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Resourcing Rights: What Does Financial Regulation Have to Do with Human Rights?

Tuesday, January 28, 2014
3:30-5:00 pm

Session Organizer:

- Lesley Carson, Director of International Human Rights, Wellspring Advisors

Facilitator:

- Lesley Carson, Director of International Human Rights, Wellspring Advisors

Panelists:

- Aldo Caliari, Director, Rethinking Bretton Woods Project
- Gigi Francisco, Coordinator, Development Alternatives with Women for a New Era (DAWN)
- Alvin Mosioma, Director, Tax Justice Network - Africa

Sponsor:

- Wellspring Advisors

Lesley Carson, Director of International Human Rights at Wellspring Advisors, opened the session by noting the importance of managing economic and fiscal systems for the fulfillment of human rights, as the programs and services that support these aims have one thing in common: they are not free. She highlighted the fact that if a government's economic system is set up in a way that prevents it from funding the needs of its citizens, including marginalized groups, then it cannot fully support the human rights of all. In addition, governments often fail to take into account the human rights dimension when creating fiscal policies and regulation systems, which further undermines the rights of their citizens.

Carson then honed in on the three main questions to be explored and answered through this session:

- What do we mean by issues of financial regulation/fiscal policy?
- Who is working on these issues?
- Where do these issues intersect with the populations human rights funders work with?

Aldo Caliari, Director of Rethinking Bretton Woods Project, responded to the first question of the session, discussing what it means to use a human rights lens when looking at financial regulation given the complex rules for today's economy. He explained that this process begins by looking at how sovereign states comply with human rights regulations within their financial regulation policies. He then noted there is no area of government activity that is exempt from human rights-related accountability, but this issue often receives very little attention. In particular, because people only start questioning financial policies during times of financial crisis when they see the negative impacts on their communities. Another issue brought up by Caliari is that the government only interacts with a few select parties on financial regulation, because these systems are so complex that only those with vested interests will invest in the time and effort to understand the system. Thus, another aim of applying a human rights lens to financial regulation, apart from making rules that conform to human rights principles, would be making it easier for the public to understand this information.

Next, Gigi Francisco, Coordinator at Development Alternatives with Women for a New Era (DAWN), discussed how her organization, a large feminist network, first become involved in financial issues, and how they originally made this connection. Francisco noted that, when initially looking at the effect of macroeconomic policy on developing countries of the Global South, most planners refused to recognize the fact that these economies are embedded in gendered institutional structures – that is to say, benefits are disproportionally realized by women compared with men. She also gave examples of three kinds of bias that they see frequently:

1. The unquestioned role of men as breadwinners: women are not recognized or paid for the work they provide in the home as caregivers, and become dependent on males to provide income and to gain access to government benefits (often available only through males)
2. Governments favor fiscal and monetary policies that prioritize low inflation, low public debt, low taxation, and small public budgets which limit public investments and fail to account for the social and reproductive needs of its population
3. Privatization bias: the belief that the private sector is more cost-effective than the public sector

Francisco emphasized that all three of these biases affect the lives of women and their households, leaving them without services or recognition of the value of their work. For example, women who become victims of domestic violence often find that they cannot leave because they have no other economic options.

Alvin Mosioma, Director of the Tax Justice Network – Africa, discussed the biggest challenges governments face in collecting tax revenue. Mosioma began by stating that poverty is a violation of human rights, therefore states are obligated to address this issue and need to raise revenue to address it. He then noted there are three fundamental issues related to tax collection:

1. **Revenue generation:** Many states' abilities to collect revenue are hampered by international forces due to debt payments, agreements, etc.;
2. **Equality and distribution**: Because many countries have a huge wealth gap, tax policy is a key tool for addressing income disparities and moving wealth from rich to poor;
3. Taxes as a **sustainable revenue** source.

On this point, Mosioma gave the example of Kenya. Up until a few years ago, the government would present the national budget to funders who were externally funding much of the budget. The more revenue a state has, the more it can independently decide what to fund without any reliance on or interference from these external forces, so a push to increase tax revenue was necessary. Still, Kenya faced a number of challenges:

- Reliance on a very small portion of its population as its tax pool, due to large informal sector;
- Use of a regressive tax policy shifted proportionally more of the tax burden to the poor;
- A very weak revenue stream and corresponding lack of capacity to collect this revenue.

Often, when states abide by international rules, the funding provided is typically structured in a way that funnels a lot of the money that states are supposed to receive outward. For every $1 that makes it to Africa, $10 ends up offshore.

Caliari noted that it is possible to improve financial regulation in order to mitigate the systemic risks caused by tough financial times, or in response to bad decisions made by individual companies. In fact, having proper financial regulation in place avoids these issues in the first place. In Europe, many holes were left in public finances, so during times of austerity, people now have to go without services. He then discussed the role of financial infrastructure in creating risks for human rights. Today, large banks and hedge funds finance big projects, but how do you hold them accountable for these investments? The impact on the food sector is a good example of where the use of financial markets to fund projects can cause problems in other sectors, such as the environment land and resource rights. Changing this picture means creating spaces where human rights advocates and civil society actors can come up with proposals that can serve as alternatives to current financial trends. Human rights supporters need to see that their opinion is valued and valuable, even if they are not experts in finance or financial regulation.

Francisco discussed the current capacity gap, and commented that many Global South activists do not have formal training in financial systems or come from an economic background. Generally, students of these subjects go on to work in the private sector. However, there are some academic programs and networks available where these technical skills can be developed. However, she felt that a lack of information and funding drastically limits people's ability to be active in spaces around financial regulation and fiscal policy. However, she has found that feminist activists are often welcomed to conferences, and that economists are generally supportive of feminist critique of economic issues.

