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2021 COVID-19 ECONOMICS AND HUMAN RIGHTS FACTSHEET #4

THE IMPACT OF PUBLIC DEBT ON HUMAN RIGHTS DURING COVID-19



INTRODUCTION

“We do not have the money... that’s the simple truth that has to be put out there.” – President Cyril Ramaphosa in a radio interview in January 2021 stating the reason for no additional COVID-19 fiscal relief.¹

Borrowing by the South African government, and how government believes it should manage this, are not abstract economic questions. They have a direct bearing on all South Africans, in particular because of how they impact the government’s ability to fulfil its socio-economic rights obligations. Finance Minister Tito Mboweni frequently says South Africa’s debt is “unsustainable”, and uses this to justify major cuts in social expenditure and limit COVID-19 relief measures. “The Cabinet”, Mboweni said in October 2020, “remains resolute and will walk through the narrow gate towards fiscal sustainability”. This attitude would be worrying at any time – given South Africa’s high levels of inequality, unemployment, and poverty – but the COVID-19 context, and the impact of various lockdowns, make it particularly concerning.²

In 2018, South Africa was reviewed by the United Nations Committee on Economic, Social and Cultural Rights (“the Committee”) on its implementation of human rights obligations under the International Covenant on Economic, Social and Cultural Rights (ICESCR), which the country ratified in 2015. The Committee’s Concluding Observations to South Africa have taken on greater urgency in light of the major social and economic disruptions caused by the COVID-19 pandemic. In previous

factsheets,³ we have shown how the government’s response to COVID-19 has largely failed to meet its human rights obligations to ensure social security, a decent standard of living (particularly access to adequate housing and nutrition), and the right to work and to just and favourable conditions of work. We have also considered whether the government’s budgetary decisions meet its obligations under Article 2 (1) of the ICESCR, which calls on states to dedicate the “maximum of available resources” to realizing rights.

In this factsheet we focus on the broad question of debt sustainability, which the Committee noted in 2018 was underpinning South Africa’s austerity measures. The Committee’s concerns about austerity were raised before government announced plans in 2021 to have a primary budget surplus in 2023/24 (more income than expenditure when excluding interest payments), based on R265 billion of cuts to spending. As the Center for Economic and Social Rights (CESR) notes, “high debt burdens threaten rights enjoyment”.⁴ To clarify South Africa’s human rights obligations with regards to debt, this factsheet looks at Article 2(1), including how it has been interpreted in other instruments such as the United Nations Guiding Principles on foreign debt and human rights.⁵

HOW DOES THE GLOBAL FINANCIAL SYSTEM INDEBT POORER COUNTRIES?

Countries, particularly in the Global South, are facing concerns about the sustainability of their public debt. In many cases, including in South Africa, interest and capital repayments are limiting the state’s ability to fund critical social and developmental expenditure. Austerity, which typically includes budget cuts, has often been the prescribed policy to deal with so-called “unsustainable” debt.

Many advocates for austerity have reversed their views in recent years, especially for countries who are easily able to borrow, and at cheap interest rates.⁶ The massive expenditure measures to tackle fallout from COVID-19

illustrates this. However, most developing countries, particularly poorer ones, occupy a disadvantaged position in the global financial system. This means less access to private credit or more expensive borrowing.

1. See coverage here: <https://ewn.co.za/2021/01/15/ramaphosa-admits-there-s-no-money-to-help-families-hit-by-covid-19>
2. See: IEJ. 25 February 2021. The Budget 2021: Slashing public expenditure places the economy at risk. Available: <https://www.iej.org.za/wp-content/uploads/2021/02/IEJ-Post-Budget-2021-statement.pdf>. See also: IEJ. October 2020. MTBPS- Mboweni moves us backwards. Available: <https://iej.org.za/press-statement-mtbps-mboweni-moves-us-backwards/>
3. You can see our factsheet on social protection here: <https://www.iej.org.za/social-protection-during-covid-19/>; on employment and precarity here: <https://www.iej.org.za/unemployment-and-precarity-during-covid-19/> and on budgeting for human rights here <https://www.iej.org.za/budgeting-for-human-rights-during-covid-19/>
4. CESR. June 2020. Debt Financing to Realise Rights. Available: https://www.cesr.org/sites/default/files/Brief%204%20Debt%20Finance_%20_0.pdf
5. <https://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/GuidingPrinciples.aspx>
6. See for example: Giles, C. 14 October 2020. IMF says austerity is not inevitable to ease pandemic impact on public finances. Financial Times Available: <https://www.ft.com/content/722ef9c0-36f6-4119-a00b-06d33fed78f>



This negatively affects their ability to take on debt sustainably.⁷ A number of factors contribute to this inequality:

