

FAO's inputs for OHCHR, Independent Expert's call for contributions

"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"

Context: Ms. Beatriz Balbin, Chief, Special Procedures Branch, Office of the High Commissioner for Human Rights (OHCHR) conveyed a letter and a call for contributions from Ms. Yuefen Li, 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. The background document requests inputs that contribute to the discussion on the *"limitations in fiscal space of many developing countries, which hamper their ability to protect and realize the human rights of their populations"*. In addition, it aims to analyze *"the menu of reform proposals currently on the table, with a view to understanding if and to what extent these changes would respond to structural issues of international debt architecture."*

Requested length: maximum of 5 pages (or 3,000 words)

Suggested inputs:

- A. The pandemic-induced macroeconomic shock:** The International Monetary Fund (IMF) described the COVID-19 pandemic as a crisis like no other¹ that likely made 170 countries see income per capita go down and a cumulative loss to the global economy over two years (2020-21) of over USD 12 trillion². Around 400 million jobs were lost only in the second quarter of 2020³. Now, the economic outlook is gradually improving overall, but recovery prospects are diverging dangerously. Latest IMF projections state that the global economy will grow at 6% in 2021 and 4.4% in 2022, following an estimated historic contraction of -3.3% in 2020⁴.
- B. Historic emergency fiscal stimulus and debt relief measures:** Globally, countries have spent close to USD 16 trillion in fiscal support to keep their economy alive⁵. Leading central banks have cut interest rates, injected liquidity and bought assets. All major central banks activated the "whatever it takes" mode. Financing options like "helicopter money" and "universal basic income" were considered. The fear of hyperinflation had to be postponed, although the quantitative easing programmes of the last decade have not resulted in rising inflation above 2% targets.
- C. International financial support and debt relief:** Most countries do not have a power central bank to print money and engage in quantitative easing bond buying programmes. Therefore, it is important to look at the external financing. The IMF acted in an unprecedented way by giving support to 86 countries with over USD 110 billion through a variety of instruments, and 29 of the poorest countries through debt service relief⁶. G20 countries agreed to freeze the bilateral debts of poorer developing countries and called on private sector creditors — largely banks, bond funds and other commercial lenders — to do the same⁷. Forty-five low-income countries signed up for the Debt Service Suspension Initiative (DSSI) in 2020, resulting in the deferral of USD 5.7 billion in debt payments. Extending the initiative until the end of 2021, which the G20 said would be the final extension of the scheme, could potentially save an additional USD 9.9 billion⁸.

¹ <https://blogs.imf.org/2020/04/20/a-global-crisis-like-no-other-needs-a-global-response-like-no-other/>

² <https://blogs.imf.org/2020/06/24/reopening-from-the-great-lockdown-uneven-and-uncertain-recovery/>

³ https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_749398/lang--en/index.htm

⁴ <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

⁵ <https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021#Full%20Report>

⁶ <https://www.imf.org/en/News/Articles/2020/09/25/tr092420-transcript-of-imf-press-briefing>

⁷ <https://www.reuters.com/article/us-health-coronavirus-g20-statement/g20-countries-agree-debt-freeze-for-worlds-poorest-countries-idUSKCN21X29A>

⁸ <https://www.euractiv.com/section/economy-jobs/news/g20-agrees-final-extension-to-10-billion-debt-service-suspension-scheme/>

