Human Rights and the IMF

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Human rights and macroeconomic stability are far from incompatible. Rather, they both play crucial roles in the fight against poverty. By supporting sound economic policies and encouraging constructive dialogue within civil society, the IMF contributes to human rights.

In his book *Development as Freedom,* Amartya Sen, Nobel laureate in economics, encourages us to look into the expansion of freedoms as both the definition of development and the means to achieve it. He notes, for example, that there is no record of a democratic country with a free press that has suffered from famine. He argues that economic indicators, such as GDP per capita and income distribution, fail to capture what is really important to people: the freedoms associated with human rights. In May 2001, the United Nations Committee on Economic, Social, and Cultural Rights echoed this view in a forceful statement arguing for a better integration of human rights in development strategies.

But what exactly is a human rights-based development strategy? At the risk of oversimplification, one could define a rights-based approach to growth and poverty reduction as comprising six elements: (1) active protection of civil and political liberties; (2) pro-poor budgets and growth strategies; (3) policies geared toward ensuring that people receive adequate food, education, and health care; (4) broad participation in policy design; (5) environmental and social awareness; and (6) efforts to combat discrimination.

Since 1999, the IMF has stressed the central role of poverty reduction in its strategy for low-income countries. Recognizing that growth and macroeconomic stability are not enough to raise living standards, IMF Managing Director Horst Köhler (2001) has emphasized the participation of the poor in the development process and suggested that governments need to create an environment in which the poor can protect, sustain, and enrich their livelihoods. This approach, which seeks to strengthen countries' sense of "ownership" of their economic strategies, is neither very far from, nor incompatible with, a rights-based strategy.

The similarities between the two approaches are even more apparent when one looks at the definition of poverty put forward in the World Bank's *World Development Report 2000/2001: Attacking Poverty.* Poverty, according to the report, is "more than inadequate income or human development—it is also vulnerability and lack of voice, power, and representation." The IMF's close collaboration with the World Bank ensures that discrimination and environmental issues are not ignored in their joint approach to poverty alleviation. In their advice to member countries, the IMF and the World Bank stress the importance of establishing budgets that give high priority to meeting the needs of the poor.

Finally, it is important to note that nothing prevents member countries from incorporating human rights into their poverty reduction strategies. What a poverty strategy covers depends largely on the government's commitment and leadership, including its readiness to tackle the priorities identified through the participatory process.

What is the IMF's contribution to human rights?

The charter—Articles of Agreement—of the IMF directs it to promote international monetary cooperation and orderly exchange rate arrangements, facilitate the balanced growth of international trade, and help members resolve their balance of payments difficulties. To fulfill this mandate, the IMF works with member countries to reduce macroeconomic imbalances and structural bottlenecks, eliminate obstacles to international payments, and prevent financial crises.

If one looks below the surface, all of the IMF's activities contribute directly or indirectly to reducing poverty and fostering human rights. Macroeconomic imbalances and, in particular, high inflation are detrimental to the poor. The wealthy are partly protected against inflation because they own assets, whose prices rise during inflationary periods. The poor have no cushion against inflation, and their real earnings are often eroded because prices may rise faster than wages. Moreover, inflation creates distortions and contributes to the misallocation of resources, which hampers economic growth and employment.

In developing countries, it is not unusual for entrepreneurs with political influence to be the primary beneficiaries of expanded credit, often at subsidized interest rates. But excessive credit expansion often precipitates financial crises. When governments take steps to shrink the supply of credit, small and medium-sized enterprises tend to be the first casualties. The cost of the cleanup following a financial crisis generally falls on all taxpayers, and the poor usually suffer the most. It is therefore essential during crises to ensure that small depositors are protected and that management and shareholders face up to the consequences of their poor decisions.

It has been shown (Sachs and Warner, 1995) that external trade promotes growth. During the second half of the twentieth century, countries that experienced fast economic growth were often those that markedly expanded their share of exports—and of imports—in economic activity. These were, in most cases, the same countries that made good progress in raising the living standards of their populations. In their article in this issue, Bannister and Thugge show that, despite transitional costs, trade liberalization generally has a positive overall effect on the employment and income of the poor.

However, while growth, macroeconomic stability, and a well-functioning international monetary system can contribute to an environment that supports poverty reduction, they cannot, by themselves, eliminate poverty or protect human rights. Rather, they are only a few of the many conditions that need to be in place to ensure high-quality sustainable growth. In the context of the support it provides to low-income members through the Poverty Reduction and Growth Facility, the IMF encourages development strategies that not only help eliminate internal and external imbalances but also raise investment levels, reduce poverty, and open economic opportunities to all. The design of these strategies—in the form of poverty reduction strategy papers (PRSPs) elaborated by the borrowing member country with the participation of civil society—is in itself a contribution to better governance and constructive debate.

Some countries have already provided for human rights concerns in their development strategies. The May 2000 PRSP of Burkina Faso centers on human security: economic security (access to education, vocational training, and paid employment), health security (access to low-cost preventive and curative medical care), food security (access to basic foodstuffs and safe water), environmental security (preservation of the environment), and individual and political security (the rule of law, responsibility, participation, efficiency, and transparency). The Burkinabè strategy does not promise that human security will be fully achieved during the life of the program, but it places a high priority on human rights in its development and structural adjustment efforts.

Burkina Faso is not the only example. Nicaragua's September 2001 PRSP proposes measures to demarcate lands belonging to indigenous communities, assist the poor to meet housing needs, protect children in high-risk conditions, implement programs for the elderly, prevent domestic violence, strengthen the Office for Human Rights, and protect the rights of indigenous peoples. Rwanda's November 2000 PRSP includes a framework for good governance that incorporates a human rights program, as well as capacity building for the country's Human Rights Commission. Other countries where the poverty reduction strategy deals with human rights include Bolivia, Cambodia, Cameroon, Tanzania, Uganda, and Vietnam.

