**Global Coalition for Social Protection Floors: Strategy on Global Financing**

**Strategy Meeting of the Core Team**

**Geneva, 24-25 November 2019**

**Conceptual framework and results of discussions [[1]](#footnote-1)**

1. **Background: A minimum level of social protection is affordable nearly everywhere**

A number of studies have shown that nearly all countries can afford to finance a national Social protection floor by their own means. The most comprehensive global study of the fiscal size of national social protection gaps - the absolute minimum of resources required to close gaps in the financing of social protection floors - comes from a recent study of the Friedrich Ebert Stiftung (FES) on behalf of the Global Coalition for Social Protection Floors[[2]](#footnote-2) (GCSPF). The study provides estimates of the estimated fiscal size of protection gaps in form of an Index that indicates the total minimum necessary additional expenditure for social protection transfers in cash and in kind. These figures provide an indication of the dimension of the fiscal challenge that countries may face when seeking to close the gaps in their social protection floors. Importantly, the results indicate that some level of effective social protection is affordable everywhere. The Index shows that about half of the 150 countries studied could close the gap by devoting less than 2 additional percent of their GDP to social protection. Eighty percent could do so with less than 5 percent of GDP.

Presently only about 12 countries are deemed to require international assistance to finance minimum social protection. A global fund to foot about 50 percent of these countries’ social protection bills would need $10 billion to $15 billion annually. That is equivalent to about 0.9 percent of the about $1.7 trillion in annual global military spending, as calculated by the Stockholm International Peace Research Institute - a solidarity investment that would yield a much higher peace dividend than the military spending.

1. **Global financing strategies**

***2.1 National solidarity has to be the core of social protection financing***

Before countries resort to international solidarity, they will make all possible efforts to finance social protection through generating own resources. International support should always remain residual. There is no doubt that the implementation of social protection floors in low- and medium-income countries will require substantial additional fiscal efforts.

Social protection can take the form of national tax-financed transfer systems or of social insurance schemes that mandatorily cover subgroups of the active population and their dependants. Social insurance contributions may be easier to collect than taxes and allow the government to focus the use of general revenues for the protection of those who cannot contribute, or to cover risks that cannot be insured. Tax financed systems should primarily be financed by progressive taxation on incomes and profits. Indirect taxes on on consumption, for example through a value added tax, it will inevitably be regressive. A progressive income tax would also facilitate the clawback of a part or all of the redistributed resources from people who might not need them as urgently as others. It is also necessary that countries invest in a properly functioning and equitable income-tax and contribution collection mechanism. Tackling tax evasion and strengthening financial transparency could also significantly contribute to the sustainable financing of universal social protection. Many developing countries have realistic national options at their disposal at the national level to close SP resource gaps[[3]](#footnote-3) as a new Asian Development Bank study demonstrates. In 12 of 16 Asian countries studied, tackling the wide social agenda of the SDGs (including social transfers, health, education and essential services) would require an increase in government resources of less than 20 per cent over the next decade or so.

***2.2. Options to support national efforts through residual global solidarity mechanisms***

International support for the poorest countries unable to kick-start social protection could come through financial global solidarity mechanisms. In addition to seek higher levels of ODA, *inter alia* the following options could be pursued:

*A global fund for social protection*

A global fund for social protection is an idea that was developed by the ILO in the early 2000s and later put forward by former UN Special Rapporteurs Olivier de Schutter and Magdalena Sepulveda[[4]](#footnote-4). If developed, a global solidarity mechanism could support the financing of technical assistance on social protection in low-income countries where limited resources exist at national level. It could support the financing of benefits themselves at points when sudden excessive demand for social protection is experienced due to financial, economic, environmental, or humanitarian shocks or structural but transitory shortages of resources. Through such a specific fund, existing development assistance could be better targeted to reducing the most urgent national financing gaps of social protection. The Fund could be fuelled by allocations from national governments, international tax revenues and/or voluntary contributions from individuals.

There is no need to formally create a new fund, as a World Solidarity Fund (WSF) already exists and was created by [Resolution 57/265](http://www.un.org/Docs/journal/asp/ws.asp?m=A/RES/57/265) of the United Nations General Assembly in 2002. It has however remained largely unused by donors. Its objective is to eradicate poverty and promote human and social development in developing countries, in particular among the poorest segments of their populations. The technical and financial operations of the fund could be overseen by Social Protection Inter-Agency Board for Co-operation (SPIAC-B). The SPIAC-B also includes civil society represented by major international NGOs.

*Safeguarding national tax revenues through the global tax co-operation and harmonization.*

Neither on the national nor on the international level social protection can be financed without generating and safeguarding sufficient tax revenue. National tax levels are often subject to global competition. We need new global initiatives on international taxation in the context of the United Nations, the International Monetary Fund and the Bank for International Settlements, in addition to existing initiatives of the OECD. These initiatives should include the creation of international tax resources earmarked for SP, such as through a global financial transaction tax, but also efforts to reduce revenue losses through tax avoidance and tax competition. The G77 suggested in 2017 [[5]](#footnote-5) to create “*an institution which does not only fight against tax havens but fights against the kinds of race to the bottom that you can have even between neighbors,* *referring to the* [*practice*](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-race-to-bottom-corporate-tax-121216-en.pdf)*of country governments slashing corporate tax rates in order to compete for business. This has led to a declining global tax rate, which predominantly benefits corporations and their shareholders, and not government tax collectors, activists* [*argue*](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-race-to-bottom-corporate-tax-121216-en.pdf).” [Oxfam estimates](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp210-economy-one-percent-tax-havens-180116-en_0.pdf) in Africa alone, governments are losing $14 billion in tax revenues every year due to wealth being hidden away in offshore accounts, and closing tax havens could generate up to $190 billion annually in taxes. So far efforts to create or even discuss the creation of a UN tax body has met with resistance notably from OECD countries.

