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WIDER BACKGROUND NOTE

Reforming the international financial architecture

An international fiscal architecture

How to humanize finance

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Abstract: There is no intergovernmental body on global financial issues to provide a neutral place for discussions and negotiations. This is being debated currently by civil society, academia, and member states in different international fora, and while the idea itself is important, what is even more critical is that the entity that comes into being is a principle-based space. This will be a place for member states to come forward and manage discussions on unsustainable and irresponsible borrowing and lending, illegitimate debt, conditionality and harmful economic reforms, unfair taxation, fiscal mismanagement, illicit financial flows, the limited ability of the current international financial architecture to resolve problems while keeping human beings and the planet as the central focus.

Key words: international fiscal architecture, global fiscal social contract, human rights-based principles, lifecycle approach, debt management

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Introduction

Fiscal legitimacy is when a society trusts that the institutions managing its fiscal resources **are acting in the public interest and the best interests of its people** as much as possible.[1] It rests on a 'social contract'—the state, on one side, is entrusted with the authority to raise, allocate, and use public resources and society, on the other side, contributes such resources on the agreement that these will be used for the public interest. Public money can come from **debt, tax, aid, grants, government business, or revenue from mining and other natural resources**.[2]

Raising living standards and the progressive realization of all human rights should be the cornerstone of all state's financial decisions. States do not always use their fiscal authority to improve lives, leaving the population to **feel that fiscal contributions are a 'necessary burden' with no commensurate benefits or guarantees**.[3]

As **UN Trade and Development (UNCTAD) defines it**, 'the international financial architecture (IFA) is a framework of institutions, policies, rules and practices that govern the global financial system. Its aim is to promote international cooperation with a view to ensuring global monetary and financial stability, enabling international trade and investment, supporting the mobilization of the stable and long-term financing required for economic development, combatting the climate crisis, and achieving the Sustainable Development Goals'.[4]

The IFA '**revolves around the provision of two international public goods**: finance for development and a financial safety net. […] [t]he concept of public goods under the aegis of the [IFA] has been broadened to include human rights, workers' rights, and environmental standards'.[5] This greatly underscores the place of the IFA in the realization of the fiscal social contract and the human rights economy. States bear ultimate responsibility for ensuring compliance with international human rights obligations and preventing any 'contracting out' of fundamental guarantees. Effective implementation requires that government at all levels be aware of and committed to these obligations. This also includes the **current and ongoing exploration of the UN's role** in creating an intergovernmental body on fiscal issues, encompassing debt, taxation, and illicit financial flows.[6]

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[1] Waris, A. (2019). *Financing Africa*. Cameroon: Langaa RPCIG.

[2] Waris, *Financing Africa*; and Waris, '**Taking stock and identifying priority areas: a vision for the future work of the mandate holder**' (A/HRC/49/47).

[3] Waris, A. (2013). *Tax and Development: Solving Kenya's Fiscal Crisis through Human Rights*. LawAfrica Publishing (K) Limited.

[4] UNCTAD (2024). 'Chapter IV. Reforming the International Financial Architecture: The View from UNCTAD'. *Trade and Development Report 2023*. Geneva: United Nations. Available at: **https://unctad.org/system/files/official-document/tdr2023ch4_en.pdf**.

[5] Subacchi, P. (2022). *China and the Global Financial Architecture*. Bonn: Friedrich-Ebert-Stiftung e.V. Available at: **https://asia.fes.de/news/china-global-finance.html**.

[6] Resolution adopted by the General Assembly on 22 December 2023 [on the report of the Second Committee (A/78/459/Add.8, para. 12)]. 78/230. 'Promotion of Inclusive and Effective International Tax Cooperation at the United Nations'. Available at: **https://documents.un.org/doc/undoc/gen/n23/431/97/pdf/n2343197.pdf**.