These examples show that it is possible for countries to include human rights issues in their PRSPs. It is important to remember, however, that each country needs to formulate its own poverty reduction strategy. While human rights advocates should be given every opportunity to participate in PRSP consultations, they should not expect the IMF to impose human rights conditions on its member countries. The IMF does not have the expertise required to make judgments in this area. Moreover, international organizations that deal with human rights have found that imposing sanctions on a country is not always effective; working with these countries to resolve abuses over time is often the best approach.

Do IMF-supported programs harm economic, social, and cultural rights?

The role of the IMF is to provide support to countries that are facing balance of payments problems, often caused by large fiscal deficits. Usually, it is simply not feasible for the countries to maintain a high deficit by securing additional foreign assistance. To correct such problems, governments must make difficult choices, for example, raising taxes, cutting expenditures, or both. In such circumstances, the IMF encourages governments to do everything within their power to protect social expenditures.

Available evidence indicates that this advice is generally being followed. Data from countries with IMF-supported programs during 1985-99 show, on average, a small rise in social expenditures despite the difficult economic conditions these countries faced. Moreover, according to the World Bank's World Development Indicators database, these countries, on average, registered some improvement during the period in overall primary school enrollment (0.8 percent a year), female primary and secondary school enrollment (1.0 percent and 1.4 percent a year, respectively), infant mortality (2.8 percent a year), mortality for children under the age of 5 (3.5 percent a year), births attended by skilled personnel (1.1 percent a year), and contraceptive prevalence (3.2 percent a year). These results are positive, but modest. To do even better, governments and development partners will need to make sure that budgeted funds reach the priority sectors and are used wisely. The recent decision by the IMF to refocus its conditionality on issues of macroeconomic relevance should encourage the World Bank and other specialized agencies to play a greater role in proposing best practices in their respective areas of expertise.

It is sometimes said that IMF conditionality runs counter to countries' education, health, or poverty alleviation goals. Conditions may entail, for example, the privatization of basic services—such as water and electricity—which some believe could endanger the provision of these services to vulnerable groups. The merits of such measures need to be debated, with responses tailored to each country. Because many state-owned utilities had an unbroken record of poor service and high cost to the taxpayer, the alternative of using private but properly regulated companies cannot be excluded from consideration. Active consultation with the country's parliament and civil society can and should contribute to an assessment of the trade-offs involved.

Countries with a poor record of governance and respect for human rights have received IMF assistance from time to time. When the IMF is asked to rescue a member country suffering from a terms of trade shock, it has an obligation to do so as long as the proposed economic program is adequate. This obligation derives from the need to protect the population—and the poor in particular—as well as partner countries, which could be affected in the event of a crisis. The dilemma faced by the IMF is not unlike that faced by humanitarian organizations that feel they need to operate in countries with policies they abhor in order to save lives. It should be noted, however, that countries with a poor record of governance are sometimes unable to put together a credible macroeconomic program that the IMF can support. Moreover, on occasion, countries that display egregious disrespect for human rights find that the international community is unwilling to provide the financial resources necessary to make their adjustment programs viable. In such cases, the IMF would be unable to assist the countries.

Concluding remarks

IMF financing enables countries to protect social expenditures during periods of adjustment, when they are often obliged to curtail public expenditures. Clearly, more foreign assistance would be helpful, and the IMF has been in the forefront of efforts to press the case for increasing resources for development. However, given inevitable constraints on foreign assistance, countries generally have to either finance a balance of payments shock by taking on more debt or offset the shock through adjustment. Debt postpones the problem and, as experience has shown, may worsen it. Adjustment, sometimes the only available choice, is often the best one. Although the costs of adjustment are inevitable, they need not fall primarily on the poor nor compromise human rights.

The IMF recognizes that it must be aware of any adverse effects of the policies it recommends. Adjustment efforts create winners and losers, and sometimes the poor suffer disproportionately. In those cases, it may be necessary to introduce appropriate safety nets to help alleviate adverse social consequences. This course of action is fully accepted by the IMF and is not new. For example, as far back as 1988, Mozambique's structural adjustment program included one such scheme.

The IMF seeks to remain open to criticism and to change its policies when results are disappointing. Although its contribution toward raising living standards focuses primarily on macroeconomic stability and sustainable growth, which are in themselves supportive of human rights, the IMF encourages member governments and development partners to consider human rights in the design of poverty reduction strategies.

The work of other international organizations, whose mandates are more closely linked to development and human rights, is particularly important to achieve this objective. Many of these institutions are doing exceptional work, often with modest resources. IMF management has drawn attention to the great relevance of many of our sister organizations' goals, such as the implementation of core labor standards, the need to achieve sustainable growth and protect the environment, and establishment of the value of democracy, the rule of law, participatory decision making, accountability, and transparency. It has emphasized that gender and racial discrimination are not only morally wrong but also cause considerable inefficiencies and misallocation of resources that impede growth and poverty alleviation.

Clearly, the pursuit of economic, social, and cultural rights is an integral part of sound economic policies. Respect for human rights contributes to increased economic and social stability and helps prevent setbacks to development from political unrest and civil conflict. But it is also necessary to recognize that inappropriate economic policies—unsustainable public deficits, high inflation, unrealistic exchange rates, wasteful subsidies, and obstacles to trade—are contrary to human rights. Therefore, the work of the IMF should not be seen as a threat to human rights, but as a key contribution. Together, human rights and economic development hold the key to a better world for all.