- D. The massive role of China:** It is worth mentioning that China has become the world's largest creditor, more than twice as big as IMF and World Bank combined⁹. Chinese banks have reportedly lent USD 461 billion to Belt and Road Initiative (BRI) projects in 138 countries since 2013¹⁰, when the initiative to build infrastructure around the world was launched. Many of the projects are in low-income countries with the weakest credit ratings in the world. No surprise then that China received a large number of requests for debt relief from crisis-hit countries, several from Africa. Chinese loans made to Africa stand around USD 143 billion between 2000 and 2017¹¹, according to the Johns Hopkins School of Advanced International Studies.
- E. Using the moment to transform debt architecture:** Proposals to boost global liquidity through increased concessional financing by IFIs and through new allocation and reallocation of Special Drawing Rights (SDRs) by the IMF, should provide resources to those who need them the most¹². Careful oversight and accountability is required to ensure these resources are used for green and inclusive growth for sustainable development. Moreover, a strategic and long-term debt relief initiative that builds on the DSSI – using the Common Framework for Debt Treatments, if well designed and well implemented, could become a catalyst for a virtuous circle of fiscal space, stimulus, economic growth, fiscal revenues and macroeconomic stability.
- F. K-shaped recovery:** Due to the crisis, income and wealth inequalities are likely to widen in countries and between countries. The world's billionaires are getting richer¹³, while others are falling into poverty. Some estimates show the global middle class shrank in 2020 for the first time since the 1990s, with about 150 million people slipping down the economic ladder¹⁴. Millions who lost jobs to lockdowns joined the ranks of the long-term unemployed, and many have given up looking for work. Low-skilled workers, women, and youth experienced the largest increases in unemployment in many countries, exacerbating pre-pandemic inequalities¹⁵.
- G. Potential sovereign debt crises:** Several high-income countries were already highly indebted (public, corporate and consumer debt), with an ageing population, and have been struggling since the global financial crisis to overcome persistent low growth rates, what some call “secular stagnation”¹⁶. Due to the pandemic, average overall fiscal deficits as a share of GDP in 2020 reached 11.7% for advanced economies, 9.8% for emerging market economies, and 5.5% for low-income developing countries. As a result, average public debt worldwide approached 97% of GDP at the end of 2020 and is expected to stay just below 100% of GDP over the medium term¹⁷. Despite higher debt, average interest payments are generally lower in advanced economies and many emerging markets, given the trend decline in market interest rates. In pursuit of their mandates, central banks have lowered policy rates and purchased government bonds, thereby facilitating the fiscal responses to the pandemic¹⁸.
- H. The challenges of sovereign debt crises for low- and middle-income countries:** Several low and middle-income countries (LMIC) do not have the institutional capacity and or the contingency mechanisms and funds to stimulate their economies. The average annual loss in per capita GDP over 2020–24, relative to pre-pandemic forecasts, is projected to be 5.7% in low-income countries and 4.7% in emerging markets, while in advanced economies the losses are expected to be smaller at 2.3%. Such losses are reversing gains in poverty reduction, with an additional 95 million people expected to have entered the ranks of the extreme poor in 2020 compared with pre-pandemic

⁹ <https://hbr.org/2020/02/how-much-money-does-the-world-owe-china>

¹⁰ <https://www.ft.com/content/5a3192be-27c6-4fe7-87e7-78d4158bd39b>

¹¹ <http://www.sais-cari.org/research-chinese-loans-to-africa>

¹² <https://www.imf.org/external/pubs/ft/fandd/2021/03/averting-a-great-divergence-gopinath.htm>

¹³ <https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b>

¹⁴ <https://www.bloomberg.com/features/2021-emerging-markets-middle-class/>

¹⁵ <https://www.imf.org/external/pubs/ft/fandd/2021/03/pdf/averting-a-great-divergence-gopinath.pdf>

¹⁶ <https://www.ineteconomics.org/perspectives/blog/demand-side-secular-stagnation-of-productivity-growth>

¹⁷ <https://blogs.imf.org/2021/04/07/tailoring-government-support/>

¹⁸ <https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021#Full%20Report>

projections¹⁹. These LMIC economies suffer from: trade disruptions and significant capital outflows, as investors look for safer havens; decreasing remittances; collapsing tourism revenue; massive drop in the price of crude (for oil exporting countries); climate shocks, specially, small island developing states (SIDS); collapsing currencies against the dollar that are making dollarized debt servicing costs close to unsustainable, despite a low interest rate era - this may trigger domestic food price inflation in food importing countries; incapability of injecting required liquidity and spending into the economy²⁰. A debt crisis after this economic shock would be disastrous.