The underpinning human rights-based principles

The principle of do no harm

Under international human rights law, states have an immediate obligation to (continuously) take forward steps, to the maximum of their available resources, towards the realization of all human rights.[7] The International Covenant on Economic Social and Cultural Rights (ICESCR) has repeatedly observed that 'available resources' refers to both the resources existing within a state and those available from the international community through international cooperation and assistance, as stated in article 2.1 of the ICESCR.[8]

States have significant discretion in defining, allocating, and using resources, but this discretion is neither unlimited nor beyond scrutiny. States are also under an obligation to ensure, at all times, at least minimum essential levels of each economic, social and cultural right[9] and to protect—even and especially in times of severe resource constraints[10]—the most vulnerable and disadvantaged members and groups of society.[11]

States must not adopt deliberately retrogressive measures—measures which intentionally entail a backward step in the level of enjoyment of economic, social and cultural rights (ESCR)—such as the introduction of legislation or policies with a direct negative effect on the enjoyment of ESCRs, or containing discriminatory provisions, or abrogating ESCR-favourable legislation without replacing it with equally or more consistent law or with compensatory measures. Retrogressive measures are prohibited and amount to a violation of the ICESCR.[12]

This can be termed as a do no harm approach. This approach should extend beyond economic, social, and cultural rights to include civil and political rights. While resource constraints may challenge the progressive realization of human rights, maintaining progress to date remains crucial, alongside efforts to advance human rights with a clear vision. A fiscal social contract, through a human rights

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[7] ICESCR, General Comment (GC) No. 3, para. 2. **As Moudud puts it**, 'forward' steps must be such 'both in qualitative and quantitative terms (i.e. improving the implementation of the rights as well as gradually expanding both the number and the range of people who can access the rights)' (p. 119). See i.a. OHCRH, **International Covenant on Economic, Social and Cultural Rights**, art. 12.

[8] ICESCR, GC3, para. 13; Committee on Economic, Social and Cultural Rights (CESCR), '2016 Statement on Public Debt', para. 5; Limburg Principles, E/C.12/2000/13, principle 26.

[9] ICESCR, GC3, para. 10; Maastricht Guidelines, E/C.12/2000/13, guideline 9.

[10] ICESCR, GC3, para. 12; 2007 Statement on Maximum Available Resources, E/C.12/2007/1, para. 4.

[11] ibid, para. 12; General Comment No. 5, 'Persons with disabilities' (1 January 1995) para. 10; General Comment No. 6, 'The economic, social and cultural rights of older persons' (7 October 1996) para. 17; General Comment No. 12, 'The right to adequate food (art. 11)' (12 May 1999) E/C.12/1999/5, para. 28; GC 14, para. 18; General Comment No. 17, 'The right of everyone to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he or she is the author (article 15, paragraph 1 (c), of the Covenant)' (12 January 2006) E/C.12/GC/17, para. 20; General Comment No. 18, 'The right to work (art. 6)' (6 February 2006) E/C.12/GC/18, para. 12.

[12] Statements concerning the presumption of the impermissibility of retrogressive measures can be found, inter alia, in General Comment No. 13, 'The right to education (art. 13)' (8 December 1999) E/C.12/1999/10, para. 45 and GC14, para. 32; Maastricht Guidelines, guideline 14(e).

lens, and the greater legitimacy of fiscal authority as a result, **can be achieved through the fiscal—financed by public expenditures—and progressive realization of all human rights.**[13]

The lifecycles of humans, debt, and elections

Assuming a state has the revenue and there is budgeted spending on healthcare and supporting social services, children conceived and born in this period may be more likely to receive prenatal and early childhood nutrition and families with work are more likely to provide adequate nutrition, ensuring children grow up healthy. With better finances, the state public and private health care system may have better funding preventing childhood disease, malnutrition, or weak bones and teeth. The schooling system may be better, and the child better educated to face life as an adult.

However, if funds are not well managed domestically, the economy and human capacity may not be achieved. This is frequently evidenced by stalled projects across the world, the result of corruption, poor fiscal management, and currency fluctuations which leave budgets and therefore programmes constrained.

The rise of violent conflicts globally has similar effects. Recent conflicts like Ukraine-Russia affected fertilizer and food prices; sanctions on Iran affected fuel prices; and terrorism in Afghanistan and Pakistan delayed the achievement of complete global vaccination for polio. The Palestine–Israel conflict has also **used tax as a tool to redirect conflict.**[14]

Debt issuance is sometimes used before elections, to acquire funds for politically motivated campaign-related expenditures, while repayment falls on the next government. As most debt agreements are private, societal oversight is lacking and public participation is absent, eroding trust between state and society and undermining the fiscal social contract.

The effects of state financial decisions on human beings and their rights at the global, regional, national, and subnational levels can be seen:

1. When taking on debt, creating a tax, or engaging in illicit financial flows.
2. When beginning repayment of interest 5 years later.
3. When trying to prevent default of the debt agreement 5-10 years later.
4. While defaulting from 5 years to the completion of the final debt payment.
5. While trying to push towards mainstreaming human rights or prioritizing social spending.
6. With regime changes.
7. During crises such as wars and conflicts, health, and climate crises.