- **Credit ratings agencies** hold significant power over the lending decisions of public and private institutions influencing the cost of, and access to, borrowing. However, these agencies are unaccountable private entities making value judgements based on their own biased views of the world.⁸ These often reinforce, rather than solve, existing problems, triggering a withdrawal of funds, and an increase in borrowing costs. As the Independent Expert on Foreign Debt and Human Rights has noted, “some sovereign downgrades have also increased financial market volatility and the difficulty of developing countries to gain access to new sources of financing. In addition, downgrades or credit alerts may sometimes make Government’s efforts to contain debt crisis ineffective.”⁹ During COVID-19, the perceived negative impact of ratings downgrades has meant that some countries have not signed up to debt suspension initiatives because of fears of a downgrade.¹⁰
- **Unequal access to credit and high borrowing costs** mean that while high-income countries are borrowing at record-low (close to zero) interest rates, African countries are paying interest rates between 5-16% on 10-year government bonds.¹¹ These countries are therefore at constant risk of being unable to fund government services including those needed for rights realisation.¹²
- **Capital outflows, when foreign money leaves a country, and subsequent currency devaluations, when exchange rates worsen dramatically**, can be extreme during crises. This can make servicing debt (paying interest and repaying loans) more difficult, especially for countries where the majority of their debt is denominated (held) in foreign currency. Zambia, for example, has missed two Eurobond coupon payments (a type of debt instrument that is denominated in a currency other than that of the debtor country) during the COVID-19 crisis.¹³
- **Restrictive terms by International Financial Institutions (IFIs)**, like the World Bank and International Monetary Fund (IMF), are typically imposed when they are called upon to help developing countries. This often follows a sovereign debt crisis, when the government is unable or unwilling to repay its debts, often due to high foreign currency debt. The strict conditionalities attached to IFI bailouts demand cuts to social spending, often in areas such as health and education. Such cuts were core to IMF structural adjustment programmes implemented during the 1980s and 1990s across the global South, and especially in Sub-Saharan Africa and Latin America. Similarly, the austerity programmes following escalating debt levels after the 2007/08 Global Financial Crisis (GFC) had dire impacts on lives and livelihoods.¹⁴
- **The climate crisis** is exacerbating the debt burden of developing countries as they experience worsening climate shocks. While they have historically contributed the least to global emissions, they are bearing the brunt of the impact of the climate crisis. Their ability to both recover from climate shocks and to mitigate these is hamstrung by this unequal access to finance. Many of the solutions proposed by developed countries – such as emission trading and taxation, risk insurances, or green bonds – rely on market mechanisms that do not solve underlying debt imbalances.
- **COVID-19** has compounded this situation by requiring countries to massively boost expenditures to ensure health and social protection needs.¹⁵ As a 2020 UNCTAD report stated, “In the wake of the COVID-19 crisis, developing countries will require massive liquidity and financing support to deal with the immediate fall-out from the pandemic and its economic repercussions”.¹⁶ Multilateral bodies and IFIs have failed to come close to closing this financing gap.¹⁷
- The above reflects the unequal incorporation of developing countries into the global financial system, which is largely a result of the **legacy of colonialism** and resultant unequal global development patterns.

7. UNCTAD. 23 April 2020. From the Great Lockdown to the Great Meltdown: Developing Country Debt in the Time of Covid-19. Trade and Development Report Update. Available: <https://unctad.org/webflyer/great-lockdown-great-meltdown> See also: <https://www.ft.com/content/b9164299-5a57-4548-9204-370316f47814>

8. See: Li, Y. 2021. Debt relief, debt crisis prevention and human rights: the role of credit rating agencies. Report of 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. Available: <https://www.ohchr.org/EN/Issues/Development/IEDebt/Pages/CreditRatingAgencies.aspx>

9. Ibid.

10. Ibid.

11. Phalatshe, S and Isaacs, G. 2021. Delete the Debt: Africa’s Liberation from Debt Supremacy. Available: <https://progressive.international/blueprint/b57afe92-e5ff-421e-a584-46c081b7def6-delete-the-debt-africas-liberation-from-debt-supremacy/en>

12. Ibid.

13. <https://www.bloomberg.com/news/articles/2021-01-31/zambia-skips-2021-eurobond-coupon-payment-finance-ministry-says?sref=uMuyyNij>

14. Ostry, Loungani and Furceri ‘Neoliberalism: Oversold?’ IMF Finance and Development Series, June 2016. Available at: www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm

15. For more on this see: CESR and LATINDADD. 2020. Debt Financing to Realise Rights. Recovering Rights. Available: https://www.cesr.org/sites/default/files/Brief%204%20Debt%20Finance_%20_0.pdf

16. UNCTAD. 23 April 2020.

17. CESR and Brettonwoods Project. 2020. Human Rights and the IMF’s COVID Response. Recovering Rights Topic 12. Available: <https://www.cesr.org/sites/default/files/Brief%2012%20-%20IMF%20FINAL%20PDF.pdf>



SHOULD WE WORRY ABOUT SOUTH AFRICA'S DEBT?

In their Concluding Observations, the Committee stated that South Africa has, “introduced austerity measures to relieve the debt burden level without defining the time frame within which such austerity measures should be re-examined or lifted”. It was also concerned that these austerity measures “have resulted in significant budget cuts in the health, education and other public service sectors, and that they may further worsen inequalities in the enjoyment of the rights under the Covenant, or even reverse the gains made, particularly in the health and education sectors”. In order to assess whether fiscal consolidation is justified, it is important to understand what factors drive concerns about a country's debt burden and how these play out in South Africa.

