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A Global Social Trust Network:
A new tool to combat poverty through social protection

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"The world does not lack the resources to eradicate poverty, it lacks the right priorities."
Juan Somavia, Director General of the ILO

Introduction

In June 2001, the 89th International Labour Conference (ILC) concluded a general discussion on social security with a renewed commitment of the International Labour Organization (ILO) to extending social security coverage and improving the governance, financing and administration of social security[1]. The conclusions and recommendations of the Conference also call for the ILO to develop "…innovative approaches in the area of social security to help people to move from the informal economy to the formal economy". In line with the recommendations of the 89th Session of the International Labour Conference the Director General of the ILO has requested that the possibility of supporting the development of national social protection systems through international financing be explored. The ILO's International Financial and Actuarial Service (ILO-FACTS) has consequently developed an innovative concept for a Global Social Trust Network (or "Trust") which connects the global, national and community levels of financing for social security[2]. In November 2002 the Governing Body of the ILO authorised a pilot study linking a donor country and a recipient country to be conducted by the Office. This study is now underway. The following article summarizes the main features of the Global Social Trust concept as presented to the Conference on the ISSA Initiative in September 2002 and the ILO's Governing Body in November 2002. The Trust aims at lifting people in the poorest countries – hitherto without access to social protection – out of pandemic poverty through the provision of basic social security. The strategy is to sponsor and invest in the build-up of sustainable social governance structures rather than supporting ad hoc initiatives. The proposal builds on a spirit of global social responsibility.

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[1] See ILO (2001): *Social security: A new consensus*; p.1, "Resolution and conclusions concerning social security", International Labour Conference, 89th Session, 2001; paras 17-19.
[2] See ILO (2002): *A Global Social Trust Network: Investing in the World's Social Future: Report and documentation of a feasibility study*, ILO Geneva, 2002

Background and development policy context

There are shamefully still too many people who are still too shamefully poor. About 1.2 billion people live on less than one dollar a day.[3] As recent events have demonstrated, poverty anywhere is a threat to all of us everywhere. Poverty eradication will remain first and foremost a matter of national economic and social policies as well as good governance. However, there are a number of developing countries with annual per capita GDP levels of US$1,000 and below which will not be able – if left unaided – to escape the poverty trap resulting from decades of malfunctioning governance and bad economic performance. Today, globalization is still largely a phenomenon of capital, goods and services, and labour markets. While poverty is widely discussed, and multifarious initiatives have been undertaken to combat the problem at the national and international levels, global social responsibility is not yet part of the mindset of most people. The world may be on its way to becoming a global village, but the villagers are not sharing enough of their resources to lift their less fortunate neighbours out of the most severe forms of poverty.

At the turn of the century the global community adopted Millennium Development Goals[4]. The first and most prominent of these ambitious goals is to "eradicate poverty and hunger". This was concretized as "halving the proportion of people with less than one dollar a day". National social protection systems providing social security through schemes ranging from basic poverty alleviation to pensions and health-care are one of the most powerful means of alleviating and preventing poverty.[5] However, according to ILO estimates only about 20 per cent of the world's population has access to any form of social protection.

Poverty and social security

Poverty is a multi-dimensional phenomenon. It manifests itself inter alia in lack of access to education, lack of access to adequate health services, in malnutrition, in poor sanitation and in gender disparities. The causal links between working and living environments, education systems, health systems, social protection systems, human rights and poverty are fundamental to finding solutions that will remedy these problems. Improving education, health, environment, work opportunities, and existing social security safeguards for poor people are essential to the realization of international development targets such as the Millennium Development Goals. Ultimately all potential remedies to all dimensions of poverty have three common denominators: availability of resources, established national policy priorities with regard to the use of resources, and effective and efficient allocation of available resources. If an economy generates reasonable national income, it also creates a tax base that should generate sufficient resources to root out the main causes of poverty. Whether and to what extent these resources are actually used to combat poverty is a matter of national policy priorities. How effectively and efficiently they are used depends on the quality of governance.

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[3] See the "Zedillo report", p.3: Zedillo, Ernesto, et al, 2001, on *Financing for Development, Report of the High-Level Panel*, UN New York. Also available: http://www.un.org/reports/financing/

[4] At the Millennium Summit in September 2000 the member states of the United Nations reaffirmed their commitment to working toward a world in which sustaining development and eliminating poverty would have the highest priority. The Millennium Development Goals grew out of the agreements and resolutions of world conferences organized by the United Nations in the past decade. The goals have been commonly accepted as a framework for measuring development progress (http://www.developmentgoals.org/About_the_goals.htm).

[5] The terms "social security" and "social protection" are often used interchangeably. However, it seems to be more or less generally accepted that "social protection" embodies a wider concept (see ILO: *Social security: A new consensus*, Geneva 2001, p.39).