- I. **The magnitude of tax evasion and perception of fairness:** Politically and socially, it is hard to think of a bigger mandate than the one that will come with a crisis that affects all people and all nations, rich or poor (albeit hitting harder the poorer), in such a dramatic, immediate and evident manner. The political cost of taxing the wealthiest individuals and corporations is at its lowest. Decisions by some governments to deny public stimulus to companies headquartered in tax havens are hints that point in the same direction. The focus on tax evasion could be an issue of major significance, as it is costly. For example, according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the regional cost of tax evasion and avoidance amounted to 6.3% of GDP in 2017, which is equivalent to USD 335 billion²¹. This represents a large share of the stimulus packages envisaged for post COVID recovery. The perception of fairness in policy implementation processes is essential, particularly when large direct injections of public resources into the economic systems are at stake, which need to be scrutinized²².
- J. **The unlikely feasibility for austerity measures:** Another decade of austerity to control increasing fiscal deficits and prevent sovereign debt crises might not be politically or socially feasible, i.e., the social fabric and cohesion is likely to be seriously tested. Austerity is now arguably widely seen - after the failed response to the global financial crisis - as not economically sound and socially unacceptable^{23,24,25,26}. The IMF and the World Bank themselves are urging countries to spend their way out of the pandemic, to issue debt and to spend without the prospect of austerity later^{27,28}. The new US administration passed a massive stimulus bill and proposed a large investment package, putting pressure on European governments to commit to more spending as well.
- K. **Creating fiscal space out of this historic spending moment:** Beyond seeking external financial support or aid, governments have to rethink their fiscal plans to create fiscal space. They can do as such by reorienting spending, increasing fiscal revenues, and addressing corruption and informality that inappropriately removes financial resources from the budget. In terms of redirecting spending, aside from delaying non-essential investments, governments could temporarily suspend some ill-targeted public-sector benefits, and reduce/phase out non-targeted subsidies that disproportionately benefit the wealthy. In terms of raising fiscal revenue, governments may choose to increase taxation on the wealthiest individuals and corporations. Too much tax burden on the middle class would be counterproductive and would delay a recovery.
- L. **International corporate taxation to increase fiscal revenues:** The latest World Economic Outlook of the IMF states that countries should cooperate on the modernization of international corporate taxation to limit cross-border profit shifting, tax avoidance, and evasion. The fund also proposes a “solidarity” tax on pandemic winners and

¹⁹ <https://blogs.imf.org/2021/04/06/managing-divergent-recoveries/>

²⁰ <https://maximotorero.com/2021/01/21/covid19-toll-inequality-recovery/>

²¹ <https://www.cepal.org/en/pressreleases/eclac-reiterates-importance-reducing-high-level-tax-evasion-and-illicit-financial>

²² https://read.oecd-ilibrary.org/view/?ref=128_128572-w5qyf5699d&title=Government-support-and-the-COVID-19-pandemic

²³ <https://www.washingtonpost.com/news/wonk/wp/2013/01/03/an-amazing-mea-culpa-from-the-imfs-chief-economist-on-austerity/>

²⁴ https://www.jstor.org/stable/23526835?seq=1#metadata_info_tab_contents

²⁵ <https://hbr.org/2018/09/what-has-the-eurozone-learned-from-the-financial-crisis>

²⁶ <https://www.ft.com/content/be3ca48a-2344-11ea-b8a1-584213ee7b2b>

²⁷ <https://www.ft.com/content/722ef9c0-36f6-4119-a00b-06d33fced78f>

²⁸ <https://www.ft.com/content/0940e381-647a-4531-8787-e8c7dafbd885>

wealthy²⁹. In the same vein, the new US administration has proposed a new model for taxing multinational corporations, calling for the world's biggest businesses to pay taxes to national governments based on their sales in each country as part of a deal on a global minimum tax³⁰, to end a global "race to the bottom" on company taxes. Such competition has eroded the revenues of governments that have run up record debt levels. In 2020, the OECD estimated the global minimum tax would bolster fiscal revenues by as much as USD 100 billion a year³¹. The new US proposal faces opposition from countries that have used low business tax as a key economic development strategy.