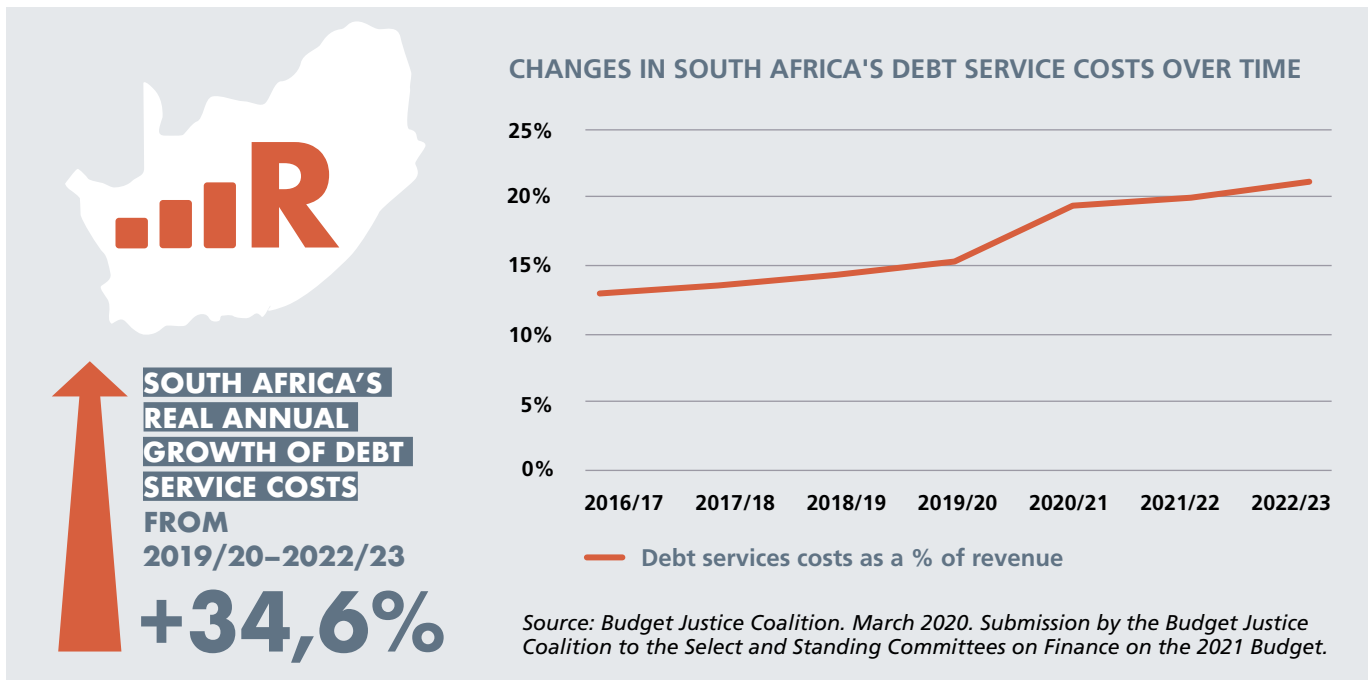
The most common indicator of debt ‘health’ is the debt-to-GDP ratio, that is, the level of debt measured against gross domestic product (GDP). South Africa has seen a significant rise in its debt-to-GDP ratio since 2008 from 26.02% to 80.3% in 2020/21. This has been largely driven by reduced tax revenues and increased spending in the aftermath of the 2007/08 GFC, domestic economic stagnation (a slow-growing or not growing economy), and high borrowing costs.¹⁸ The National Treasury

projects that this ratio will rise to 88.9% in 2023.¹⁹ This trend and trajectory are a cause for concern but should be understood holistically. Firstly, both the most recent and projected medium term increase are largely a result of the COVID-19 crisis and have been evident in nearly all countries globally. Secondly, austerity measures should be recognised as having contributed to this problem by shrinking the denominator (GDP). Finally, the ratio is not necessarily the best measure of debt health.

DEBT SERVICE COSTS

A better way to understand the impact of debt on an economy is through analysing the costs associated with servicing debt – or the share of revenue being spent on repaying debt. The following graph shows how South Africa's debt service costs have increased in recent years.

While these high costs are a drag on the South African government's ability to spend on other programmes, they are not an immediate crisis. This is shown in the table below, which considers a number of factors influencing how we assess the impact of debt service costs.



18. Sibeko, B. 2020. A Fiscal Stimulus for South Africa. Available: <https://www.iej.org.za/wp-content/uploads/2020/08/A-fiscal-stimulus-for-South-Africa-Final-IEJ.pdf>

19. See: <https://www.businesslive.co.za/bd/economy/2021-03-09-sp-lukewarm-on-sas-debt-targets/>. This projection is a decrease from a previous projection of 95.3% six months earlier. This was a result of higher GDP growth forecasts and higher than expected revenue collection in the last quarter of 2020



FACTOR INFLUENCING DEBT SERVICING COSTS	IN THE SOUTH AFRICAN CONTEXT
External financing conditions. For advanced economies and some developing countries, the external financing conditions have been favourable, with the ability to borrow at record low interest rates ²⁰ and huge injections of funds into capital markets, where savings and investments are channelled.	While South Africa has not benefited to the same degree, it still benefits from any increased availability of funds. Lower interest rates in richer countries also make its bonds more attractive.
Credit rating agencies and market sentiment. Treasury has expressed concern around borrowing costs and credit rating agencies. While such ratings have some impact, record-low interest rates have made emerging market borrowing costs less susceptible to rating agency decisions, and funds more readily available.	While the higher interest demanded on South African government debt indicate a higher perceived risk, including due to ailing state-owned companies, South Africa has continued to have good access to international capital markets, even during the worst of the COVID-19 downturn.
Monetary policy and the willingness of the South African Reserve Bank (SARB) to purchase government debt. Globally, central banks have purchased large quantities of their own government's bonds in order to keep interest rates down and ensured access to new capital.	The SARB stepped up its purchase of government debt and this was important in reducing interest rates during 2020. However, the SARB could have purchased much more debt in order to support further borrowing which would have allowed for greater fiscal support to the economy. ²¹ This would have also reduced South Africa's relatively high interest rates. ²²
Capital market regulation. Regulation that determines the terms upon which developing countries are incorporated into the global financial system influences capital flows, borrowing ability, and debt servicing costs.	Similar to the above, little effort has been put into limiting speculation – where investors make risky bets in the hope of high, short term gains – in South African bond markets which may impact the price of borrowing. Appropriate capital controls ²³ continue to be opposed by National Treasury and the SARB.