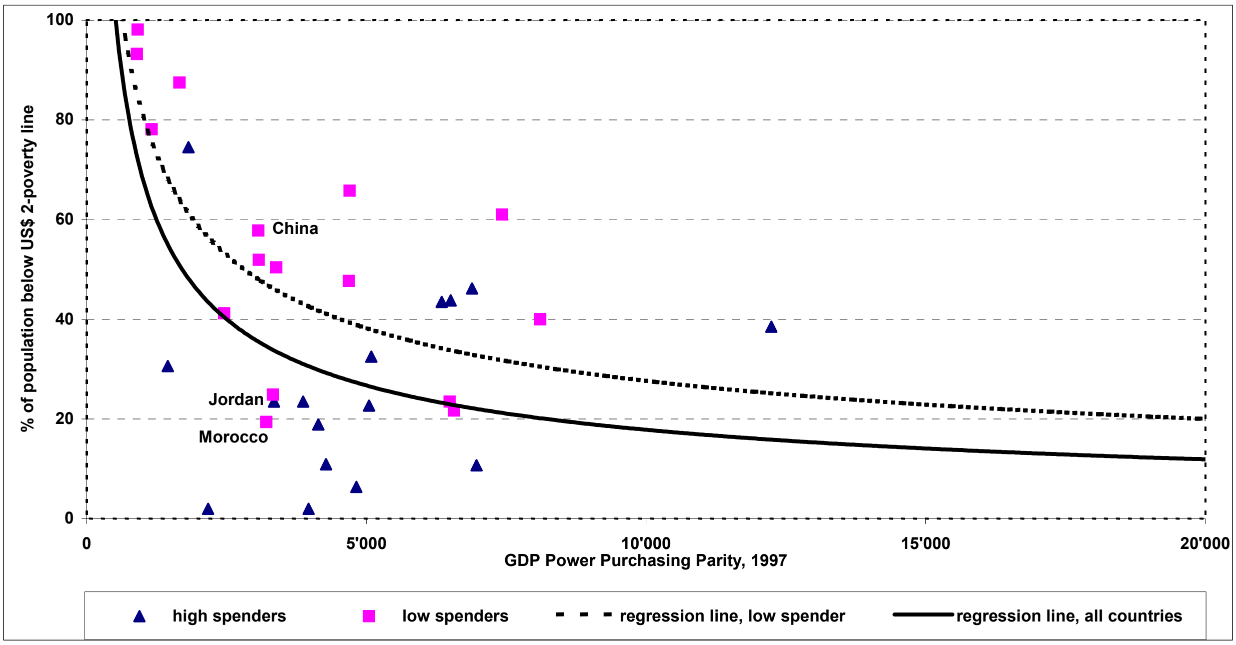
Hence, the eradication of poverty remains first and foremost an objective of national economic, social and fiscal policies. That task inevitably is easier in countries where the economic engine provides income that can be redistributed to alleviate immediate poverty and re-invested in the economy and in governance systems to prevent long-term poverty. Other countries need outside help to put governance systems on a policy trajectory of poverty reduction.

Figure 1 encapsulates the basic rationale of the Trust's approach to poverty alleviation. The bold line describes the relationship between per capita GDP and the prevalence of income poverty (measured as the number of people living on less than US$2 a day). That income poverty declines rapidly as per capita GDP increases is no surprise. That poverty is not completely abolished in countries with high per capita GDP is a matter of policy priority (although the regression line is understandably misleading towards the higher-income end). The US$2 per capita income level is an absolute poverty level and in most high-income countries that level of destitution will be virtually non-existent. What the graph also shows is that at the same level of GDP per capita different countries can have very different poverty rates. This difference between countries is thus not explained by different levels of economic performance but rather by policy and governance factors. One of these governance factors is obviously spending on social security - or rather, what proportion of GDP is devoted to social transfers. The broken line plots the same relationship in countries with relatively low social spending (measured as public spending on social security as a percentage of GDP).[6] Even if the regression fit is not perfect it seems that social spending *per se* can contribute to lowering poverty rates.

A cluster analysis of the relationship between absolute poverty rates and GDP per capita shows that countries with, say, US$5,000 per capita could nevertheless have poverty rates as high as 50% but, with the right policy priorities and good governance, could equally well see poverty rates drop well below the 20% level. At the same levels of per capita GDP China and Jordan, for example, have enormously differing rates of poverty; China is a relatively low spender (even though not all social security expenditure may be statistically captured) and experiences a poverty rate of over 50% while Jordan's relatively high social spending seems to have kept poverty rates down to well below 30%. But the relationship between poverty and social spending is not as rigid as one might imagine, and low-spending Morocco, for example, seems to be doing as well as high-spending Jordan. Within an overall policy of redistribution through social transfers, the degree and focus of poverty targeting is also relevant. In general, substantial and well allocated social spending seems to be able to effectively cause poverty rates to fall - even without a change in economic performance.

