multilateral institutions. They also consult the creditor countries. But they hardly consult the victims of external debt and adjustment. Worse, the people are not mobilized in the continuing search for solutions which will protect the vulnerable.

When people are ignored and are not considered in the effort to solve the external debt crisis, it is an insult to them and violates human rights.

Fifthly, adjustment programs and strategies to solve the debt crisis are implemented without the consent of those directly affected. The Philippines is a case in point. In 1989, the government, through the Central Bank and the Department of

Finance, entered into two major agreements on the external debt which had wide-ranging implications on the people. The first agreement involved the submission of a Letter of Intent to the International Monetary Fund requesting for an EFF (Extended Fund Facility) loan of approximately \$1.3 billion under very stringent conditionalities, payable in four years time. When the details of the negotiations were made public after agreement had been reached, there were waves of protest and resistance. Nevertheless, the government went ahead with the program. The consequences of implementing the conditionalities of the IMF program led to an exacerbation of the poverty problem. This was because expenditures had to be reduced, even as taxes were increased and power, transportation, and water rates were raised. The second agreement was with the commercial banks. Again, details were announced only after negotiations were finalized. Ironically, it was only after these two agreements were completed and implemented that the Philippine Foreign Debt Council conducted public hearings on the external debt.

Implementation of adjustment programs without the knowledge, participation and consent of the affected, especially if such programs will entail much hardship and sacrifice is another form of human rights violation.

Finally, implementation of adjustment policies have sparked widespread resistance from the people. Strikes, demonstrations, food riots and uprisings have been reported in countries implementing adjustment programs. In some dramatic instances, popular uprisings against heads of states can be traced to resistance against repressive adjustment policies which assure payment of external debt at the cost of people's sufferings.

Even in countries which are supposedly democratic, cases of human rights violations have escalated with the implementation of adjustment programs. The infliction of physical violence and the brutal repression of opposition to government policies on "adjustment" are outright violations of human rights.

What are the human rights issues in external debt and adjustment policies? One issue is the right of a country and its people to development. This is embodied in the UN Declaration on the Right to Development. A related issue is the issue of national sovereignty and the right of nations to work out their own paths to development, taking into account national interest. In the case of indebted countries, national sovereignty is compromised since it is the lending institutions which determine economic policies and shape development models as conditionalities for lending. In extreme circumstances, it is these lending institutions who practically manage the economic and financial affairs of these countries.

At the level of individuals, organizations and communities, another human rights issue is the right to be consulted, to be informed, to participate and to give consent to programs which directly affect them.

Another human rights issue at the level of individuals, communities, and organizations is the right to criticize and resist policies which violate the right to a better quality of life and only bring deterioration, disease and even death.

Finally, there is the right to resist brutality and oppression when these are inflicted to forcibly implement adjustment policies.

## V. SOME SUGGESTIONS

As pointed out earlier, there is no lack of documentation on the negative impact of adjustment programs on development and human rights. There is no lack of data either on the escalation of human rights violations during the eighties - a development which coincides with the exacerbation of the global debt crisis. Still, the external debt crisis continues and human rights are violated.

What can be done?

Much work is being done by international institutions, especially those in the United Nations to inform the world about the tragedy of external debt and adjustment. However, the direct relationship with human rights violations needs to be given greater emphasis.

1. At the level of the organizations in the United Nations, effectiveness of different but related campaigns might be enhanced if these are coordinated and integrated with human rights campaigns. For example, UNICEF, UNESCO and UNCTAD have come out with studies on the global debt crisis, its impact on the vulnerable, and steps which must be undertaken to arrive at a lasting solution. Their information campaigns can be integrated with the human rights campaigns of the UNCHR.

2. At the level of international organizations and NGOs, a number of campaigns are now being conducted on the global debt crisis. There is the European Bank campaign spearheaded by leading Catholic, Protestant and non-religious organizations in Europe. There is the Berne Declaration Group which is based in Switzerland. In the United States, there is the Debt Crisis Network, INTERFAITH, and other campaigns led by different religious organizations.

At the same time, there are also many human rights campaigns being carried out on an international scale. Again, these separate campaigns can be integrated and coordinated. This is necessary, because as pointed out repeatedly in this paper, external debt and adjustment have contributed directly to the escalation of human rights violations.

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3. Similar networking can also be conducted at the country level by cause-oriented organizations working separately on human rights issues and external debt problems.

4. For the past three years, many organizations, notably those in the United Nations have been pressing for "Adjustment with a Human Face". UNCTAD has proposed a ZOV. across-the-board-cut on commercial bank debts of developing countries. Meetings have been called - all calling for protection of the victims of adjustment. These calls have been largely ignored by creditor banks and even debtor governments.. Action is needed to press for a positive response.

Work on the problem of external debt is being undertaken at two separate levels. At one level, we have the UN organizations the international organizations, the NGOs, the cause-oriented organizations who are all calling attention to the social costs of adjustment. At another level we have the creditor banks, the creditor countries and the debtor governments who are also doing their own thing. In many instances, and in many countries, the latter ignore the former. It is necessary to work out mechanisms to facilitate dialogue between and among those who look at different aspects of the external debt in order to assure action and response.

The impact of external debt and adjustment policies on development and human rights can not be denied. In the process of adjustment, development has been adjusted away; human rights have been adjusted away; if corrective action is not undertaken, people might be adjusted away.