SOVEREIGN DEFAULT

The most feared debt scenario would be South Africa defaulting on its borrowing, that is, being unwilling or

unable to repay. However, as illustrated in the table below, South Africa is very far from such a scenario.

FACTORS IMPACTING ON THE RISK OF SOVEREIGN DEFAULT	IN THE SOUTH AFRICAN CONTEXT
Debt denomination (that is, the currency in which debt is held) is important because when debt is held primarily in foreign currencies, the cost to service it can fluctuate significantly owing to exchange rate volatility.	Nearly 90% of national government debt is denominated in Rands (a ratio National Treasury expects to hold over the medium-term). When considered alongside foreign exchange reserves being at historically high levels, ²⁴ South Africa is currently at a low risk of a sovereign debt crisis.

20. See for example: <https://www.ft.com/content/132f875c-c821-4045-bf2b-6615b55f2b83>

21. Kantor, B. 3 November 2020. Reserve Bank can boost growth prospects with money creation. Business Day. Available: <https://www.businesslive.co.za/bd/opinion/columnists/2020-11-03-brian-kantor-reserve-bank-can-boost-growth-prospects-with-money-creation/> and Gqubule, D.

22 June 2020. Reserve Bank Governor has made up his rule on QE. Business Day. Available: <https://www.businesslive.co.za/bd/opinion/columnists/2020-06-22-duma-gqubule-reserve-bank-governor-has-made-up-his-rule-on-qe/>

22. See: <https://www.ft.com/content/b9164299-5a57-4548-9204-370316f47814>

23. The reintroduction of capital controls was also argued for by a group of leading economists in a letter to the financial times. They wrote: "We call for decisive action to constrain the financial flows currently transmitting the crisis to DECs [developing and emerging economies]. Capital controls should be introduced to curtail the surge in outflows, to reduce illiquidity driven by sell-offs in DECs' markets, and to arrest declines in currency and asset prices. Implementation should be co-ordinated by the IMF to avoid stigma and prevent contagion." See: <https://www.ft.com/content/35053854-6d17-11ea-89df-41bea055720b>

24. The December 2020 Quarterly Bulletin from the South African Reserve Bank (SARB) reported that the foreign currency reserves of over R800-billion cover eight months of imports



FACTORS IMPACTING ON THE RISK OF SOVEREIGN DEFAULT

Inability to repay debts due to an extreme erosion of the domestic tax base.

IN THE SOUTH AFRICAN CONTEXT

While South Africa does have a relatively small tax base, it has not reached the kind of levels where this is unsustainable. This is evidenced in higher-than-expected revenue collection in 2020 and should improve as reforms are instituted at the South African Revenue Services.²⁵

Given the above, South Africa's debt burden is not as dire as politicians are making it out to be. In particular, South Africa's high levels of domestically-denominated debt and continued ability to raise tax revenues, alongside favourable external financing conditions, speak to the

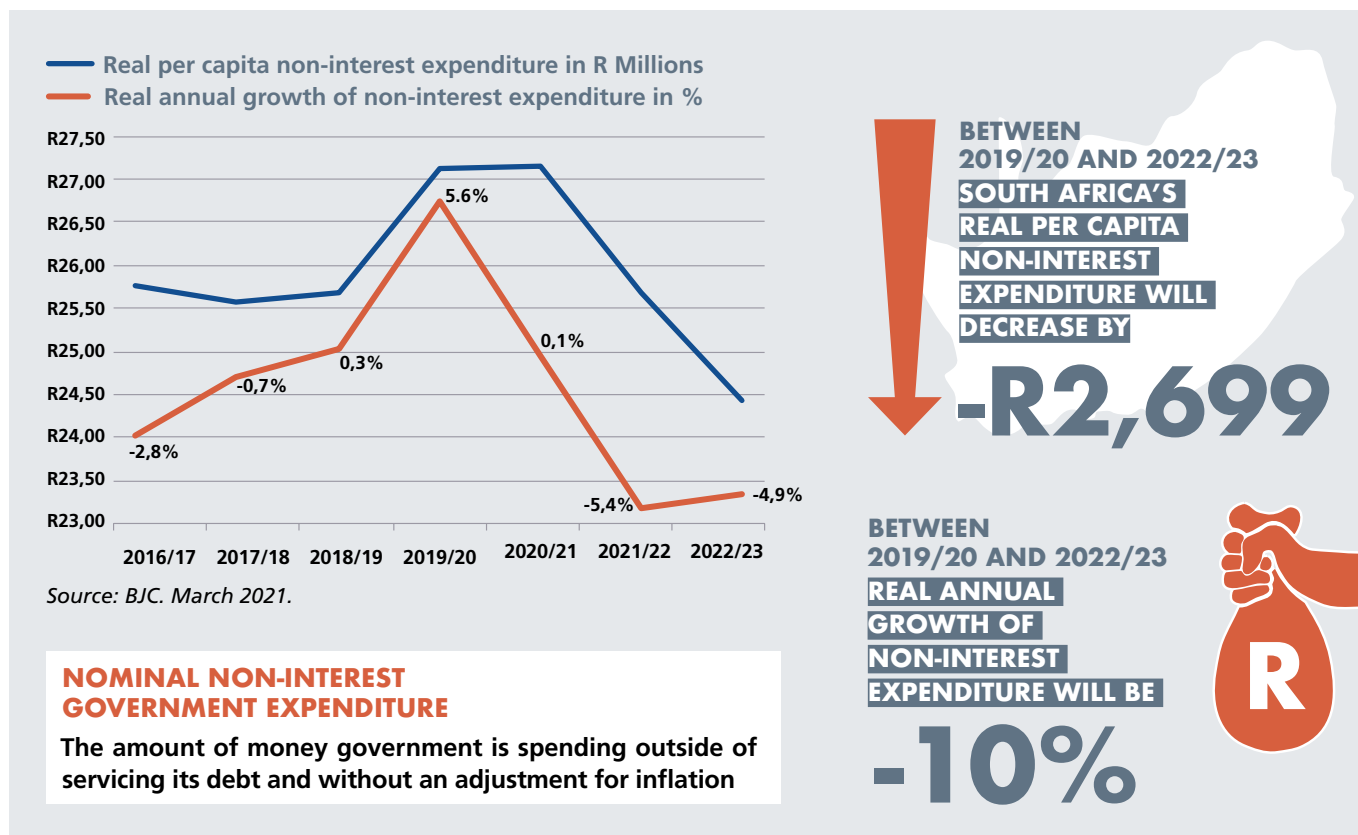
fact that South Africa should use the fiscal space it has available to pursue measures which may aid economic growth and improve human wellbeing. These measures should go hand in hand with expanded use of monetary policy alongside appropriate capital controls.