[6] To determine "low" and "high" levels of spending, a regression line representing the interdependence of social security expenditure as a percentage of GDP and per capita GDP was plotted. Low and high spenders were defined respectively as countries below or above that line.

Figure 1. The relationship between per capita GDP and income poverty:
Percentage of population below the US$2 poverty line versus GDP PPP per capita (1997); countries clustered according to the level – high or low – of their social security spending (exponential regression); (ILO calculations using UN and World Bank data).



However, while some countries with relatively low levels of GDP appear to be able to maintain systems of good governance and endogenous redistribution, there are a number of low-income countries with annual GDP per capita of below US$1,000 that seem unable to invest substantial amounts of resources in the build-up of national social transfer systems as a means of combating poverty. They appear to require an external “kick-start” to build a solid social transfer system.

Economic growth alone and the associated increase in public revenue would probably result in substantial investment in the social transfer sector only decades later. For a given country, leaving the development of good social governance to its “natural” progression – with GDP increasing from a level of, say, US$1,000 to US$5,000 per capita and with the poverty rate declining from, say, 80% to 20% - is a process that could take several decades (precisely, 33 years) even assuming an optimistic average annual real growth rate of 5%. This is far too long a period to be ethically and politically acceptable.

The basic idea, purpose and objective

The basic idea is to request people in richer countries, i.e. OECD countries, to contribute on a voluntary basis a rather modest monthly amount (say €5 per month or about 0.2 per cent of their monthly income) to a Global Social Trust. This would be organized in the form of a global network of National Social Trusts, backed by the ILO, which would:

- invest these resources to build up basic social protection schemes in developing countries;
- sponsor concrete benefits for a defined initial period until the basic social protection schemes become self-supporting.

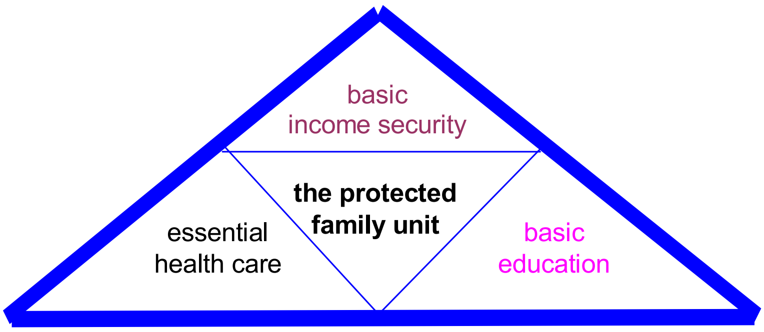
The purpose of the Global Social Trust Network is to systematically reduce poverty in developing countries through a partnership that invests in and sponsors the development of sustainable national social protection schemes for people and groups which have been excluded from the economic benefits of development. Social security is a prerequisite for the full development of individuals' skills and productivity. Hence, the Trust would invest in the world's social future by seeking to alleviate poverty and thus promote social peace.

The objective of the Trust is to reach 80-100 million people in the least-developed and low-income countries - who are today excluded from effective social protection - within the next two decades, and more in the following decades. The underlying principles of the Global Social Trust Network are global social responsibility and social partnership.

Benefits, benefit delivery, and obligations of recipients

The Trust will support all national action that aims at extending the coverage of basic social security. The concrete set of benefits will be determined in line with national, regional or local priorities on a case-by-case basis. It is expected, however, that the main benefit systems supported through the Trust will be combined national and community initiatives which finance essential health care, basic income security benefits and basic education. The Trust will focus on families as beneficiaries as illustrated in the family protection triangle below. A promising avenue for rapid poverty relief for whole families that has emerged during the study appears to be basic "one-dollar-a-day" pensions for the elderly. These have proven to have beneficial effects for whole families.

Figure 2: The basic family protection triangle



It is expected that there will be contractual arrangements between community-based initiatives and existing national social protection systems aimed at building modest but sustainable, pragmatic and pluralistic nationwide social protection networks. The Trust will operate through the implementation of major national assistance programmes in countries for a period of between five and ten years. These programmes will be based on explicit agreements, between the Trust and national governments or national agencies, which will stipulate the obligations of both sides. The contracts will be based on financial and operative transparency, tough monitoring and supervision. Two field studies exploring the potential for the efficient, effective and successful delivery of benefits through the Trust recommended pursuing the initiative into a test phase. A small project in Ghana to test the linking of national and community-based levels of benefit delivery was initiated in 2002 in order to gather practical experience in a further step towards a successful launch of the Trust.

