

October 29, 2021

Submission to the UN Independent Expert on Foreign Debt, Other International Financial Obligations and Human Rights to Inform the Report on a Vision and Strategy for the Work of the Mandate in the Coming Years

The Initiative for Social and Economic Rights (ISER) is a Ugandan non-profit organization that was founded in February 2012 to address the gaps that exist in respecting, protecting and fulfilling economic and social rights in Uganda and to improve government accountability for this category of rights. The strategic approach for the organization is based on the core principles of equality and non-discrimination in access to social and economic services, accountability, citizen/community participation, and adequacy and quality of services. ISER has five programs currently: (1) The Right to Education; (2) The Right to Health; (3) Business and Human Rights; and (4) Social Accountability and Citizen Participation (5) Economic Inclusion and Fiscal Policy. ISER also hosts the Uganda Consortium on Corporate Accountability.

ISER welcomes the opportunity to provide input into the report that stipulates your vision and strategy for the work of the mandate in the coming years. Please receive our submission. Our focus has been solely on the areas that deserve priority over the coming years including the topics deserving of substantive and renewed attention. Within this submission, emphasis is placed primarily on 3 issues. These include stronger calls for transparency; better participation for all stakeholders in all critical decision-making processes; and key reforms to the international financial architecture.

Below, we provide a detailed discussion for the key issues that might deserve consideration.

1. Push for further debt relief and restructuring to support post-Covid recovery

The COVID -19 recession has wiped pre-pandemic gains from several African countries and pushed huge masses of the Continent's population into extreme poverty. The IMF has projected¹ that it will take until 2025 for per capita incomes in many African countries to return to pre-pandemic levels. That said, it is still saddening to note that current debt relief initiatives have been short lived and fallen far short in providing the fiscal space needed for these governments to invest in public services and as well provide social protection for their citizens.

¹ <https://www.imf.org/en/Publications/REO/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021>

The G20 Debt Service Suspension Initiative (DSSSI) has only provided USD \$6.1 billion² in temporary debt relief for Sub – Saharan Africa which is way below the USD \$425 billion³ funding gap that the region faces at the moment. Worse more, the initiative is set to expire in December 2021. This means that debtor countries will now have to resume their debt repayments to creditors under the G20 by early 2022 even while they still struggle to secure adequate vaccines for their populations and fund other critical public services like education. The same can be said for the G20 common framework that is yet to restructure any African debt 12 months since its announcement.

The failure to provide adequate debt relief to all struggling debtor economies will slow down and further lengthen the recovery process for the Global economy. It is therefore imperative that the Global North is rallied towards committed efforts to institute new debt relief initiatives beyond the DSSI. Stronger calls should also be raised for the involvement of all creditors in debt relief initiatives as such failures have pushed countries like Kenya to now take on new⁴ expensive debt to pay off their earlier maturing Eurobonds. This has consequently pushed the country's debt to GDP ratio to unsustainable levels of 69 %⁵. We would therefore urge you to give much consideration to debt relief for Sub Saharan Africa countries over the coming years.

2. Push strongly on the need for a new sovereign debt narrative – one that strikes a balance between creditors' interests and the realization of economic, social and cultural rights.

The current sovereign debt narrative has remained largely in disfavour of indebted African countries. The narrative places greater focus on preserving creditors' interests over the need to defend the economic, social and cultural rights of populations within these countries. As a result, several African nations have been rated as having sustainable debts by the IMF for as long as they tirelessly meet their creditor obligations. This has remained the case even where such priorities have created huge consequences for the livelihoods of local populations. As a case in point, the IMF ranked Uganda as having a moderately sustainable debt even while the country spends over USD \$1.3 billion dollars in interest repayments in FY 2021/22 which is 20.6 percent⁶ of her domestic revenues for that year. Such an expense comes at the cost of critical investment in public services including education and health.

We are of the recognition however, that in order to achieve a just, green and inclusive post COVID-19 recovery, it remains urgent to propagate a new sovereign debt narrative. One that strikes a balance between the interests of creditors and the realization of the economic, social and cultural rights.

² <https://www.imf.org/-/media/Files/Publications/covid19-special-notes/en-special-series-on-covid-19-has-the-dssi-helped-lower-sovereign-spreads-of-participating-countries.ashx>

³ <https://www.imf.org/en/Publications/REO/SSA/Issues/2021/04/15/regional-economic-outlook-for-sub-saharan-africa-april-2021>

⁴ <https://www.theeastafrican.co.ke/tea/business/kenya-goes-for-costly-eurobond-3323384>

⁵ <https://www.uonbi.ac.ke/news/snapshot-kenya%E2%80%99s-debt-profile-and-dealing-debt>

⁶ <https://www.finance.go.ug/sites/default/files/The%20Budget%20Speech%20for%20FY%202021-2022.pdf>

We therefore urge you to push strongly on the need for recognition of this new narrative by the creditor community and rating agencies including the IMF and World Bank. Such recognition would stress the need for creditors to provide timely and adequate debt relief and further fiscal space to all struggling economies regardless of their income status.