HOW HAS A FEAR OF THE DEBT LEVEL IMPACTED SOUTH AFRICA'S COVID-19 RESPONSE?

WIDESPREAD REDUCTIONS TO NON-INTEREST SOCIAL EXPENDITURE

The 2021 National Budget made cuts to nominal non-interest government expenditure for the first time in at least twenty years.²⁶ The below graph documents how this

picture has changed over time in real terms, that is, when accounting for inflation. This includes major cuts to health budgets, education, social grants, and public sector wages.²⁷



25. <https://www.iol.co.za/business-report/companies/tax-shortfall-improves-after-better-collections-in-second-half-of-last-year-4cffbddd-be66-46d5-aa3d-f0ec3a16b8e2>

26. Nominal non-interest expenditure refers to the total expenditure by government less debt-service costs not adjusted for inflation.

27. For details on this see: BJC. March 2021. Submission by the Budget Justice Coalition to the Select and Standing Committees on Finance on the 2021 Budget. Available:



INADEQUATE SOCIAL SECURITY SUPPORT

During the first wave of COVID-19 – and after significant civil society pressure²⁸ – government did provide some additional social security support by temporarily increasing existing social grants and introducing a temporary additional Social Relief of Distress (SRD) grant. However, this support has been limited in a number of ways, including that women who look after children receiving the Child Support Grant (CSG) are not eligible and the level of the SRD is still below the food poverty line. At each point, government had to be lobbied to extend the grants and each time these were cut in some way.²⁹

SLOW VACCINE PROVISION

The South African government has come under criticism for the slow pace at which it is acquiring and rolling out vaccines for COVID-19.³³ While vaccines are first and foremost about individual and public health, their ability to slow the pandemic also serves a crucial socio-economic function in limiting the necessity of lockdowns and thus allowing normal economic and social activity. Access to vaccines is a complex and highly unequal global problem, but the South African government's fiscal austerity may have exacerbated this. In December 2020, South Africa was reported to have missed its payment to COVAX, the

UN-backed mechanism for pooling resources to order vaccines targeted at making the process more equitable. While reports are contradictory, a number of them indicate that this was the result of Treasury refusing to make the payment, eventually made by the Solidarity Fund.³⁴ Media reports indicated that Treasury was not convinced that vaccines would be necessary and may be a “waste” of money despite the Department of Health clearly arguing for their importance.³⁵ The vaccine rollout programme continues to stagnate with experts sceptical that government will meet their own deadlines.³⁶

AN IMF LOAN THAT ENCOURAGES FISCAL CONSOLIDATION

In July 2020, South Africa received a loan of USD 4 billion from the IMF's Rapid Financing Instrument (RFI). Because the RFI is designed to support countries in a crisis, the loan is provided quickly and without strict formal conditions.³⁷ Despite this, an Oxfam report indicated that there was a push for austerity by the IMF in 84% of cases where countries accessed their emergency funding, including through the RFI.³⁸ As UNCTAD has noted, “eligibility [for the loan] still depends on familiar (and arguably under current conditions highly restrictive) criteria, including, inter alia the countries debt being sustainable or on track to be sustainable”.³⁹ This approach is evident in the IMF press release following the announcement of the loan to South Africa, quoting their Managing Director as saying, “There is a pressing need

to strengthen economic fundamentals and ensure debt sustainability by carrying out fiscal consolidation, improving the governance and operations of SOEs, and implementing other growth-enhancing structural reforms... Efforts to preserve the central bank's inflation mandate and proactive bank regulation and supervision, particularly for small banks, will also be important.”⁴⁰ This is at odds with the IMF's Chief Economist backing a need to borrow in order to spend, indicating a divergence between what the Fund sees as sound economic evidence and the political policies that it pushes.⁴¹ Such orthodox macroeconomic policy in South Africa has been shown to be inadequate in realising rights obligations especially during a crisis as severe as COVID-19.⁴²

28. See for example: <https://karibu.org.za/open-letter-to-president-ramaphosa-and-the-cabinet-from-south-african-economists-economic-analysts-and-economic-justice-advocates/>

29. For more details on this see: <https://www.iej.org.za/wp-content/uploads/2021/03/IEJfactsheet-3-Social-Protection-during-COVID.pdf> as well as <https://www.iej.org.za/joint-statement-response-to-state-of-the-nation-address-extension-of-the-covid-19-srd/>