- M. The role of strategic foresight in preparing for future scenarios, including possible debt problem:** the COVID-19 pandemic highlights the urgent need for systems and institutions to consider alternative or unlikely scenarios into their strategic design. This is what strategic foresight³² advisors are engaging in, building scenarios, helping countries and their governments improve their decision making and overall resilience to shocks. The forthcoming FAO's strategic foresight report "The Future of Food and Agriculture" will analyze drivers and triggers for transformation. In it, one of the drivers assessed is macroeconomic stability. This is of vital importance, in particular, when estimates state that meeting the Sustainable Development Goals (SDGs) by 2030 would require USD 3 trillion for 121 emerging market economies and low-income developing countries³³.
- N. Food insecurity panorama and fiscal stimulus measures in food systems:** FAO estimates show that, before the pandemic hit, there were 2 billion people in the world who did not have access to regular food, and 3 billion people who cannot afford the cheapest healthy diet³⁴. Almost 690 million people went hungry in 2019 – up by 10 million from 2018, and by nearly 60 million in five years. With the pandemic crisis, fiscal stimulus measures made their way through to food and agriculture systems in the form of: cash transfers, in-kind food distribution, unemployment compensation schemes, deferrals of income tax declarations and payments, postponement of loans' payments, provision of subsidized interest rate loans, creation of investment funds and state guarantees for new credits, exemptions of utility payments, social security contribution waivers, and price control and price monitoring to avoid price gouging³⁵. Nonetheless, a preliminary assessment suggests that the COVID-19 pandemic may add between 83 and 132 million people to the total number of undernourished in the world in 2020 depending on the economic growth scenario³⁶. Avoiding this grave scenario and building resilience for future shocks to the systems means addressing structural income, wealth, and job opportunity inequalities, while putting food and agriculture at the center of economic stimulus.
- O. "Smart" macroeconomic stimulus strategies are required with food systems as a priority:** The economic performance-hunger nexus has become even more relevant. As FAO's flagship reports showed - the State of Food Security and Nutrition in the World (SOFI)³⁷ and the Future of Food and Agriculture (FOFA)³⁸ -, there is a fundamental link between a country's socio-economic performance and its food security and nutrition achievements. Moreover, resilience building in agri-food systems boosts economic growth. By reducing poverty and hunger, which tend to be significantly larger in rural areas, governments can foster a strong middle-class, with

²⁹ <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

³⁰ <https://www.ft.com/content/577253ce-dd30-4de2-8e4b-d3c1277a9463>

³¹ <https://www.reuters.com/article/oecd-tax-idUSKBN26X11E>

³² <https://www.oecd.org/strategic-foresight/>

³³ <https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021#Full%20Report>

³⁴ <http://www.fao.org/publications/sofi/2020/en/>

³⁵ <http://www.fao.org/in-action/fapda/tool/index.html#main.html>

³⁶ <http://www.fao.org/publications/sofi/2020/en/>

³⁷ <http://www.fao.org/3/ca5162en/ca5162en.pdf>

³⁸ <http://www.fao.org/3/I8429EN/I8429en.pdf>

active and productive citizens, increasing productivity, reducing inequality, increasing tax revenues, which will contribute to further GDP growth, coming full circle³⁹⁴⁰.