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[13] UN Independent Expert Foreign Debt, **Fiscal legitimacy through human rights: a principled approach to financial resource collection and allocation for the realization of human rights** (A/HRC/55/54).

[14] UN Independent Expert Foreign Debt, Letter to Israel on Tax, 12 April 2024. Available at: **https://spcommreports.ohchr.org/TMResultsBase/DownLoadPublicCommunicationFile?gId=28937**.

All the above affect the lifecycle of a human, from before conception to death and often beyond; in settlement of an estate and its linkages to the fiscal system of the 'lifecycle approach'.[15]

The state of the global fiscal social contract

The fiscal social contract is not enshrined in law but is a practical necessity. In most constitutions, the government's power to tax is assumed with little scrutiny of its scope or legal responsibility to provide specific services in exchange. **This presumption has proven to encourage** a culture of tax evasion, avoidance, impunity, corruption, lack of responsibility, and accountability and outright theft across the world.[16]

A study by UNU-WIDER shows that a citizen's positive perception of governance increases their willingness to pay taxes. When citizens trust in institutions, they are more likely to pay taxes, whereas those who have had difficulty receiving government services are less likely to pay taxes.[17] The state needs to deliver on purpose, but also to demonstrate it does so, much more. If not, the state is perceived as a 'taker' rather than as a provider and so has difficulty enforcing taxation.[18]

Globally, the debt crisis hampers growth in Small Island Developing States and low- and middle-income nations, weakening developing countries' ability to uphold human rights. Research shows that debt repayment often comes at the cost of essentials like food, healthcare, education, housing, and jobs. Furthermore, servicing debts and the adverse terms tied to loans and debt relief frequently curtail investment in and weaken the availability of essential public services.

Middle-income countries (MICs) are also faced with steep international challenges. On the global stage, they are exposed to the ease with which multinational corporations are able to avoid and evade tax, **with less developed countries being most exposed to profit shifting.**[19] Additionally, they face **illicit financial flows and the consequences of digitalization.**[20] The recognition of companies as

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[15] UN Independent Expert Foreign Debt, **The fiscal social contract and the human rights economy** (A/79/142).

[16] Waris, A. (2015). 'Delineating a Rights-Based Constitutional Fiscal Social Contract through African Fiscal Constitutions. *East African Law Journal*: 1–24. **https://doi.org/10.2139/ssrn.3831012**

[17] Nichelatti, E., and H. Hiilamo. (2022). 'A Fiscal Approach to the Social Contract in Sub-Saharan African Countries: Looking for Opportunities to Strengthen Trust in Government and Tax Compliance by Analysing Citizens' Perception of Governance. WIDER Working Paper 2022/144. Helsinki: UNU-WIDER. **https://doi.org/10.35188/UNU-WIDER/2022/277-5**

[18] Contribution from Centre for Global Nonkilling.

[19] Boyce and Ndikumana, 'New Estimates of Capital Flight from Sub-Saharan African Countries: Linkages with External Borrowing and Policy Options'. In *International Review of Applied Economics* 2008. **https://doi.org/10.1080/02692171.2010.483468**

[20] Pezzini, M. (2020). 'Citizens' Rising Expectations: A Call to Rebuild the Social Contract?' In J.A. Alonso, J.A. Ocampo (eds), *Trapped in the Middle? Developmental Challenges for Middle-Income Countries*, pp. 117–38. Oxford: Oxford University Press. **https://doi.org/10.1093/oso/9780198852773.003.0006**

holders of rights within the EU, for example, causes global fiscal distortions through a human rights lens, creating concerns over the right to privacy.

Moreover, data reveals that states are seen to be having somewhat misplaced priorities. According to the World Development Indicators, governments spent USD 2.2 trillion on the military in 2022. This reveals a priority of governments. **Basic human rights such as food, clothing, and shelter are abandoned**.[21] Due to militarization, **revenues are spent on related endeavours** when issues such as food insecurity, climate disasters, and other social inequalities abound.[22]

Tax is still largely viewed as a national matter between the state and residents, but globalization has complicated this relationship. Multinational corporations and wealthy individuals exploit tax systems by seeking the lowest rates, sometimes even zero, while golden visa schemes let them buy citizenship or residency in low-tax countries. The notion of tax as a cost to be minimized rather than a contribution to society undermines the fiscal social contract.