Her organization, DAWN, participates in a number of collaborations and has found that the United Nations is increasingly becoming a platform for international negotiation, in particular on Bretton Woods issues. However, these institutions need to move beyond gender-responsive budgeting and conditional cash transfers to really understand how financial regulation affects women. For example, studies show that conditional cash transfers keep women in domestic work, but don't give them recognition, even when these programs sought a more equal distribution of labor in the home. Thus, Francisco argues that advocacy needs to move closer to Ministries of Finance. Often, women's groups do not have access to these bodies; they often only have access only to stereotyped "women's" issues, such as gender-based violence, reproductive health, etc. Even during the budget cycle, the Ministries tend to disregard women group's comments on economic issues due to bias against then.

Mosioma highlighted the fact that the private sector dominates fiscal policy formation. For example, the government will hold roundtables with private industries, which are encouraged to insert their preferences and give their opinions. In Sierra Leone, for example, Tax Justice Network – Africa was successful in working with the government to help them understand that the incentives they had created in the health sector had doubled the cost of care.

The tax system maintains an aura of mystery to many. To address this, Mosioma's organization worked to develop tax justice platforms with organizations working across issues to see how they could develop their capacity and how to raise their voices in the discourse. He provided the situation in Kenya as an example: up until eight years ago, public education was a cost-share proposition. The government covered the cost of teacher salaries and parents needed to pay for supplies and uniforms. Parents living in poverty often would have to choose which children to send to school, typically favoring boys over their girl children. However, the tax justice platform was able to change this system by making it illegal for parents to not send a child to school, and raised the government's revenue in order to improve funding for education. Moreover, the government's increased ability to collect revenue lead directly to an increased ability to fund social services, which in turn led to a greater awareness on the part of citizens in their role as taxpayers. Now, people understood through critical questioning that they could hold the government accountable about how it utilizes public funds. The Kenyan people were not as invested in the outcomes of the spending of aid funding they were receiving previously. Now that the people see their own money at work, they have taken more of an interest. Thus, Mosioma notes the role taxation can play in changing public awareness and sentiments.

Question and Answer

To what extent can you engage with Bretton Woods institutions such as the International Monetary Fund and the World Bank, or are they a lost cause?

Caliari noted that it is possible to engage more, and that these institutions have made a few changes, particularly with regards to transparency: the World Bank is more open, and the IMF has revisited some of its policies. However, there has been very limited change in favor of human rights, and big threats that they will move backwards, especially in terms of environmental progress and safety. Mosioma added that these institutions say they listen and invite civil society to their forums, but the agenda never seems to change from its original course.

Another participant asked why banks are not regulated to be more accessible to marginalized groups: *Many people living with disabilities find that accessing bank accounts is often not possible. Is this an issue that receives any attention?*

Caliari said that there have been several workshops to discuss these issues in developing countries– though the definition of a marginalized group is typically broader, and often focused particularly on women – but not disability as a separate issue. In the US, it was Alan Greenspan who refused to let banks to collect information on who was receiving loans, credit, etc. for a long time out of fear that it would be used to marginalize people. However, this position was revisited after the financial crisis as the result of a lot of collaboration on the issue.

Another participant was concerned about current international agreements with huge corporate interests: *Will this be a race to the bottom? Will they engage with public?*

Caliari said that the situation was more positive in terms of the European Union/United States agreements, due to the pressure to input certain rules by European governments. However, he remains concerned about the many contradictions that arise from creating additional sets of rules, some that are arguably worse and some about the same as before, and also the fact that the space countries need to regulate their sectors to prevent crisis might be removed through these agreements.

Would it ever be possible to implement a minimum corporate tax?

Mosioma noted that the main problem is the race to the bottom. In Africa, companies pay a 12% tax rate, but the big question is transparency. Depending on what kind of economic activities are taxed, companies figure out how to structure their operations depending on what is most advantageous. Thus, there is a tendency to inflate the costs of imports. For example, a company that owns a brand in Europe and then sells to its Netherland subsidiary at higher price will end up paying less taxes. Therefore, it would be necessary to have a regulatory body for type of tax. For now tax remains a state issue.

Many critics of human rights organizations and environmental movements say that these groups are against all forms of economic development. How would the panel respond?

Francisco pointed out that these movements are only against economic development when social objectives become an afterthought. Therefore, they are not against growth, but are vocalizing the need to balance both the economic and social ends of growth. For example, economists have said that double-digit growth is not necessary all the time for global wellbeing to improve in areas such as education and health. We need to change the indicators for what a successful policy is or what a good business environment looks like: for example, looking at how risks are distributed among a population, and looking at how the malevolence of financial entities is tempered to ensure long-term sustainability.

Caliari added that human rights organizations should be the standard-bearers of development. He felt that viewing economic and financial issues from the angle of human rights would create lasting, sustainable change and better access to services. When governments inadequately provide services in the long term, it creates fragility in the citizenry, which is bad for the overall macroeconomic situation of a country. He noted that communities are often displaced for infrastructure projects –under the guise of advancing community goals such as building a road and schools—that mainly benefit corporate interests. Therefore, these communities need to be involved, and claim the grounds for development.

Closing the session, Carson asked the panel what they see as the greatest opportunity for funders to support this work?

- Francisco: An important area to fund would be the creation of a platform of academically trained economists and women's rights activists who could generate and guide macroeconomic policy in the future, including many different delegates from the Global South.
- Mosioma: Capacity is the biggest constraint, so support is needed to help civil society organizations understand and engage these issues of financial regulation.
- Caliari: Capacity building should be focused more on helping civil society organizations create their own policies, harness local creativity, and build their confidence in working on regulation and fiscal policy issues. He also noted that groups learn most by doing, and in this case, people can learn by being included in the process of developing specific regulation or policies. Funders should find ways of supporting this type of learning experience and knowledge sharing.