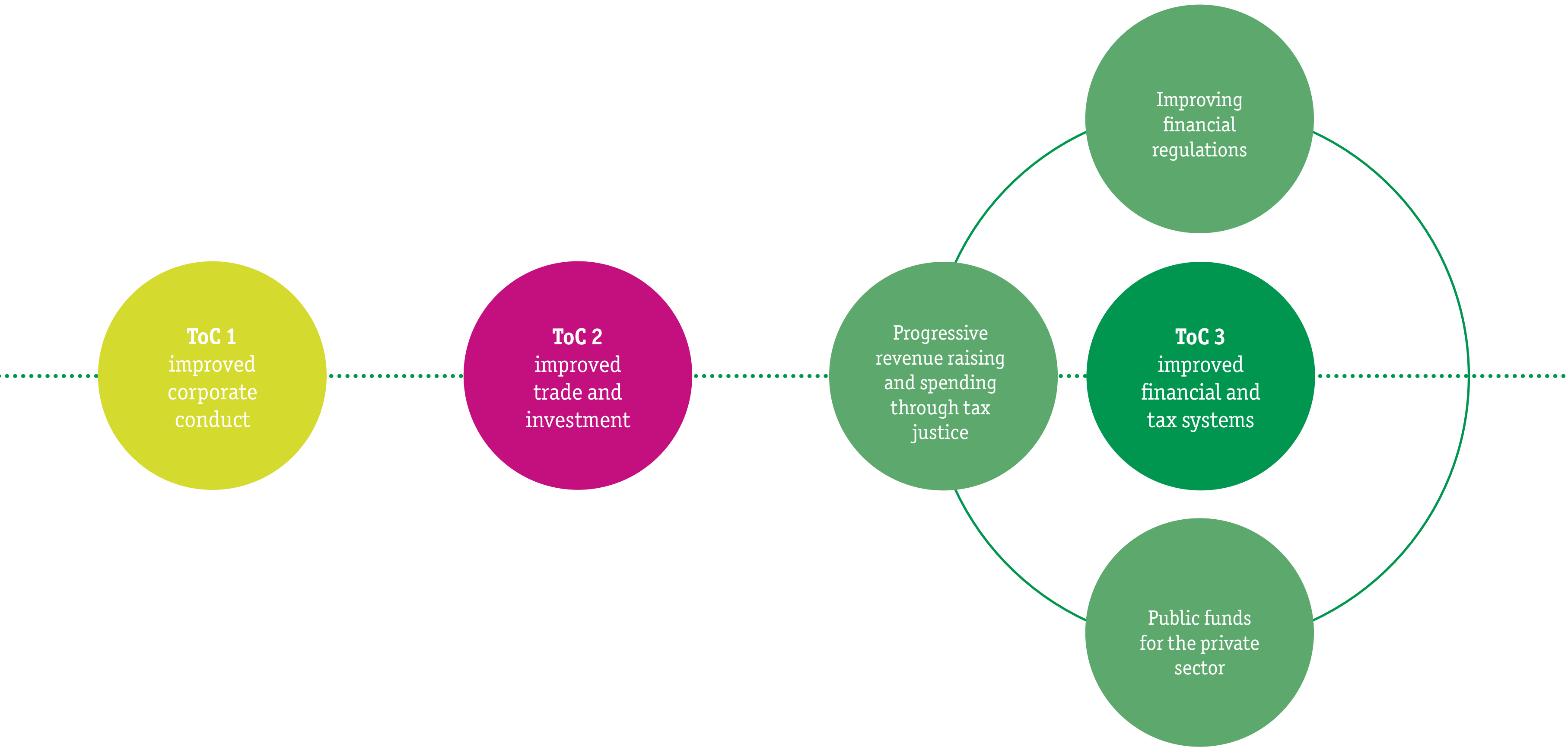
The current state of affairs on financial and tax systems

The Fair, Green and Global Alliance's interpretation of its ToC3 baseline study

In January 2016, the Fair, Green and Global (FGG) Alliance (ActionAid Netherlands, Both ENDS, the Clean Clothes Campaign, Milieudefensie (Friends of the Earth Netherlands), SOMO and Transnational Institute) has entered a Strategic Partnership for Dialogue and Dissent with the Dutch Ministry of Foreign Affairs. This partnership is aimed at contributing to socially just, inclusive, environmentally sustainable societies within three interlinked leverages, or Theories of Change (ToC):