As a **Tax Justice Network report** states: 'Multinational corporations use their resources and their influence to ensure that the tax system doesn't catch up to the global reality and put an end to their unjust advantages. […] Any group, entity, or individual seeking their own interests above those of the general population acts outside of the fiscal social contract, pursuing a parallel contract of purely personal gain. When the state not only allows this to happen, but in many cases actively provides for and invites these kinds of activities, the fiscal social contract is torn to shreds'.[23]

After years of advocacy, in December 2023 the United Nations General Assembly unanimously adopted a resolution on the '**promotion of inclusive and effective international tax cooperation**'.[24] This was followed by a **report by the UN Secretary General** which concluded that existing international tax rules are neither fair, nor inclusive and that additional rules developed through OECD mechanisms 'do not adequately address the needs and priorities of developing countries'.[25] Currently, an ad hoc committee has been tasked with drafting the terms of reference for a new United Nations Framework Convention on International Tax Cooperation. This represents a unique **opportunity to reprogramme the international financial system** to ensure that tax systems are aligned with both the realization of human rights and sustainable development goals.[26]

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[21] See also A/HRC/55/54, 16 January 2024, para 13(b).

[22] Waris, A. (2025). 'Realising Human Rights in International Tax Treaty Law'. In *A Global Tax Reset: Cooperation or Complication?* IFC Economic Report, pp.28–29. London: IFC Review. **https://www.ifcreview.com/articles/2025/february/ifc-economic-report-2025/**

[23] Tax Justice Network (2024). *The Fiscal Social Contract and the Human Rights Economy*. In response to call for input by the Independent Expert on the effects of foreign debt. Bristol: Tax Justice Network. Available at: **https://taxjustice.net/reports/the-fiscal-social-contract-and-the-human-rights-economy/**.

[24] Resolution adopted by the General Assembly on 22 December 2023 [on the report of the Second Committee (A/78/459/Add.8, para. 12)]. 78/230. 'Promotion of Inclusive and Effective International Tax Cooperation at the United Nations'. Available at: **https://documents.un.org/doc/undoc/gen/n23/431/97/pdf/n2343197.pdf**.

[25] UN Secretary General, Promotion of Inclusive and Effective International Tax Cooperation at the United Nations. Available at: **https://digitallibrary.un.org/record/4019360?v=pdf**.

[26] Tax Justice Network, *The Fiscal Social Contract and the Human Rights Economy*.

The call to reform the IFA has been constant through history, but pressure is mounting **given the scope of contemporary challenges**.[27] For example, **the IFA is entirely unfit for purpose to address** climate change, inequality, gender bias, cross-border contagion of financial crises, and demographic, technological, economic, and geopolitical changes.[28] The pandemic contributed to the urgency to revitalize the institutional architecture to match the ambitions of the 2030 Agenda and **the urgent need to address record levels of public debt has increased the pressure to act.**[29] Reforms at the nexus between IFA reform and restoring the fiscal social contract continue across the global system and now include the opportunity to make commitments in informal country groupings like the G20, G7, and the Bridgetown Initiative.

Recommendations

The **Our Common Agenda Policy Brief 6** by the United Nations proposes reform of global financial architecture that is coherent, long term, resilient, sustainable, equitable, inclusive, and coordinated.[30] The SDG Stimulus work also echoes many of the issues discussed above. **Any reforms will have substantial effects on the fiscal social contract**, both at the international level and the national level, especially with relation to a human rights-based economy.

Reforms should also **foster an environment conducive to increased domestic investment and higher sustained growth**. With the reforms targeted at strengthening the financial systems, supporting financial markets to stabilize, preventing a crisis in domestic financial systems, and improving financial intermediation—helping to mobilize savings and channel them to productive investments to foster economic growth.[31]

The IMF and World Bank's understanding of debt sustainability must broaden, with a focus on advancing poverty reduction through debt relief for sustainable development. Assessing debt sustainability should aim to **balance development financing needs with maintaining manageable debt levels**. From a perspective centred on human rights and development, analyses of debt sustainability must consider safeguarding government spending necessary for fulfilling basic human

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[27] 'Urgent and Decisive Action Required for an Unprecedented Combination of Crises: The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture'. Settled: 30 July 2022. Released: 23 September 2022. Available at: **https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf**.

