The IMF at the 75th anniversary of the Universal Declaration of Human Rights: An urgent call for governance reform

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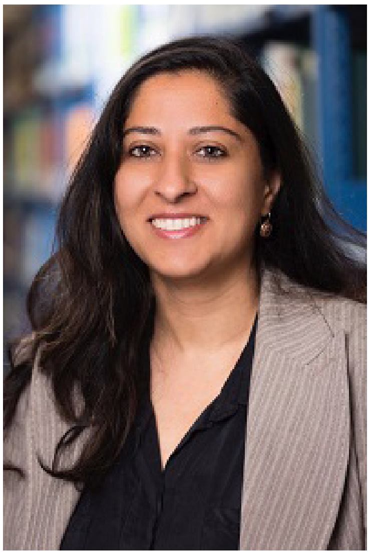
As the world celebrates the 75th anniversary of the Universal Declaration of Human Rights, it is time the IMF's shareholders, all of which have ratified the Declaration, use the opportunities provided by the anniversary and growing calls for reforms to the international financial architecture to redesign the IMF's governance structures and programmes to ensure they are consistent with the commitments outlined in 1948 and with international human rights law. The human rights impacts of the uneven response to, and recovery from, the Covid-19 pandemic, the differentiated consequences of wars and the urgent need for equitable responses to the climate emergency make this call of utmost urgency.

The IMF was established in 1944 with the aim of structuring and stabilising the international monetary system. The organisation relies on a quota-based system of financial contributions from countries to pool resources from which countries with balance of payment issues borrow money. Depending on the borrowers' income levels, length and size of loans, lending conditions and interest rates differ. However, the Fund's quota system, its governance structure and decisions on lending policies - such as surcharges - have been widely criticised for their democracy deficit and dismissal of human rights, specifically, the right to development as outlined in the 1986 UN General Assembly resolution (see *Observer* Autumn 2022, Winter 2021). The unequitable distribution of the historic allocation of $650 billion worth of Special Drawing Rights (SDRs) in August 2021 is a clear illustration of this point. Middle- and low-income countries struggling within the context of limited fiscal space to meet the urgent human rights challenges posed by the response to the Covid-19 pandemic received significantly less than 50 per cent of the non-debt resources made available through the allocation, with 39 low-income African countries receiving only 2.2 per cent of the allocation. Meanwhile, G7 countries which didn't need them where allocated $277 worth of SDRs.

An archaic governance structure ill-suited to evolving global challenges

Initially, the Fund's structure and activities aligned with the Bretton Woods System. The Bretton Woods System was a monetary management framework that stipulated guidelines for commercial and financial relations among the US, Western European countries, Canada, Australia and Japan, at a time when much of the Global South had not yet decolonised. This antiquated system has been maintained in the Fund's governance, as its leadership relies on the "gentleman's agreement" where Western European countries and the US collude to split Fund and Bank leadership between them (see Background, *What is the 'gentleman's agreement'?*). In 2010, the IMF executive board agreed significant quota reforms that resulted in a greater share of voting power to Brazil, China, India and Russia, although the changes were not approved until 2015 due to opposition at the US



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Congress (see *Observer* Winter 2016). As the Fund's membership increased from 188 to 190 member countries, it expanded its 20-member executive board, as outlined in its Articles of Agreement, to 24 in the early 1970s with the addition of Saudi Arabia (1978), China (1980), Russia (1992) and Switzerland (1992). As the US continues to hold 16.5 per cent of voting shares and major decisions require 85 per cent approval, the US maintains its veto power over significant decisions, which require approval by states holding 85 per cent of the voting share. According to critics, the US's ability to veto decisions such as increases in quota, allocation of SDRs, and the unequal distribution of executive director posts greatly diminishes the input of middle- and low-income countries (see *Observer* Summer 2019; Inside the Institutions, *IMF and World Bank decision-making and governance*). For example, Sub-Saharan Africa's 46 countries are represented by only two executive directors. Middle- and low-income and climate vulnerable countries cannot amend the Articles of Agreement or the distribution of voting shares, vote on quota increases, propose new allocations of SDRs, or otherwise substantively influence the operation of an organisation with great power to restrict their freedom of action and ability to meet their international human rights obligations, and respond to pressing challenges.

The quota system and governance also impact the Fund's approach to climate change. Given the threat of severe impacts on the global economy posed by climate change, the IMF now views it as "macro-critical" and thus relevant to its mandate. In July 2021, the IMF released a staff paper outlining its 'climate strategy', titled *IMF Strategy to Help Members Address Climate Change Related Policy Challenges: Priorities, Modes of Delivery, and Budget Implications* (see *Observer* Autumn 2021). However, despite the devastating impact of climate change and the economic repercussions of the global response, with fewer voting rights and representation in the governance structure, middle- and low-income countries are subjected to the decisions and policies passed by the countries with the majority of voting power, which are creditors least likely to have to resort to IMF programmes. It is well noted that middle- and low-income countries produce low emissions but are most vulnerable to climate risks, hence the need to include them in formal decision-making processes.

The human rights legacy of IMF policies and programmes

The negative human rights consequences of conditions imposed as part of IMF programmes and loans are well-documented, including by my predecessors at the UN. Some of the notable structural changes imposed by the Fund on borrowers include austerity measures, devaluation of currencies, removing state subsidies and price controls, trade liberalisation and balancing budgets. Countries that have borrowed above 187 per cent of their quota share or have outstanding debt beyond three years, specifically under the Extended Fund Facility, are subject to the IMF's surcharge policy (see Inside the Institutions, *What are IMF surcharges?*). While the Fund argues that the policy restricts excessive borrowing by certain countries and generates important resources, other economists and experts have debunked these arguments and suggested that draining scarce fiscal resources for interest payments in times of crisis violates international law, including the right to development. Additionally, research has found the policy to be counter-productive and unnecessary. Surcharges unfairly shift the burden of financing the IMF's operating costs to countries, and therefore citizens, least able to bear the burden and structurally underrepresented in its governance.

Despite the well-founded and documented criticisms, the policy remains. This is particularly alarming given that current difficult economic conditions will likely result in increased IMF programmes. Recently, Argentina and Pakistan requested the Fund to drop the surcharges or temporarily waive interest charges, noting the adverse effects of the Covid-19 pandemic and the Russian-Ukraine war on the global economy. In August, myself, six UN Independent Experts and Special Rapporteurs, and two working groups sent an allegation letter under the UN Human Rights Council Special Procedures to the IMF Managing Director Kristalina Georgieva expressing serious concerns about the human rights impacts of the surcharge policy (see *Observer* Autumn 2022) . Unfortunately, to date the request for a response has not been forthcoming.

As the world, and particularly middle- and low-income countries, struggle to respond to the evolving climate, debt and inequality crises and in the context of this year's anniversary of the Universal Declaration of Human Rights, it is imperative that the IMF's principal shareholders immediately end the surcharge policy, develop a human rights policy and shift their attention to an inclusive governance and quota system.

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