3. Push for reform of the IMF Governance and fairer allocation for future SDR issuances

In August 2021, the IMF approved a new issuance of Special Drawing Rights to a tune of USD \$650 billion dollars. Owing to the unfairness within the current global monetary system and governance of the IMF, a large chunk of these new resources was allocated to bigger economies like the USA and China leaving smaller economies with only a very small proportion of these funds. It is worth noting that within this new allocation, the USA received over USD \$113.4 billion dollars' worth of SDRs which was close to 5 times what was allocated to the entire Sub – Saharan Africa region. Such an unfair allocation left advanced economies with a huge portfolio of redundant reserves, resources that would otherwise have played a critical role in supporting African countries to beef up public service provision and provide social protection.

The allocation of newly issued SDRs based on countries' relative economic size, openness and economic variability i.e., the quota formula provides very little consideration for the actual need of these resources and thus places them on the balance sheets of countries that need them the least and are least likely to make any use of them. Moreover, developing countries have, repeatedly, urged⁷ that a new quota formula, including such elements as population and a poverty index, be devised that would give them a larger voice in the IMF.

We therefore call for reform of the IMF quotas and voting rights to provide equity amongst member states as this remains a timely discussion. It should be noted that there is ongoing process at the moment to review IMF quotas termed as the “16th general review of IMF Quotas”. As this process proceeds, we thus urge you to push for stronger reform of the IMF's governance and for a fairer allocation of any future SDR issuances.

4. Advocate for stronger transparency measures from both debtor and creditor communities

It should be noted that the lending practices by the global creditor community have gone on with limited involvement of the general public on whose behalf these loans are contracted.

For the case of multilateral lenders including the IMF and World Bank, efforts have been strengthened to publicize information within their loan agreements. Nevertheless, the negotiation process of such loans has remained behind closed doors without the voice of human rights representatives. Likewise, the contraction process for several loans by Sub-Saharan African countries has remained non-transparent with governments failing to consult their legislative arms.

⁷ <https://www.elibrary.imf.org/downloadpdf/books/054/02859-9781589061309-en/ch002.xml>

Transparency in government spending and accountability is key in ensuring that the money that countries receive in the form of loans and grants reach the most vulnerable populations. In Uganda, civil society organisations have published reports pointing to diversion of funds meant for Covid 19 stimulus and economic recovery. A case in point is a report⁸ by the Initiative for Social and Economic Rights on covid financing that un earthed accountability gaps in key projects financed by IFFs.

As part of the vision for your mandate, we thus urge you to push for stronger transparency and accountability measures from both the debtor and creditor communities.

5. Strengthen participation by different stakeholders at all stages of lending, borrowing and spending

Although IFFs have published guides in relation to participation of different stakeholders including civil society in different processes, a lot needs to be done to ensure that there is meaningful participation such that funds acquired are responsive to the needs of the people, especially the poor. More often civil society learns about new loans and grants when they are at advanced stages, sometimes at the time of conclusion of agreements. At the national level, it is not any different. It is widely acknowledged that participation is key in building strong relationships for responsive public service delivery service delivery and social and economic inclusion of disadvantaged groups. Civil society actors for instance work with communities thus have the experience and expertise to consult widely including with groups that would ordinarily be left behind by local and national governments and finance institutions.

We therefore call for the development and publication of elaborate guidelines on participation of different stakeholders in the different processes of acquisition and utilisation of loans and grants.

6. Further efforts to strengthen revenue mobilization through a human rights-based approach

In many African states, despite significant efforts to increase revenue through taxation, the amount actually collected is demonstrably inadequate to fund public services that are accessible to all and of good and acceptable quality. Across the continent for example, the average tax to GDP ratio stands at 18%. For the case of Uganda, this stands at only 12% of GDP which is significantly lower than it should be when the country's level of development is considered. Owing to such deficits in revenue collection, the country has been pushed to forego critical funding to public services including health and education.

⁸ https://www.iser-uganda.org/images/downloads/Where_Did_Covid19_Money_Go.pdf

Budget allocations for the country's health sector have stagnated at 6.5 percent⁹ of GDP which is way below the commitments of 15% made in the Abuja declaration.

The region's tax system has at the moment remained heavily reliant on consumption-based taxes. These tend to leave the poorest as the most affected. Adoption of progressive taxes will therefore remain key in generating adequate revenues that are crucial to fund public services. This requires states to set up more progressive tax systems in the form of wealth and property taxes.

Therefore, as part of your vision for the mandate we urge to further ongoing global efforts to reform the global tax system and also push back on reform conditionalities by the IMF that impose regressive tax measures and austerity onto borrower nations.

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⁹ <https://data.worldbank.org/indicator/SH.XPD.CHEX.GD.ZS?locations=UG>