*Prioritising Social Protection financing in national public expenditure.*

Investments in social protection could be strengthened by special purpose loans from international Institutions and national development banks as well as special purpose bonds or pay-for-success development financing schemes (also often called *social development or impact bonds*) issued by national governments which link the access to this funding mechanism to financing and performance levels of national social protection systems.

Even general purpose international loans or development aid could be made conditional on a debtor country maintaining a minimum level of social spending. Countries that seek international financial support in form of loans or grants could be required to spend a minimum level of national revenues on social protection. The minimum level could be calculated by an agreed upon methodology that could be built on the SPF Index methodology. The IMF already today sometimes requires minimum social spending in form of “indicative targets” as a condition for certain financial support. These targets are often not strictly enforced.

*Protecting Social protection financing in times of crises*

Financial, economic, environmental and political crises trigger particular stress for national social protection systems.This is inter alia due to the priority given to uninterrupted repayments to government creditors during the time when expenditures should focus on domestic needs. Proposals to design loans and bonds which automatically suspend, postpone, or cancel debt servicing during periods of economic stress have many supporters, but have yet to be put into practice. Moreover, the conditions required of countries in *quid pro quo* for receiving official loans during crises and recovery periods must protect the social protection floor and increase it as required to address the crisis-related human needs.

1. **Points for discussion**

To trigger concrete progress on global solidarity for the financing of social protection, the GCSPF can take a number actions. Suggested points for discussion at the November meeting were:

* 1. cooperate with other partners to develop a robust procedural methodology to determine the minimum level of social protection expenditure to recommend to specific governments (based on the SPF index) and international financial institutions;
  2. train trade union and civil society representatives in social protection needs assessments and the design, planning, financial and general management, supervising and monitoring of social protection systems, so that civil society can develop own national SP development plans that include solid financing proposals;
  3. develop concrete proposals for the operation of a global Social Protection Fund, including proposals to kick-start it by global crowd funding;
  4. develop and implement a promotion and campaign strategy for the Fund;
  5. support the generation of international resources for the Fund, such as the International Financial Transaction Tax and similar measures;
  6. support the efforts of other organisations to establish an international tax cooperation body at the United Nations that makes international cooperation on tax matters more effective, aimed at reducing opportunities for tax evasion and aiding countries to capture the taxes due that can serve to finance social protection, by reducing downward pressures on national tax levels from global tax competition, among other means.

1. **Results of discussions**

Results emerging from the discussion can be summarised as follows:

1. There was no agreement on on the above point (3.1) as there was simply not enough time to discuss it in detail. This unfortunately tallies with the non-use of the financing strategy that was developed and discussed in the Coalition during the first half of 2019. Without the global acceptance of a SP financing strategy in the Coalition all detailed discussions on Global Financing remain without an overall conceptual framework.
2. Point (3.2) was not discussed.
3. The Coalition would continue to support the safeguarding of national and international resources for social protection through forms of global taxation and the development of strengthening of mechanisms to protect Social protection financing in times of crises. It would also support demands from the creation of an international tax co-operation body (point 3.6). Support would largely consist of supporting statements, resolutions or conclusions emerging from national and international meetings or the activities of other interest groups (such as the up-coming session of the CSocD in February and possible side –events of the spring meetings of the IFIs in April).
4. The discussion focussed on possible strategies to promote and kick-start the creation of a Global Fund for Social Protection (point 3.3 and 3.4), there was agreement in the working group that discussed the topic that such efforts should be actively supported and concrete actions was required. It should be noted, however, that ITUC support for the idea was less enthusiastic. It was agreed that the Coalition should develop a concrete strategy for the kick-start and operation of the Fund.
5. **Follow-up**

From the above discussion the following follow-up items for the 2020 work plan can be delineated:

1. Embedding a Global Financing strategy for the Coalition in a consolidated overall SP financing strategy would be desirable and the the Coalition should aim at adopting a consensus position. Since this positions is linked to the position on the necessity and need for a stronger ILO or UN legal instruments (i.e. a convention) and no consensus on this point is reached yet, further discussion on the subject are needed during forthcoming Core team meetings.
2. The discussion in the working groups and the plenary of the Core team still decided to develop a concrete strategy paper for the promotion and kick-start of the Global Fund. The paper was supposed to be compiled during the first quarter of 2020. Brot-für-die-Welt would take the lead.

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1. The conceptual part of this note is based in part on an early draft of the GCSPF position paper on social protection financing, i.e. *The legal, political, economic and moral imperatives to finance social protection for all,* February 2019 [↑](#footnote-ref-1)
2. See Bierbaum, M. et al. 2017. Social Protection Floor Index – Update and Country Studies, FES Berlin [↑](#footnote-ref-2)
3. Cichon, M. 2018. The Social Protection Agenda of the Sustainable Development Goals and Its Fiscal Challenge: in ADB*:*  Asia’s Fiscal Challenge Financing the Social Protection Agenda of the Sustainable Development Goals, Manila, 2018. [↑](#footnote-ref-3)
4. For more information see: De Schutter, O. & Sepúlveda, M. (2012) Underwriting the Poor: A Global Fund for Social Protection [↑](#footnote-ref-4)
5. https://www.devex.com/news/the-g77-will-push-for-tax-justice-through-a-un-tax-body-says-ecuador-s-foreign-affairs-minister-89442 [↑](#footnote-ref-5)