



THE HUMAN RIGHTS CASE FOR A REFORM OF THE INTERNATIONAL SOVEREIGN DEBT ARCHITECTURE

Key messages

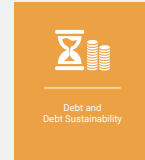
- The review of the international sovereign debt architecture should integrate States' human rights obligations as outlined in the Universal Declaration of Human Rights and other instruments such as the International Covenant on Economic, Social, and Cultural Rights, to ensure that sovereign debt policies, rising interest and debt servicing obligations continue to uphold human rights, including the right to development.
- Delays in sovereign debt restructuring and continued high public debt servicing have widened pre-existing financing and development gaps in developing countries, deepening inequalities to unprecedented levels and undermining their ability to realize human rights, including the right to development as well as the 2030 Agenda. States should move towards establishing an intergovernmental process for a multilateral legal framework on sovereign debt, grounded in human rights principles and standards, where all creditors, including private creditors participate on an equal footing to ensure a fair and effective resolution of debt crisis.
- The international financial architecture requires a radical transformation. For States to resume progress and advance on human rights, climate action and the commitments outlined in the 2030 Agenda for Sustainable Development, human rights should be anchored into the structural, governance, and policy reforms of international financial institutions, private creditors, and credit rating agencies.

Problem statement

More than 40% of the world's population - about 3.3 billion people - live in countries that spend more on debt interest payments than on the right to education or health. Global public debt has doubled since 2010 – reaching an all-time high of \$ 97 trillion in 2023. Fifty of the most climate vulnerable countries are spending four times more on external debt payments than they did in 2010.

Amidst compounding vulnerabilities, the flawed international debt architecture has failed to provide sufficient fiscal support and debt relief to developing countries in debt distress under initiatives like the Debt Service Suspension Initiative and the Common Framework for Debt Treatments. Middle-income countries continue to be excluded from accessing debt relief under the Common Framework.

RELEVANT ACTION AREAS



ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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Part of the problem is the increasing complexity of the creditor base, which complicates debt restructuring due to different legal frameworks applicable for different creditors with diverging interests. **Private bondholders and hedge funds may hold out from participating in debt restructuring processes with a view to obtaining higher repayments or smaller share of haircuts.** They deploy predatory financial strategies to obtain disproportionate and exorbitant gains **even when this has long-lasting consequences on States' ability to invest in social spending and realize human rights, including economic, social and other rights.**

Without the timely and equal participation of private creditors in debt restructuring, countries may not be able to secure the necessary debt relief or haircuts needed to maintain their human rights obligations. They may end up adopting harsh fiscal consolidation and cuts to public spending that undermine the rights to health, education, social security, adequate standard of living etc.

Additionally, **credit rating agencies are known to issue severe downgrades of countries or their financial instruments after a crisis has occurred**, which blocks these countries' access to international markets and future investments. Instead of predicting early warning signs of debt distress, these opaque assessments undermine a debt-distressed State's human rights obligations and its ability to effectively mitigate a crisis. **The Human Rights Council Resolution 55/6 calls for a reform of credit rating agencies as part of the larger reform of the international financial architecture.**

Finally, global calls on reforming the governance, practices and policies of the international financial institutions have intensified. The Secretary-General's policy brief on reforms to the international financial architecture recommends **the removal of IMF surcharges imposed on countries as they are counterproductive as well as reforming the current framework of debt sustainability analysis. These analyses do not include any considerations of human rights or the Sustainable Development Goals.** Moreover, debt sustainability analyses may deem a higher stock of public debt or a high level of debt servicing as sustainable even if the State fails to comply with its core human rights obligations under the International Covenant on Economic, Social and Cultural Rights. **Overly optimistic growth**

forecasts in the analysis of critically indebted countries can lead to inadequate debt relief and diminished sharing of the debt burden among creditors, risking retrogression of human rights through prescribed austerity.

Policy Solutions

The Addis Ababa Action Agenda recognizes the collective goal of Member States "to end poverty and hunger, and to achieve sustainable development in its three dimensions through promoting inclusive economic growth, protecting the environment, and promoting social inclusion. We commit to respecting all human rights, including the right to development. (...) and advance fully towards an equitable global economic system in which no country or person is left behind."

Reforms to the international financial architecture should proactively support the implementation of the Sustainable Development Goals and the realization of human rights, including the right to development. A new sovereign debt architecture should encompass effective debt relief and restructuring, guided by human rights principles and standards, for vulnerable countries, including for middle-income countries in need.