[28] United Nations (2023). 'Reforms to the International Financial Architecture'. Our Commons Agenda Policy Brief 6, May 2023. New York: United Nations. Available at: **https://sdgs.un.org/sites/default/files/2023-08/our-common-agenda-policy-brief-international-finance-architecture-en.pdf**.

[29] United Nations (2023). *Financing for Sustainable Development Report 2023: Financing Sustainable Transformations*. Inter-agency Task Force on Financing for Development. New York: United Nations. Available at: **https://desapublications.un.org/publications/financing-sustainable-development-report-2023**.

[30] United Nations (2023). 'Reforms to the International Financial Architecture'. Our Commons Agenda Policy Brief 6, May 2023. New York: United Nations. Available at: **https://sdgs.un.org/sites/default/files/2023-08/our-common-agenda-policy-brief-international-finance-architecture-en.pdf**.

[31] Nsouli, S.M. and F. Le Gall (2001). 'The New International Financial Architecture and Africa'. IMF Working Paper 01/130. Washington, DC: International Monetary Fund. **https://doi.org/10.5089/9781451855197.001**

development requirements and fostering conditions for realizing human rights, especially economic, social, and cultural rights.[32]

To do so, debt analyses should include a **determination of debt load a country can manage** without compromising its ability to fulfil its human rights obligations, including the right to development, and to pursue its own developmental objectives.[33]

It is essential for both lenders and borrowers to collaborate in finding solutions to the debt crisis, aligning with the principle emphasized in the Monterrey Consensus of the International Conference on Financing for Development. This principle stresses that both debtors and creditors must shoulder the responsibility for preventing and resolving the conditions of debt distress. Lenders and borrowers alike need to acknowledge their roles in causing debt crises and take necessary corrective measures. Creditors should consider cancelling loans given to irresponsible debtors without conditions, while borrowers should establish a clear and accountable system for managing public debt and individual leaders should be held accountable for debt.[34]

Use of the lifecycle approach in making fiscal assessments will allow governments at their very core to ensure that human rights and the raising of living standards are the most important issue in a planet with limited resources.

More thorough investigation and openness regarding how past debt restructurings influence a country's future repayment capacity would provide countries with a clearer understanding of the consequences of restructuring. Additionally, it's crucial for the official sector to collaborate with countries to facilitate swift access to capital markets post-restructuring.

The following reforms of the international financial architecture including the new UN Framework Convention on International Tax Cooperation currently being developed as well as through the Pact of the Future being led by the IMF could go a long was to encourage an approach to global macroeconomic stability that centres both the sovereign right to economic development and the progressive realization of human rights:

A. The creation of **a public debt registry for developing countries** could provide accessible debt data for both lenders and borrowers to increase debt transparency, strengthen debt management, reduce the risk of debt distress, and improve access to financing.[35]

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[32] Lumina, C. (2013). 'Chapter 21: Sovereign Debt and Human Rights'. In Office of the High Commissioner for Human Rights (ed.), *Realizing the Right to Development*, pp. 289–301. New York and Geneva: United Nations. Available at: **https://www.ohchr.org/en/development/realizing-right-development-ebook**.

[33] Lumina, 'Chapter 21: Sovereign Debt and Human Rights'.

[34] Various: **https://debtgwa.net/**; **https://afrodad.org/media/videos/call-debt-cancellation-world-economic-forum**; **https://cafod.org.uk/news/campaigning-news/jubilee-2025-pope-francis-issues-new-call-for-debt-cancellation**; **https://debtjustice.org.uk/news/uk-campaign-calls-for-major-debt-cancellation-in-jubilee-year**.

[35] Grynspan, R. (2023). 'The World Lacks an Effective Global System to Deal with Debt'. *The Financial Times*, 2 February 2023. Written by UNCTAD Secretary-General, Rebeca Grynspan. Available at: **https://www.ft.com/content/d767580d-2db3-43f2-a509-2b29eb81003a**.

B. Engage constructively with the IMF, World Bank, and private investors and bond holders to encourage adoption of a human rights approach to debt management.
C. Support the creation of a global fiscal institution which is human centred.
D. Establish an independent sovereign regional debt authority that engages with both institutional and private creditor and debtor interests.
E. Create a fiscal data repository at a global level.
F. Create a global rating agency or remove this concept completely.
G. Create a public global dispute resolution body.
H. List the profits of MNCs as part of a global commons to be shared responsibly across contributing economies.