



HUMAN RIGHTS, INVESTMENT AND SOCIAL RISK INSURANCES IN A PERIOD OF FINANCIAL GLOBALIZATION

Input by Gigi Francisco (DAWN)

The presentation is mainly preoccupied with the linkage between human rights and how we respond to risks in an increasingly unpredictable and volatile environment that is spawned by financial market liberalization. I will also briefly touch on the problem of establishing accountability or attribution of causes related to certain developments in the economic realm, using as an example attributing negative impact on gender from trade liberalization policies. And finally I will flag possible HR-informed text that might be considered for the Doha declaration.

My intervention draws from work some feminist economists have carried out in examining the social content of macroeconomic policy from a consideration of social reproduction and the promotion of socially responsive alternative development perspectives and policies that respect and promote human rights especially women's rights and within it, the principles of non-discrimination, equality and state obligation.

Financial volatility and crises

Overall not only is there a higher degree of volatility in financial markets characterized for instance by sharp swings in stock prices and exchange rates; increase movement of capital but there is also increased tendency toward financial crises - Systemic Risk – risk of collapse or malfunctioning of a system (contagion effect); Systemic Events – large magnitude or pervasiveness of an event leading to Mania (speculation), Bubble, Crash, Crisis / melt-down.

The unpredictable and volatile environment referred to here stems from a mix of policies linked to financial market liberalization or financial globalization. This mix includes the proliferation of such policies as: Development of stock markets; Incentives to attract foreign capital; Removal of interest rate control; Removal of restrictions in foreign currency holdings of banks; Dissolution of functional boundaries between banking and securities activities.

The widespread diffusion in developing countries of privatization and liberalization policies such as just mentioned is linked to structural adjustment programs of the IMF and the World Bank. An institutional environment that is friendly to mobile capital allows firms to invest in countries whose market and non-market (i.e. political, regulatory, legal and administrative) environments are quite different from those of the countries where they are already established.

Such an environment has also encouraged increase in risk taking activities of banks and other financial institutions as well as the increase in speculative behavior of traders

and investors. At the same time there is difficulty in assessing risks presented by new financial assets (mutual funds / bundling up risky and non risky investment).

Investment risks and protection

Hence bank and non-bank investment companies, including governments that provide export credit, have devised and continue to devise strategies that enable them not only to take advantage of rewards but equally important protect them from risks as they enter different countries. Investor risks cover both commercial and non-commercial risks. Non commercial risks include losses from currency transfer restrictions, direct and indirect expropriation, confiscation and nationalization, bureaucratic vagueness, lack of transparency and corruption, and political violence.

Today a variety of Political Risk Insurance or PRI but also project financing and investor services are being offered by national (example: Overseas Private Investment Corporation – OPIC of the USA –initially public but made private in the 1970s which de facto started the PRI market), multilateral, and private insurers. They are utilized by investors to mitigate country risks associated with emerging market debt and equity investments, and lending.

Mention must also be made of the Arrangement on Guidelines for Officially Supported Credits (otherwise known as The Arrangement) is the oldest institutional framework to limit economic and political risks and competition in export credit among governments. The OECD-DAC established in 1961 also provided support to reduce what it sees as unfair commercial advantage linked to government-backed investments abroad. While the WTO Agreement on Subsidies and Countervailing Measures had prohibited export credits as export subsidies, it has also recognized that for as long as export credits are in conformity with OECD interest rate provisions, they cannot be challenged as a prohibited export subsidy. And finally there is the World Bank's Multilateral Investment Guarantee Agency ("MIGA") which has provided political risk insurance for capital investment by developed nations into emerging economies. It should also be pointed out that officially supported export credits represent almost half of developing countries' debt to official creditors, including the World Bank, the IMF, regional development banks, and multilateral and bilateral agencies (largely due to the fact that government guaranteed debts to private corporations became sovereign debts).

Social risks & protection

Without doubt, a risky environment induces vulnerabilities among households and individuals. The notion of vulnerability is distinct from but connected to poverty (income to meet basic needs – poverty line / A household can be vulnerable but not necessarily poor. Vulnerability is more about household resources falling short of meeting basic needs and services necessary. It doesn't always happen but there is a probability that it will happen. Vulnerability is thus **financial stress/distress** leading to for instance basic education and health of household members being at risk. And whenever this happens it is women who act as financial managers and care givers who suffer the most.

And looking at the big picture for social protection – which includes long-term and universal social insurance, targeted social protection/assistance and social safety nets for mitigating short-term shocks, we arrive at completely different picture. We know of course the attack on social policy space that had been going on since the early days of structural adjustment programs.

Here is one part of the larger picture: In comparison to the enormous data tracking financial flows from developing countries, there is inadequate data on the performance of social protection expenditure, the coverage of persons, the scope of protection, or the level of protection. Not enough attention is being paid to the ILO's social protection expenditure survey (SPER) which requires an a prior definition of what is meant by social protection. The International Labour Organisation (ILO) refers to the minimum standards for social security as stated under the ILO Convention No. 102 of 1952. It covers social risks causing a worker to be incapacitated and unable to earn a living, such as sickness, maternity, disability, work injury, old age, or unemployment; it also covers the meeting of basic family needs, often in relation to housing and education.