- P. Tackling economic inequality and poverty where they are endemic:** Fiscal stimulus should be focused on building resilience to safeguard economies against future slowdowns and downturns, tackling existing inequalities through policies that make it possible to more permanently escape from poverty, food insecurity and malnutrition⁴¹. With the pandemic-crisis-required cash injection, governments have an opportunity to tackle inequality head on by targeting the stimulus packages to the poorest⁴² and undernourished⁴³, which happened to be mostly located in rural areas where livelihoods rely heavily on agricultural activities. Everything from new credit lines, safety nets, income support through cash transfers, to food distribution programmes like food banks/stamps and continuing school-feeding delivery, should be directed to the “have-nots”. Not just because they are the most in need, but because it would have a positive effect on demand, keeping it dynamic, softening the blow on the economy – and finally connecting the poorest to it.
- Q. Return on investments in agri-food systems:** A study by FAO and the Center for Development Research at the University of Bonn⁴⁴ shows that robust and targeted investment in low-cost and high-impact interventions can reset countries’ food systems and make them more resilient. For example, funding digital agricultural information systems, agricultural R&D, small-scale irrigation expansion, and scaling up existing social protection programs and trade could double the incomes of more than 545 million smallholder farmers, Such a pivot requires donors to double their spending on food and nutrition assistance by giving an additional USD 14 billion annually between now and 2030.
- R. Recovery plans should follow five catalytic actions⁴⁵:** First, stave off hunger and malnutrition by scaling up cash transfers and other social safety nets. Second, redirect farm subsidies from staples to high-value commodities, such as fruits and vegetables. Difficult realignment but necessary to lower the cost of healthy foods and make it affordable for everyone. Third, promote trade to ramp up food availability and farmers’ income, as trade can be used to stabilize food prices, which is of special urgency at the regional level. Fourth, improve food supply chain infrastructure and link them to financial systems. Connecting rural areas to intermediate cities can generate huge returns, as it reduces inequality, halts migration to cities and cuts food loss (14% of food, worth USD 400 billion annually, is lost due to poor road conditions, inadequate refrigerated transport and storage facilities, among others). Agriculture uses 40% of world’s land, 70% of water, and creates one third of GHG emissions. Improving value chain infrastructure means getting nutritious food to the market at lower cost, improving productivity and cutting agricultural greenhouse gas emissions. Fifth, invest in digital innovations in food and agriculture to help build value chains in rural areas that generate high-skilled jobs for women and young people.
- S. Investments in agri-food sectors for green, digitalized, and resilient engines of economic growth with well-being gains:** FAO’s analyses in support of countries show that, in some instances, investing 0.5% of GDP in productive infrastructure in agriculture sectors of low-income countries provides good economic stimulus, even considering current fiscal constraints, while reducing poverty. It could boost economic growth by around 0.09 to 0.1 percentage points per year until 2030 and total poverty in rural areas would decrease by 0.5 to 2.25 percentage points⁴⁶. Even in middle-income countries is the discounted gain of investing 0.25 of GDP in agriculture sectors, in

³⁹ <https://blogs.imf.org/2020/01/07/reduce-inequality-to-create-opportunity/>

⁴⁰ <https://www.oecd.org/newsroom/inequality-hurts-economic-growth.htm>

⁴¹ <http://www.fao.org/3/ca5162en/ca5162en.pdf>

⁴² <https://www.imf.org/external/pubs/ft/fandd/2021/03/averting-a-great-divergence-gopinath.htm>

⁴³ <http://www.fao.org/3/ca8800en/CA8800EN.pdf>

⁴⁴ https://www.zef.de/fileadmin/downloads/SDG2_policybrief.pdf

⁴⁵ <https://maximotorero.com/2021/01/21/covid19-toll-inequality-recovery/>

⁴⁶ <http://www.fao.org/3/cb1149en/CB1149EN.pdf>

terms of households' welfare, much greater than the investment⁴⁷. FAO has also been working to bring new evidence on climate adaptation practices for agriculture, making it sustainable and profitable for farmers, if the right policies are implemented. There is evidence in Uganda⁴⁸ and in Sri Lankan rice sector⁴⁹. Also for Uganda⁵⁰, a public expenditure review methodology was established that allows for assessing whether a sector is stimulated in a way that allows achieving a country's climate change adaptation and mitigation objectives and form a basis for further evaluation of the effectiveness of individual measures in reaching these objectives. The case of Malawi⁵¹ shows how social protection can help advance climate-smart agriculture. FAO also analysed the role of social protection measures in Latin America and the Caribbean⁵². Any possible debt-relief and debt-restructuring should free enough fiscal space to invest in agri-food systems' engines of inclusive growth and rural development priorities, including capacity development in digitalization and green transitions.

⁴⁷ <http://www.fao.org/3/cb4562es/cb4562es.pdf>

⁴⁸ <https://shar.es/aoAYfz>

⁴⁹ <https://shar.es/aoAYXE>

⁵⁰ <http://www.fao.org/3/cb4821en/cb4821en.pdf>

⁵¹ <http://www.fao.org/documents/card/en/c/cb3649en>

⁵² <http://www.fao.org/3/ca9435en/CA9435EN.pdf>