30. See: <https://twitter.com/NeilColemanSA/status/1364672899769135112?s=20>

31. See: <https://www.iej.org.za/social-protection-during-covid-19/>

32. See: <https://www.iej.org.za/unemployment-and-precarity-during-covid-19/>

33. See for example: <https://img.co.za/coronavirus-essentials/2021-05-27-slow-registration-delays-south-africas-vital-vaccine-roll-out/>

34. See: <https://www.businesslive.co.za/fm/features/2021-01-14-vaccines-for-sa-better-late-than-never/>

35. Ibid.

36. <https://www.enca.com/news/covid-19-vaccine-concerns-raised-over-rollout>

37. Bradlow, D. 28 July 2020. The IMF's \$4bn loan for South Africa: the pros, cons and potential pitfalls. The Conversation. Available: <https://theconversation.com/the-imfs-4bn-loan-for-south-africa-the-pros-cons-and-potential-pitfalls-143553>

38. Daar, N. and Tamale, N. 2020. A Virus of Austerity? The COVID-19 spending, accountability, and recovery measures agreed between the IMF and your government. Available: <https://www.oxfam.org/en/blogs/virus-austerity-covid-19-spending-accountability-and-recovery-measures-agreed-between-imf-and>

39. UNCTAD. 23 April 2020.

40. IMF. 27 July 2020. IMF Executive Board Approves US\$4.3 Billion in Emergency Support to South Africa to Address the COVID-19 Pandemic. Press Release no 20/271. Available: <https://www.imf.org/en/News/Articles/2020/07/27/pr20271-south-africa-imf-executive-board-approves-us-billion-emergency-support-covid-19-pandemic>. The South African Reserve Bank currently designs monetary policy around a relatively narrow mandate – to control inflation – and uses relatively limited policy instruments to do this, namely interest rates. This narrow mandate has been criticised by economists who argue that it could have a more expansive mandate to target, for example, employment.

41. See for example: <https://www.nationalheraldindia.com/business/imf-chief-economist-urges-more-fiscal-stimulus-to-boost-recovery>

42. For a comprehensive review of studies showing the adverse impacts of structural adjustment on health (with reference to negative growth and other adverse effects) See: Thomson, M., Kentikelenis, A and Stubbs, T. 2017. Structural adjustment programmes adversely affect vulnerable populations: a systemic narrative review of their effect on child and maternal health/ Public Health Reviews Vol. 38. No. 13. Available: <https://publichealthreviews.biomedcentral.com/articles/10.1186/s40985-017-0059-2>. For recent popular coverage see for example: <https://www.theguardian.com/business/2016/oct/09/the-world-bank-and-the-imf-wont-admit-their-policies-are-the-problem>



IS FISCAL CONSOLIDATION A SOLUTION TO DEBT?

To improve the debt-to-GDP ratio, countries can try to reduce the absolute level of debt or the cost of debt servicing, or increase GDP. South African macroeconomic policy has largely been formulated to decrease our debt by cutting government expenditure. This will supposedly reduce the debt-to-GDP ratio because it prompts private capital to shift from government bonds towards “productive” investments in the economy, thereby boosting economic growth. However, many economists argue that this logic is faulty because government spending is essential for implementing reforms and delivering public goods and services for sustainable and inclusive economic growth – especially in times of economic recession – and that it is legitimate for government to borrow to support this.

A large body of evidence has shown that austerity has resulted in shrinking GDP and increases to sovereign debt.⁴³ One of the reasons for this, is that the national budget is not akin to a household budget.⁴⁴ When looking at the amount of debt owed by a household, income and expenditure are independent of one another. If you spend R20 on a meal, it may increase your household debt, while not spending it expands your capacity to pay the debt back later. However, at the macroeconomic level, how much is spent directly determines how much is earned. If the government cuts its budget this will shrink spending in the economy and have a negative impact on GDP. Government spending is a large part – usually about a third – of GDP. There is little evidence to suggest that government spending cuts will result in the private sector shifting towards productive investment, with a huge pool of funds already available for such investment sitting idle due to unrelated constraints on investment.

Further, government spending can expand its capacity to pay back the debt later. This is because it can increase GDP and expand tax revenue, as well as improve skills and health outcomes, and thus productive capacity.

Conversely, cuts often result in a worsening in, rather than improvement to, the debt-to-GDP ratio. Although public spending cuts are often justified on the basis of “unsustainable” debt burdens, these cuts have often negatively impacted the country’s fiscal position, not just its social outcomes.⁴⁵ In Greece, for example, the post-GFC austerity programme, which included cuts to pensions, healthcare, schools, and other social expenditures, resulted in an economic depression which caused Greece’s debt-to-GDP ratio to increase to 175%. Between 2009 and 2016, unmet health needs as a result of financial stress tripled in the country.⁴⁶

WHAT DOES THE INTERNATIONAL HUMAN RIGHTS FRAMEWORK SAY?