Between January and July 2016, a baseline study of ToC3 was carried out by Profundo. This study, which was organised as a context analysis and stakeholder review, looked into the three sub-themes and in total six dossiers within these sub-themes.[1] The aim of the study was to clarify the current state of affairs of financial and tax regimes worldwide; the status of relevant policy processes with regard to financial and tax regimes; the space available to Civil Society Organisations (CSOs) to intervene in these policy processes; and the main assumptions in FGG's ToC on financial and tax systems.

The baseline study was developed in a participative process, whereby FGG Alliance members were asked to write concept notes, participate in two rounds of discussions, provide additional written inputs and give feedback to the draft report. Profundo combined all inputs from the FGG Alliance members and used desk research and interviews with partner organisations of FGG Alliance members to triangulate, update and find references for a common understanding of the FGG Alliance members. Gaps and other questions were researched further, based on policy papers, media reports, CSO reports, scientific sources and interviews with experts.

This summary contains information found by the researchers. The contents of this summary do not necessarily reflect the position of the FGG Alliance in these matters. This summary does give an overview of what we as FGG Alliance consider the most important and relevant outcomes of the study. The full reports (including lists of abbreviations), along with a management letter, which includes a response of the FGG Alliance to the study reports, can be found on the FGG website.

[1] For the seventh dossier in this ToC (3.3.3 – The Negotiated Approach: Involving communities in participatory and climate proof integrated water management and in influencing water related investments) a separate baseline study was carried out in view of the distinct nature of this particular dossier.

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RESEARCH & ADVICE

1. The baseline on the FGG Alliance's Outcome Areas

The FGG Alliance has defined six Outcome Areas that together and in an iterative process lead to improved financial and tax systems. Some major insights resulting from the baseline for each of these Outcome Areas are:

A

enabling environment

The extent to which an enabling environment for civil society is in place differs between countries and - on the international level - between different themes. In the field of financial regulation the door is largely closed for CSOs, while they have better access to debates on public financial institutions and the international policy agenda on taxation.

B

capacities strengthened

CSOs' capacity is generally strong when it comes to influencing the debate on tax; and challenging the weak policies and implementation failures of safeguards through public campaigns, advocacy and the use of grievance mechanisms. Room for improvement lies in the knowledge of CSOs on the status of, and processes at stake in, national financial systems and financial sector regulation; in communicating more complex issues in finance and tax; and with regard to experience in policy influencing in these areas.

C

alternatives developed

There has been a rise in initiatives aimed at increasing support for sustainable finance both in general and to developing countries. Examples of these are China's Green Credit Directive, India's and Brazil's policies on profit shifting, an increasing role for public banks, and using public-public partnerships as a financing mechanism for infrastructure development. A number of these initiatives have been taken further, but at the same time, it appears to be rather difficult for CSOs to develop and promote alternatives, not least because of the limited openness of national, regional and international financial sectors to CSO engagement.

D

agendas set

In the tax debate and in the debates on safeguard policies and accountability mechanisms of public financial institutions, CSOs are able to influence the agenda effectively. Political forces feel obliged to find answers to the problems put on the agenda by CSOs. This is much less the case in the debates on financial regulation, PPPs and public spending.

E

policies changed

Biggest opportunities to change policies on the international level lay in the fields of tax regimes and safeguard and accountability mechanisms of public financial institutions. At the national level in the Netherlands, tax policies and public finance policies also offer opportunities for change. At the national level in partner countries, the strongest opportunities are with financial regulations and policies on public spending.

F

practice changed

Quite a lot of policies that promote sustainable and equitable financial and tax systems are in place or preparation, but implementation is often lacking. If and when changed policies are indeed implemented effectively, both at international and national levels, depends to a large extent on the capacities of CSOs to continue monitoring developments and maintaining long-term pressure for effective implementation to contribute to socially just, inclusive, environmentally sustainable societies.

