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Making the International Monetary Fund Accountable to Human Rights

On April 24th and 25th, the International Monetary Fund, together with the World Bank, will meet in Washington, D.C. to assess their work, their policies, and their future role in the world economy. In April 2009, the IMF got a huge boost from the G-20 with a promised injection of new funds. The resources are meant to support low-income and emerging market economies as they struggle against the global economic crisis. Now that the IMF is looking forward with a new lease on life, we should demand that the policies set by the IMF be scrutinized by international human rights standards.

However, the world's premier international financial institutions, the IMF and World Bank, have until recently paid little attention to human rights. The World Bank has recognized the human rights dimensions of its activities, but sees human rights, at best, as one more item of its laundry list of development objectives -- not as a set of principles to which it should be held accountable. The IMF is even less concerned with human rights and does not routinely consider whether the conditionalities it attaches to loans may themselves obstruct the efforts of governments to meet their basic human rights obligations.

The IMF is officially a part of the United Nations system. And lest we forget, the human rights framework -- including workers' and women's rights, rights to education, health and housing -- is a fundamental pillar of the UN system as set out in the Universal Declaration of Human Rights. These obligations have been spelled out more fully through a number of treaties, agreements, and mechanisms.

States, as part of the UN, are required to contribute to international cooperation in the full realization of human rights. When acting within inter-governmental fora, such as the United Nations, the World Bank, and the IMF, states must guarantee that their policies are consistent and conducive to the realization of human rights. Although the IMF is not a party to the fundamental international agreements on human rights, it has a direct and immediate impact on the policy decisions that governments undertake. Given this influence, the IMF should support the efforts of countries to realize human rights standards and norms. However, many of the policies required by the IMF -- in particular the conditionalities attached to loans -- imply that governments receiving IMF loans may have to violate their economic and social rights obligations to get access to these badly needed resources. Cooperation in the realization of human rights is frequently impaired when macro economic policy conditions are demanded by international financial institutions and donors.

Three human rights obligations are particularly pertinent to the macroeconomic policies of the IMF:
(1) Obligation of progressive realization and non-retrogression, which means that governments must move as expeditiously and effectively as possible to realize economic and social rights, and cannot take steps backward.
(2) Non-discrimination and equality, which means that governments have an immediate obligation for ensuring that deliberate, targeted measures are put into place to secure substantive economic equality of all and that all people have an equal opportunity to enjoy basic human rights, and
(3) The principle of maximum available resources, which means that a government, even in the face of public revenue limitations, must use the maximum resources available to fulfill economic and social rights.

In the heyday of the IMF's structural adjustment programs in the late 1970s, the 1980s, and the early 1990s, developing countries which borrowed from the IMF often were required to pursue economic reforms that included reductions in the money supply and in government spending, privatization, trade liberalization, shock devaluations of national currencies, and financial deregulation. One of the stated objectives of the reforms was to restore economic stability. This goal is laudable - no one would advocate for increasing economic instability. However, the costs of the IMF approach in human rights terms - including the right to an adequate standard of living, the right to education and health, and the right to life - were not factored in. Even on the basis of the IMF's narrow objective of faster growth, the policies often failed to deliver. In terms of economic and social rights, the policies were frequently a disaster, in effect coercing the countries which received loans violate the obligation of non-retrogression, by cutting social services, such as education and healthcare.

Structural adjustment loan facilities have now been renamed 'Poverty Reduction and Growth Facilities' or PRGFs. Instead of Structural Adjustment Programs, low income countries are required to develop Poverty Reduction Strategies (PRSs). However, the core macroeconomic policies remain remarkably the same. Though the PRSs include sizable chapters on social services, they are still often not accompanied by macro economic policies that will allow for an increase in social spending. It is unclear where the resources will come from to finance the public services outlined in the PRSs and which are directly tied to the realization of economic and social rights.

Receipt of an IMF PRGF loan is seen as a sign of 'good housekeeping', and is generally followed by an increase in aid from donors. However, IMF conditionalities often require recipient governments to 'sterilize' the injection of additional resources so they do not increase the level of demand in the national economy. What does it mean to sterilize the inflow of resources? In effect, countries either reduce their domestic money supply to 'make room' for the overseas assistance or they take steps to prevent the funds from entering their economy in the first place. For example, IMF conditionalities may require the Central Bank in a recipient country to contract the domestic money supply to offset the inflows of foreign aid. Such contractionary policies reduce domestic credit, raise interest rates, and slow down economic growth, and hinder job creation. Or governments may be required to simply park the aid at the Central Bank in dollar-denominated accounts (that is, keep them as 'foreign reserves').

The whole objective of sterilization is to minimize the impacts of the development assistance, because of fears that the inflow of funds will lead to inflation or leave the country short of foreign exchange if inflows of foreign capital were to reverse themselves. However, this approach ignores the basic fact that donor dollars not only add to the demand in a country, but they also help increase productivity to meet that demand. Because they seek to counteract the impact of development assistance, such sterilization policies may violate the obligation to use the maximum available resources to realize human rights.

None of this discussion implies that important trade-offs do not exist. Very high rates of inflation are indeed costly and destabilizing and hinder the realization of economic and social rights, but that does not mean that near-zero inflation is best. Policies to maintain very low rates of inflation entail loss of employment and cutbacks in public expenditure. Running short of the foreign exchange required to buy essential monthly imports, such as food or energy, is disastrous, but it would be better to deal with foreign exchange problems by coordinating policies across countries and regulating international financial flows.

In setting the conditions attached to loans to the poorest countries, the IMF has ignored the implications its policies have for governments' ability to meet their human rights obligations. Instead, the IMF narrows its focus to stable growth and lower inflation. Adding human rights into the mix involves more than an additional chapter tacked onto a Poverty Reduction Strategy. It requires a fundamental change in how the IMF supports development. Human rights obligations represent the constraints under which macroeconomic policies must operate, not the other way around.

The G-20 - a group of states with clear human rights obligations - has bailed out the IMF using taxpayer money. It's time for some new thinking on conditionalities for the poorest countries. In exchange for the G-20's financial support, the IMF must be held accountable for advancing human rights for all.