The Basic Principles on Sovereign Debt Restructuring Processes adopted by the General Assembly state that "sustainability implies that sovereign debt restructuring workouts are completed in a timely and efficient manner and lead to a stable debt situation in the debtor State, preserving at the outset creditors' rights while promoting sustained and inclusive economic growth and sustainable development, minimizing economic and social costs, warranting the stability of the international financial system and respecting human rights."

Solutions like the **multilateral sovereign debt workout mechanism can guarantee the equal participation of all creditors in debt relief, restructuring, and forgiveness to ensure a fair, predictable, coordinated, timely and effective resolution that protects the States' ability to comply with their human rights obligations.** Private creditors voluntarily took the risk understanding that the rule of law in the relevant country needs to be respected; human rights is part of the rule of law that must be respected.



Imposing repayment above the human rights of the population undermines the rule of law.

Member States should consider enacting legislation, in line with the UN Guiding Principles on Business and Human Rights, aimed at curtailing the predatory activities of private creditors and hedge funds within their jurisdictions. Domestic laws should cover a broader group of countries and apply to commercial creditors that refuse to negotiate any restructuring of a debt and negatively impact the full enjoyment of human rights.

Moreover, **public disclosure of key terms and conditions of loan agreements in a timely manner can enhance accountability, transparency,** and access to information on States' financial commitments and loan conditions and pressure creditors to **align their financing conditionalities with international human rights law and standards.**

Finally, **the current debt sustainability analysis' insular focus on the debt-carrying capacity of a country can lead to insufficient debt relief, austerity and fiscal consolidation measures.** Such measures can have negative impacts on economic, social and other rights, including the right to development. **Reforming the existing framework on debt sustainability** for low-income, jointly applied by the International Monetary Fund (IMF) and World Bank and the sovereign risk and debt sustainability analysis for market access countries applied only by the IMF **should adopt a more comprehensive approach by taking human rights, the Sustainable Development Goals, and climate-related commitments into consideration.** This will be critical in strengthening debt crisis prevention and protecting the human rights of populations from the negative and protracted impacts of over-indebtedness. In addition to this, **moving beyond traditional economic indicators, such as gross domestic product and gross national income, is necessary to adequately assess a country's financing needs and debt sustainability.** Interventions on debt relief should not carry negative impacts to human rights or prevent States from fulfilling their obligations under international human rights law, including the obligation to 'maximise its available resources' for the progressive realization of human rights and avoid retrogression.

Specific recommendations for FFD4

The FFD outcome document should ensure the following:

- The **ringfencing** of States' economic, social and cultural rights obligations and commitments outlined in the 2030 Agenda on Sustainable Development, at all stages of loan negotiations with creditors as well as during debt restructuring in the possibility of debt distress, with all creditors respecting human rights as part of rule of law.
- A commitment towards **establishing** an intergovernmental process on multilateral legal framework on sovereign debt restructuring that ensures the participation of all public and private creditors in debt workouts on an equal footing. The framework should ensure a fair and effective resolution of debt crises, grounded in international human rights norms and standards.
- **Revising** the UNCTAD Principles on Promoting Responsible Sovereign Lending and Borrowing, in line with the UN Guiding Principles on foreign debt and human rights, for systematic application at each stage of sovereign debt negotiations and workouts by all stakeholders.
- **Regulation** of credit rating agencies in line with international human rights principles and standards should be emphasized, with greater transparency in credit rating methodologies to promote public participation. Proposals to establish public and independent credit rating agencies should be considered carefully to ensure fairer, more transparent assessments and early detection of any debt distress.
- **Reforming** the quota and voting rights system in international financial institutions to ensure equitable representation of global-majority countries on their governing boards. International financial institutions should update their mandates, policies, metrics, and practices by placing a sharp focus on realizing human rights and the 2030 Agenda for Sustainable Development. Policy 'conditionalities' in loans and projects, including pro-cyclical surcharges applied on



indebted countries by international financial institutions that undermine a State's ability to meet its human rights obligations, should end. The current frameworks on debt sustainability analysis should be reformed by taking human rights, the Sustainable Development Goals, and climate-related commitments into consideration.

- Greater **access** to concessional and longer-term financing on fairer borrowing terms needs to be scaled up along with recycling of unused Special Drawing Rights to maximize available resources for developing

countries. The **inclusion** of automatic standstills such as climate-resilient debt service suspension and relief clauses, in loan agreements by all creditors can also ease up the fiscal pressures on the borrowing country. These measures should be accompanied by a fairer global financial safety net that responds to complex shocks while safeguarding human rights.

- **Strengthening** regulation of private creditors in line with international human rights principles and standards, particularly funds that display holdout behaviour. This is crucial for a comprehensive sovereign debt resolution.