Another piece of the larger picture may be gleaned from an UNRISD study found trade and industrial policies profoundly affecting the cost and effectiveness of health systems worldwide. It recommended a move to place health policy needs at the centre of industrial and trade regulation at both international and national spheres is essential, echoing what many in civil society had demanded. It argues for rebuilding public sector provision for reshaping the market and competitive framework for the private sector pointing that inclusive health policy is particularly likely to require strong constraints on private health insurers. (UNRISD Research and Policy Brief 7).

Minimal or no safety nets, low levels of public expenditures per capita and poorly designed modes of delivery of basic services such as health care, education, safe water, sanitation, and commercialization of health services through liberal investment regimes, certainly increase risks and shocks faced by household.

Challenge of attribution using conventional economics

Clearly there is a violation of the individuals' human rights of ordinary people suffering from heightened vulnerability arising from a volatile financial environment that had been created by a set of policies framed by an institutional context favoring capital investments. A human rights perspective says that when there is a violation, we need to exact accountability on those who are responsible for the financial turmoil. But how easy can we do this?

I leave you with some food for thought by sharing with you some thinking made by a colleague on this question of accountability in relation to trade, women's rights and gender equality. Durano (2007) says:

"The importance of attribution in accountability requires an understanding of the difficulties attached to establishing causality, especially in hypothesis testing. One limitation is the poor data available for describing for instance the forms that failures in

associational capabilities of women can take. Fontana (2003)'s review of empirical evidence begins with the criticism that "[a]nalyse[s] are still limited by the absence of gender-differentiated data in many areas *and the difficulty of disentangling the effects of trade liberalisation from those other simultaneous changes* (Fontana, 2003: 1, emphasis provided)." Among those changes, and a second source of difficulty, is the multitude of trade agreements outside of the WTO, such as regional trade agreements and economic partnership agreements as well as bilateral trade and investment treaties, all of which have an impact on the policy choices available to countries. Thirdly, macroeconomic policy conditions are attached to loans extended by multilateral financial institutions^[1]. A further complication is the relationship of the international trade regime with the international financial and monetary system. In particular, the impact of trade policies is affected by exchange rates, which are not "managed" at this stage except among developed countries that control the major trading currencies^[2]."

"Thus, the existing complex of international trade rules and trade reforms bear multidirectional and unclear implications to gender relations and women's empowerment and well-being. The same trade policy may produce a wide range of outcomes for women, given the distinctive characteristics of an economic system and the specific characteristics of gender norms in which it is embedded. Another is the contradictory effect of liberalization reforms that are simultaneously pursued. Gains for women in one area, for instance, industry reform, may be overturned by risks spurred by liberalization in another area, say, services."

"Another aspect to take into account is direction of causality. One direction is when gender relations—expressed as differences in labor market status or the division of labor between subsistence production, domestic production and export production—can have an impact on the terms of trade or the viability of export expansion. Another direction of causality is the impact of trade policy changes or the expansion of international trade on gender relations. Van Staveren, [et.al.](#) (2007) is a collection of articles that look at both directions of causality. Seeking accountability for negative outcomes of decisions stemming from the international trade regime will require an ability to identify manifestations of negative outcomes (especially in relation to failures in associational capabilities of women) and the cause behind the outcome as well as attaching responsibility for the outcome. Manifestation of failure might include the following: a widening of an economic gap between women and men; or, more women experiencing losses than men; or, a generalized loss (whether equally experienced or not)."

Proposed HR-informed text for the Doha Declaration on FFD Review

With this as huge a challenge in the backdrop, we are nonetheless going to try to incorporate human rights-informed text into the draft Doha declaration. Below are my specific recommendations for the section on Investments

Paragraph 14 misses the chance to make connections between the business environment and development objectives. We could introduce language that establishes this link and which explicitly such as a text that reads: "*ensure that private capital flows*

strengthens rather than undermines the realization of minimum core essential levels of development and minimum core obligations of states with a view to the progressive realization of rights and widest possible enjoyment of relevant rights."

Para 15 can be trimmed down by deleting the reference to "*and to devise ways by which ODA can play a catalytic role in the mobilization of private flows*" We don't need more of ODA to be linked to underwriting investment and trade because a large majority already is! In contrast, we should include language that prompts policymakers to draw the link between ECA and unsustainable debt and ask for *a review of debt management initiatives toward strengthening debt exit strategies.*

Para 17 may be strengthened by flagging an appropriate human rights agreement or resolution, including a reference to *a rights-based approach to development that includes devising ways to make governments accountable for violations of human rights committed by investor, or for retrogressive measures that make it more difficult to realize rights."*

Para 20 on economic information: This could offer a counterweight to information from credit-rating agencies with their market-only orientation, along with the stipulation that this information should be "based on broadly accepted, objective and transparent criteria" But could be strengthened by introducing a reference to *rights-based criteria, procedures and tools, a appropriate."*

Para 21 which is a reference of remittances: I agree with the position of G77 countries to delete this is a private transfer and not an investment.

[1] Singh (2002), cite other sources

[2] Existing multilateral institutions are unable to influence the mechanisms for redressing current account imbalances of these developed countries. Among the weakest points in the current system is the inability to deal with exchange rate misalignments caused by volatile short-term capital flows (UNCTAD 2006).