The ICESCR is violated if a government ‘deliberately retards or halts the progressive realisation of a right, unless it is acting within a limitation permitted by the Covenant or it does so due to a lack of available resources’.⁴⁷ This has come to be known as the doctrine of ‘non-retrogression’. It essentially means that measures that negatively impact on people’s rights fall foul of a government’s human rights obligations – unless they meet strict criteria. A relevant criteria is that such measures must have a ‘legitimate’ aim. Governments cannot justify austerity measures “simply by referring to fiscal discipline or savings”, they must show they are necessary “for the protection of rights”.⁴⁸

International human rights instruments also offer a deeper definition of debt sustainability. In the Guiding Principles on Human Rights Impact Assessments of Economic Reforms,⁴⁹ Principle 12 is focused on debt sustainability,

relief, and restructuring. Commentary on the Principle states that “structural adjustment programmes are often only oriented towards short-term fiscal targets to regain debt sustainability ... a more comprehensive definition

43. See Sibeko. 2019.

44. See for example: <https://www.yanisvaroufakis.eu/2016/12/02/austerity-doesnt-work-in-4-mins-from-the-cambridge-union/>

45. See for example Stiglitz, J. 2010. *Freefall: America, Free Markets, and the Sinking of the World Economy*. New York: W.W. Norton and Company. Varoufakis, Y. (2015). *The Global Minotaur: America, the True Origins of the Financial Crisis and the Future of the World Economy*. London: Zed Books. Or Varoufakis, Y. (2017). *Adults in the Room: My battle with Europe’s Deep Establishment*. London and New York: Random House.

46. See Sibeko. 2019.

47. United Nations Commission on Human Rights, ‘Note Verbale from the Permanent Mission of the Netherlands to the United Nations Office at Geneva addressed to the Centre for Human Rights (“Limburg Principles”)’ (8 January 1987) E/CN.4/1987/17 para 72.

48. OHCHR, 2013. “Report on Austerity Measures and Economic and Social Rights” at http://www.ohchr.org/Documents/Issues/Development/RightsCrisis/E-2013-82_en.pdf

49. See: https://www.ohchr.org/Documents/Issues/IEDebt/GuidePrinciples_EN.pdf



of debt sustainability incorporates economic, social and environmental sustainability, meaning that debt sustainability is only achieved when debt servicing does not result in violations of human rights and human dignity". In short, "debt cannot be called 'sustainable' if the social and human rights dimensions of sustainability are ignored".

The commentary goes on to stress that the findings of rights-based sustainability assessments should "systematically play a role in debt restructuring", which "reflects the shared responsibility of creditors and debtors for sovereign debt burdens". This shared responsibility stems from governments' 'extraterritorial' obligations, meaning the obligations they

have to people overseas, when they have decisive influence on their rights. This includes when acting as members of international organizations (including the IMF and the World Bank). In line with these obligations, they must:

- Respect rights – not interfere with another government's ability to meet its obligations;
- Protect rights – prevent corporations from interfering with people's rights abroad, by regulating their behaviour or influencing it in other ways;
- Fulfil rights – cooperate internationally, including through economic assistance, to support all governments meet their obligations.

WHAT NEEDS TO BE DONE?

The Secretary-General of the United Nations, Mr Guterres, placed debt relief at the center of a plan to recover "better" from COVID-19, so that we can advocate for a transition to low-carbon, climate-resilient growth that will create millions of green jobs and ensure sustainable production and consumption. In order to ensure this happens, Guterres advocated for equity in global financing through innovative solutions to financing the post-pandemic recovery.⁵⁰

It is clear that a global debt deal is needed. This would involve debt cancellation;⁵¹ the issuing of grants, not loans, to deal with the protracted social and economic impact of COVID-19; and the recognition of the importance of social spending and the building out of public services, including health. As UNCTAD has written, "cancelling debt payments is the fastest way to keep money in countries and free up resources to tackle urgent health, social and economic

crises... well-designed debt relief – through a combination of temporary standstills with sovereign debt reprofiling and restructuring – is essential".⁵² Debt relief of this nature needs to be coupled with a recognition, beyond rhetoric, of the importance of government investment in public services and infrastructure development. As indicated previously, this is also critical for building resilience to future crises like those related to the climate crisis.

WHAT CAN THE SOUTH AFRICAN GOVERNMENT DO TO ACHIEVE DEBT SUSTAINABILITY THAT PROTECTS HUMAN RIGHTS?

The South African government should adopt a two-pronged approach to debt sustainability.

Firstly, it should recognise that it does have the fiscal space to pursue more progressive policies. It should reject a narrow conception of debt sustainability and abandon austerity politics, instead adopting a supportive macroeconomic framework that recognises the importance of government spending to the socio-economic recovery from the pandemic. This is in line with its human rights commitment to mobilise the maximum of its available resources. Specific recommendations in this regard include:

- The same principles can be applied domestically, with CSOs advocating for such principles to be integrated into

domestic legislation regarding how debt sustainability is understood.

- Recognise that measures to reduce the debt-to-GDP ratio must also prioritise growth, equity, sustainability, and rights realisation. Rather than indiscriminate cuts, government should focus on targeted investments into social and economic sectors that protect rights and have large economic and employment multipliers so as to actively grow the economy whilst improving people's lives and creating jobs.⁵³ A key area for investment is the care economy (sectors like childcare, care of the elderly, education, and health).⁵⁴
- Institute a wealth tax and investigate other progressive

50. Sallent, M. 2020. External debt complicates Africa's COVID-19 recovery, debt relief needed. Available: <https://www.un.org/africarenewal/magazine/july-2020/external-debt-complicates-africas-post-covid-19-recovery-mitigating-efforts>

51. While some debt suspension mechanisms have been instituted during COVID-19 these are temporary and also threaten to saddle countries who take them up with even greater debt burdens in the future. This is because debt suspension is structured in such a way that the total repayment to creditors is not affected, countries just have to pay this in the future. For an explanation of this see: Fresnillo, I. October 2020. The G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket? EURODAD Briefing paper. Available: <https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/768/attachments/original/1610355046/DSSI-briefing-final.pdf?1610355046>