Basic operational principles

The Trust would operate according to ten major guiding principles:

- the basic philosophy is the exercise of global social commitment by individual and possibly corporate or institutional contributors;
- it will build on initiatives taken in recipient countries which demonstrate the commitment to self-help;
- the Trust will build on social partnerships in donor and recipient countries and on partnerships between organizations in donor and recipient countries;
- it will sponsor and support tailor-made programmes that are responsive to the most pressing social security needs at a local, regional or national level;
- it will consist of a decentralized system of funding combined with a centralized system of project vetting, appraisal and support;
- it will maintain political independence and respond exclusively to priority needs;
- wherever possible it will utilize existing social administration structures in recipient countries and will help to foster sustainable pluralistic social protection networks;
- it will support strategies for the extension of social security through a combination of investments in the administration and time-bound subsidies, building on commitment at the local, regional and national levels;
- operations will be fully transparent, ethical, accountable and subject to regular performance and financial audits;
- support will be additional to existing social security resources as the Trust is intended to provide resources that supplement what governments are currently able to provide.

Supplementarity

The Trust does not intend to compete with other international or global funds or charities operating in the field of international development. It aims at different donors, follows a different rationale and has the distinct objective of investing in good long-term social governance as one prerequisite for development. It is a people-to-people Trust that seeks long-term presence in the emerging system of global social governance.

While there are a number of global funds that have recently been established, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Drug Facility, each of these has a specific focus on particular disease conditions. Traditional charities – often operating on a religious platform – make an emotional appeal to a donor community. The Trust is aimed at people who understand and seek contractual agreements between citizens to reduce the income and welfare differences in the world and who believe that this is an investment in long-term global social peace.

Financial potential and impact

The Trust could grow into a major international financial North-South transfer operation. If between 5 and 10 per cent of the employees in the OECD countries were to contribute an average of about €5 per month, then the Trust could collect in its stationary state (i.e. after an introductory build-up phase of about one decade) between €1 and €2 billion per annum. This order of magnitude is equivalent to the present income of UNICEF and about four times the amount that the World Bank's International Development Association (IDA) annually disburses for projects that invest in social safety nets. However, it will take at least two decades before the network is fully developed. The feasibility study team estimated that within the first 1.5 to 2 decades of its existence the Trust might lift about 50 to 100 million people out of poverty through investment in the build-up of basic social security systems.

Organization, governance and the role of the ILO

An operation of this size requires a gradual build-up and the institutionalization of a tight system of monitoring. It also needs to ensure that it is not perceived as yet another global institution that escapes the control of its financiers. Thus it is proposed that the Trust be established as a decentralized network rather than a centralized money collection and disbursement agency. The suggested design favours the strong participatory responsibility of the individual financiers. The network approach envisages a gradual building-up of national organizations (National Social Trusts) confederated in a global organization but maintaining full budgetary independence. National organizations would launch national membership campaigns, collect contributions, manage the funds, decide on the use of funds and audit the projects they finance. National organizations would be supported by a technical secretariat at the global level that would identify, prepare and implement country programmes under the supervision of a global board and be governed by a global assembly. The ILO could provide the technical secretariat.

While the ILO will thus have a key role in the design, the promotion, the start up and the funding of the Trust, it will not be an “ILO fund”. Rather, it is seen as a partnership based on solidarity between workers, employers and governments of developed and developing countries. The ILO’s role is fully consistent with its constitutional mandate to promote social security and its new focus on decent work for all. There can be no decent working conditions in the informal sector without at least a minimum of social security for families.

Implementation

A step-by-step approach to implementation was recommended; in order to reduce the risks of failure there are various points where the process can be modified should the need arise. The next step therefore, will be a pilot project to test the viability of the principles of benefit delivery and contribution collection. This pilot project will seek to test the viability of the benefit delivery concept in one developing country as well as the viability of the financing idea in one OECD country. Once the pilot is successful the process of building up a global organization may commence. This could take a decade.

Conclusions and next step

The concept now needs to be put to the test. The ILO is presently negotiating with the social partners in Luxembourg and with the Government of Namibia to pilot test the idea. If the first contributions can be collected towards the end of 2003, the first benefits supporting poor families could be delivered already in July 2004.

The study team concluded that the Trust has the potential to influence and improve national and international social governance. This would, in the mid- to long term, have a substantial impact on poverty alleviation and contribute considerably to the achievement of the Millennium Development Goals. The Global Social Trust will not be an instant magic bullet solution to poverty. But it can be part of a global answer and, we believe, an important part. It can breathe new life into international co-operation on good governance.