2. Mutual capacity development for improved financial and tax systems

Mutual capacity development in the FGG programme

The FGG Alliance defines mutual capacity development as a process of strengthening skills, knowledge and network contacts, involving FGG Alliance members, Alliance partner organisations (CSOs) in LLMIC and other countries, and key networks and their members as equal partners. FGG members and partner organisations are all part of the same global network contributing to a socially just, inclusive, environmentally sustainable world, by combining their complementary roles, locations, expertise and capacities, and by mutually enforcing capacities to better lobby and advocate.

Capacities are strengthened through:

- Direct capacity development: trainings, workshops, et cetera, contributing to knowledge and organizational capacity;

- Indirect capacity development: mutual learning, skills development and strengthened network contacts through joint research, lobby and advocacy processes and collaboration;

- Capacity development as a result of lobby and advocacy efforts and results: capacity development can be a result of changes achieved through the FGG programme, or in general efforts made to influence policies. Programme results regarding, for example, an enabling environment for civil society might contribute to increased legitimacy and credibility of FGG partner organisations; or policy shifts achieved in the North might open new opportunities for Southern partners to influence international policy or their own governments.

Mutual capacity development is an integral component of the FGG programme in general and ToC3 specifically. Mutual capacity development in the FGG programme is geared towards contributing to the advocacy, research and networking capacity of FGG Alliance members and their partners. A separate baseline study has been carried out of mutual capacity development, between March and July 2016. This study shows that, when it comes to Improved Financial and Tax Systems, the current state of capacity is as follows:

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Advocacy capacity

Both FGG Alliance members and partner organisations have longstanding experience in developing and implementing lobby strategies. The FGG programme has enabled FGG partner organisations to be involved in policy processes in the 'North', which greatly contributed to the effectiveness of such lobby and advocacy. They have been involved in lobby with the World Bank, ASEAN, EU, IDB and many other institutions and governments. The FGG Alliance's ability to adapt to changing circumstances, to identify and proactively work on critical global issues before they become mainstream concerns, and to connect and mobilise relevant actors to jointly advocate for fundamental change in the financial and tax systems, are core to the Alliance's advocacy capacity on financial regulation and tax policies.

FGG Alliance members and partner organisations do see room for improvement when it comes to advocacy; particularly with regard to strategizing (e.g. for engaging with governments), campaigning and movement building, and strategic planning. Also learning how to quickly anticipate and respond to actual developments in the context of high workloads and internal planning and reporting requirements, as well as enhancing mobilisation of grassroots and better connecting North-South linkages are considered areas in which some FGG Alliance members and partner organisations could further develop themselves.

Research capacity

High levels of content knowledge are a major strength of the FGG Alliance. Members and partner organisations have highly specialised staff members and institutionalised expertise on a variety of issues, ranging from climate finance and its local implications to tax avoidance through mailbox companies. Their sound research is often widely shared.

Research capacity of organisations new to this area or type of work is needed for a thorough understanding of, adequate response to, and strong communication of complex issues around tax and finance. This could be improved by capacity development on e.g. participatory research, policy analysis, investigative journalism, gender analysis and financial research.

Networking capacity

Many FGG Alliance members and partner organisations have access to – and often influence on – a wide range of relevant actors and sectors (i.e. governments, decision-makers at various levels, financial institutions, and media). Also their capacity to engage in, contribute to and benefit from relevant networks of allies is considered important in their lobby and advocacy.

With regard to networking capacity, FGG Alliance members and partner organisations aim to strengthen their capacity to initiate new and strengthen existing networks. Many see a need to increase collaboration among like-minded organisations, and wish to increasingly connect with organisations that represent other stakeholder groups, to harmonise, cooperate, complement and learn from each other.

3. The current situation on financial and tax systems

In addition to the baseline on the FGG Alliance's Outcome Areas and mutual capacity development, a descriptive analysis has been made of the current state of affairs on financial and tax systems and the relevant policy processes therein, researched and documented as per the FGG Alliance's thematic working areas:

1. Improving financial regulations

Regulating a financial sector that supports sustainable development by raising the voice from the South

On the global level, political agendas have shifted back from regulating the financial sector to expanding and liberalising it, under the influence of a powerful financial sector lobby and a difficult economic climate. The door is largely closed to CSOs; fundamental shifts in the financial system are no longer discussed. There exists, however, an opportunity for CSOs to include clear requirements on climate change and other environmental, social and human rights risks in EU and global regulations on pension investments and climate finance. And while in many LLMICs the capacity of CSOs and the political space for engagement is limited with regard to national financial regulations, there is significant scope for improvements in the quality of analysis and to step up engagement.