52. UNCTAD. 23 April 2020.

53. For more on this see our factsheets on social protection: <https://www.iej.org.za/social-protection-during-covid-19/> and on employment: <https://www.iej.org.za/unemployment-and-precarity-during-covid-19/>

54. For more on this see BJC. March 2021. And also Osborne, C. Phalatse, S. and Isaacs, G. 2020. No Going Back to Normal: Towards a Just Recovery for South Africa. Available: <https://350africa.org/just-recovery-report/>

taxation options to raise additional revenue and to do so in a way that has strong progressive redistributive effects.⁵⁵ Research has shown that a social security tax could significantly help to finance a Universal Basic Income Guarantee which would significantly improve rights realisation in South Africa.⁵⁶

- Do more to tackle illicit financial flows that rob South Africa of much needed tax revenue.
- Pursue policies that help to support and develop a fairer integration in the global financial system, including, for example the reintroduction of capital controls.⁵⁷
- Investigate and cancel “odious”⁵⁸ debt like the World Bank loan for the Medupi power plant.
- Tackle corruption and mismanagement that has a dire impact on service provision and thus rights realisation.⁵⁹
- Institute more careful and targeted use of quasi-state funds, for example those in the Public Investment Corporation.

Secondly, it should join forces with other developing countries in order to tackle the unequal global debt regime and call for major debt relief and restructuring. This can be done by lobbying for governments around the world to take action in line with their extraterritorial obligations, including on:

- A global debt deal that does not leave any country behind – one that recognises the debt burdens faced by both low- and middle-income countries – and the importance

of social spending and the development of public services to rights realisation.

- The creation of a multilateral sovereign debt workout mechanism that is designed in line with the principles of equity and justice.
- Comprehensive debt cancellation (the writing off not suspension of significant portions of debt owed), and the issuance of grants (not loans) to help tackle the COVID-19 pandemic. This should be aimed at addressing existing inequalities (highlighted above) which have resulted from the unequal global financial architecture and the legacy of colonialism.
- The issuing of additional IMF Special Drawing Rights to assist developing countries, as has received support from the G20 and the IMF monetary and financial committee.⁶⁰ This should include calling on high-income countries, who do not need to access their SDRs, to transfer these to those countries that do, as was argued for by President Cyril Ramaphosa at a summit in Paris in May.⁶¹
- The entrenchment of the principle that debt sustainability must account for the realisation of rights.
- International creditors, including IFIs, to consider human rights in their debt sustainability analysis and to undertake human rights impact assessments when they issue new funding.
- Reforming credit rating agencies with steps taken at the international, regional and national levels.

CONCLUSION

The South African government cannot continue to pursue a path of austerity that undermines its international and domestic rights obligations. These obligations demand that government expands the provision of services and public goods and develops a macroeconomic policy framework that can tackle South Africa’s poverty and inequality crisis.

Unfortunately, the current fiscal framework, which requires massive cuts to government expenditure will undermine this. Rather than embark on austerity, the South African government must mobilise the maximum available resources to protect rights during the crisis, but must also ensure such protections remain beyond it. The government must adopt an understanding of debt

sustainability that recognises that measures to address the debt burden, which undermine human rights, such as rights to education, health care, food, social security, and housing, cannot be understood as sustainable. This must be undertaken also in recognition that this is a global problem and the government must campaign for a change in the global debt system.

55. See for example: <https://www.wits.ac.za/scis/publications/opinion/why-south-africa-needs-a-wealth-tax-now/>

56. See: https://www.iej.org.za/wp-content/uploads/2021/03/IEJ-policy-brief-UBIG_2.pdf

57. Alfredo Saad Filho argues that some of these measures include: “restrictions on foreign currency bank accounts and currency transfers; taxes or administrative limits on outflows; restrictions on foreign payments for ‘technical assistance’ between connected firms; non-interest bearing ‘quarantines’ on investment inflows; controls on foreign borrowing; multiple exchange rates determined by the priority of the investment.” In: Saad Filho, A. 2020. For A Just and Democratic Development Approach to Macro-Economic Policy to Advance the Deep Just Transition. Unpublished Policy Brief.

58. “The doctrine of odious debt, long recognised in international law, rests on two pillars: debt that is (a) incurred against the best interests of the population of the borrower state, and (b) that this condition was known – or ought to have been known – by both borrower and lender.” See: Cannard, J. 19 August 2019. Cancel Eskom’s odious debt to the World Bank. Mail and Guardian. Available: <https://mg.co.za/article/2019-08-19-00-cancel-eskoms-odious-debt-to-the-world-bank/>

59. See: Corruption Watch. 2020. From Crisis to Action: Annual Report 2020. Available: <https://www.corruptionwatch.org.za/wp-content/uploads/2021/03/Corruption-Watch-AR-2020-DBL-PG-20210324.pdf>

60. For an account of the new issuance as well as a further explanation of the role of SDRs see: <https://www.ft.com/content/50bbaa46-2b30-4d35-bb36-804bc82b068f>

61. SDRs are an international reserve asset which the IMF creates for its member countries and which can be used to meet external financing needs. For more on this see: Main, A et al. June 2020. The World Economy Needs a Stimulus. CEPR paper. Available: <https://cepr.net/report/the-world-economy-needs-a-stimulus-imf-special-drawing-rights-are-critical-to-containing-the-pandemic-and-boosting-the-world-economy/>. For coverage of President Ramaphosa’s statement see: <https://www.timeslive.co.za/politics/2021-05-24-africa-should-get-a-bigger-slice-of-imf-and-world-bank-funding-ramaphosa/>