Developing alternative ideas and increasing support for a sustainable financial sector in developing countries

CSOs have relatively good access to some innovative financing mechanisms and forums, such as the Green Climate Fund (GCF) and Financing for Development (FfD), but often have little influence over their agenda and policies. Additional funding for these mechanisms is necessary and the focus needs to be on the sustainable accountability of investments, as there is the risk that the rush to deliver more private funding prioritises the needs of private sector financial institutions over the needs of recipients.

Financial regulation in emerging economies offers more scope for establishing new sustainable financing approaches than in OECD countries. On the EU level, sustainable financing is increasingly seen as a priority, particularly by the Netherlands.

2. Progressive revenue raising and spending through tax justice

Progressive revenue raising through tax justice
CSOs have been relatively successful in the past years in influencing the debate: key stakeholders globally have acknowledged the link between tax expenditure and human rights. Nevertheless, the dominant processes for international tax reform – principally OECD BEPS and FfD – have proved resistant to incorporating CSO and developing countries' priorities. The revolving door between public tax authorities and professional services and accounting firms remains a very large problem, which increasingly affects developing countries.

Recently, the Panama Papers scandal has opened up more space for change, offering a key strategic opportunity in many countries as demand for public services and more accountable institutions rises. The regional (e.g. African or European) level seems to be most important for addressing vital issues such as transfer pricing and harmful tax incentives.

Progressive spending to achieve economic and environmental justice
The widening of the infrastructure gap in developing counties suggests that new paradigms, policies and processes are needed. The lack of investment in and provision of essential public goods and services (i.e. schooling, healthcare, sanitation, et cetera) is perpetuated by three distinct issues, namely insufficient budgetary allocations and (mis)management by governments; dependence on Public-Private Partnerships (PPPs) as the main financing and delivery tool; and the decrease in ODA budgets of international donors. Although PPP as a development policy has failed with only 10% of implemented projects showing positive impact, it remains the preferred option of governments over exploring alternatives promoted by CSOs, such as Public-Public Partnerships (PUPs) or Public Banks.

3. Public funds for the private sector

Strong standards and policies in public finance for the private sector
CSOs have created greater awareness about the risks of increasing IFI financing through financial intermediaries, but the volume of such funding continues to grow, with FMO as one of the main Dutch players. Also the role of ECAs, such as Atradius DSB, is growing, yet they are not transparent, are poorly regulated and have weak safeguards.

CSOs (both local and international) have developed strong capacity to challenge weak IFI policies and safeguard implementation failures. The ongoing review of the World Bank's safeguard policies offers opportunities, although CSO objections have not gained traction yet. Policy reviews by Atradius DSB and FMO are also relevant as there is scope to increase political pressure and expose the weakness of ECA standards. The emergence of the 'BRICS Bank' and the AIIB raises concerns about their safeguards, but might also enable CSOs to challenge the inertia of the leading IFIs as these new banks might be less resistant to engagement.

Enforcement of private sector standards for development finance and access to remedy

Development finance institutions are increasingly powerful economic actors while not subject to robust accountability mechanisms holding them responsible for violations and abuses linked to their operations. Similarly, IFI funding for private enterprises does not always require adherence to the voluntary OECD Guidelines for Multinational Enterprises.

The majority of DFIs have accountability and complaint mechanisms in place with varying levels of independence and quality. Such mechanisms, however, are still inaccessible for individuals and communities that suffer human rights abuses as a result of corporate investments. The review of the safeguard policies of FMO and Atradius DSB creates opportunities to introduce effective operational safeguards, better information disclosure policies, and independent grievance mechanisms. Dutch CSOs have access to these discussions but their foreign CSO partner organisations usually do not, leaving them with limited influence in policy negotiations.