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# Rethinking social security financing in the shadow of the digital age: A view from the global South

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## Abstract

Over the past several decades, there has been a significant expansion in social security coverage across the global South. Yet, access to social security remains highly uneven. In low- and lower-middle-income countries, fewer than one third of the population has effective access to social security benefits – and this proportion is even smaller when considering able-bodied adults of working age. Recent debates have largely centred on expanding tax-financed social assistance. Advocates of this approach argue that contributory schemes tied to employment are inherently exclusionary and increasingly obsolete in a digital age where labour is being displaced by machines. However, the digital age has also eroded the state's capacity to raise the revenue necessary to finance social security programmes. As a result, most tax-financed social security measures are inadequate to meet household's reproductive needs. Without new sources of financing, social security responses will continue to be constrained by the fiscal space available. Drawing on case studies from across the global South, this paper examines innovative approaches to financing social security systems in the digital age. The first section traces the historical evolution of social security and the contested politics that underlie it. The second section proposes a normative framework for assessing financing options, based on the principles of progressivity, feasibility, sufficiency and sustainability. The third section considers the role of contributory social insurance, noting both their redistributive potential and challenges posed by widespread informality. The fourth section explores new strategies for resource mobilisation in the digital age, including global corporate tax regimes, financial transaction taxes, robot taxes, taxes on digital financial services and sovereign wealth funds. Drawing on the normative framework, the paper evaluates the redistributive potential and political implication of each approach. Ultimately, the paper argues that the financing of social security is not merely a technical matter but a political question of how to restructure redistribution in an increasingly precarious world of work.

## Key words

Social security, informal employment, financing, redistribution, digital economy, global South

## Introduction

In 2025, the South African High Court issued a landmark judgement that laid the foundation for the progressive realisation of a basic income guarantee for the unemployed. The court determined that the strict eligibility criteria imposed by the Social Relief of Distress Grant – a temporary, means-tested cash transfer for able-bodied adults of working age introduced during the Covid-19 pandemic – were unlawful. It affirmed that the government holds a constitutional obligation to ensure adequate social security for all (RSA, 2025). In order to finance the proposed expansion and institutionalisation of the grant, the National Treasury recommended raising the Value Added Tax (VAT) rate from 15% to 17%. This proposal was met with strong opposition from political parties and civil society groups, who argued that even with the zero-rating of essential goods (Valodia, 2025), a VAT increase would disproportionately impact low-income households and exacerbate inequality. In response, the Institute for Economic Justice proposed an alternative set of policy measures to expand the fiscal space for social security. These included eliminating tax breaks for high-income earners, increasing the corporate income tax rate and using the accumulated profits from the South African Government's Gold and Foreign Exchange Contingency Reserve Account (IEJ, 2021).

In recent decades, there has been a growing recognition of the role of social protection as a key instrument for promoting inclusive growth. However, as the South African case demonstrates, without identifying new and sustainable sources of financing, socials security responses will inevitably be constrained by the fiscal space available (Hujo and McClanahan 2009; Schmitt et al., 2020). While social security coverage has expanded globally, fewer than one-third of people in low- and lower-middle-income countries have effective access to social security benefits – and the proportion is even lower for able-bodied adults of working age (ILO, 2025). The primary reason for the inadequacy of coverage is chronic underinvestment. Social security systems are typically financed through a combination of employment-based contributions and general government revenues. In low- and middle-income countries, where standard employment is the exception, contributory schemes reach only a small fraction of workers. Yet, most governments have been unable or unwilling to make up the difference through universal tax-financed schemes. The result is a vast "missing middle": workers whose employment is too irregular to benefit from social insurance but who are classified as too well-off to qualify for social assistance.

Digitalisation has exacerbated the challenge of social security financing by undermining the contributory basis of social insurance schemes. There are two competing perspectives on the impact of digitalisation. The dominant view in the global North is that digitalisation will lead to significant employment losses as human labour is replaced by machines (Frey, 2019). This perspective has fuelled support for replacing targeted contributory social insurance schemes with universal tax-financed social assistance, through

measures such as universal basic income (Srnicek and Williams, 2015). The hope in the global South is that digitalisation can enhance productivity, boost competitiveness and attract investment, generating employment and economic growth (Rodrik, 2015). From this standpoint, the priority is to ensure that new forms of employment meet the standards of decent work and allow both workers and employers to contribute to social insurance schemes. However, a growing body of research suggests that in many developing economies, digitalisation has simply reproduced colonial patterns of subordination rather than fostering structural transformation (Anwar and Graham, 2022; Cook and Rani, 2023). This trend has not only eroded the contributory base of social insurance but constrained the fiscal capacity of states to finance alternative social security measures through taxation and redistribution.

Importantly, many of the challenges posed by digitalisation are an extension of broader processes of economic restructuring under neoliberalism. The combined effects of trade liberalisation, labour market deregulation and the privatisation of public services have significantly shifted the balance of power in favour of capital. Footloose multinational corporations have been able to exploit growing competition between nation-states to drive down corporate taxes. Between 2000 and 2023, the global average statutory corporate tax rate fell from 28% to 21.1%, with the average effective tax rate reaching 20.2% (OECD, 2023). Tax concessions have been particularly generous to technology firms, many of which have benefited from fiscal exemptions intended to promote research, development and innovation. According to the European Union (EU, 2019), digital companies pay an average effective tax rate of just 9.5% - less than half the rate paid by traditional firms. Technology companies often register in low-tax jurisdictions and structure profits around intangible assets, and their value is difficult to quantify and easy to transfer across national borders. Ultimately, the decline of corporate tax revenue has severely undermined the revenue base of nation-states, weakening their capacity to finance public goods, including social security. To compensate, many governments – such as South Africa's – have turned to more regressive but easily collectible forms of taxation such as VAT.

If social security is to fulfil its transformative potential in the digital age, countries must develop new strategies to raise revenue and finance the expansion of social security (Adesina, 2020; Mkandawire, 2011). This paper examines innovative approaches to financing social security systems in low- and middle-income countries in the context of digitalisation. The first section traces the historical evolution of social security systems, demonstrating how financing models have shaped not only the availability of resources but also entitlement structures, benefit levels and their redistributive role. The second section proposes a normative framework for evaluating financing models, based on four key principles: progressivity, feasibility, sufficiency and sustainability. The third section explores the role of social insurance as a source of financing for social security systems, highlighting both its redistributive potential and the limitations imposed by widespread informality. The fourth section considers emerging strategies for resource

mobilisation in the digital age, including global corporate tax floors, financial transaction taxes, robot taxes, levies on digital financial services and the use of natural resource rents. Ultimately, the paper argues that the choice of financing options is not merely a technical matter. Choices are informed by political bargains that reflect the balance of power between capital and labour.

## Methodology

This paper adopts a comparative policy analysis approach to examine evolving models of social security financing. It draws on a combination of statistical data, international policy documents and national case studies to explore both historical trajectories and contemporary innovations in financing social security systems. Case studies were purposively selected to capture the diversity of policy responses and institutional arrangements in low- and lower-middle-income countries of the global South. While these case studies are not intended to be representative, they were chosen for their ability to illustrate trends, tensions and possibilities in the design and financing of social security systems. By situating these examples within broader transformations in the world of work – financialisation, decarbonisation and digitalis ation – the paper offers critical insights into the political and structural conditions necessary for the expansion of equitable and sustainable social security systems.

## Social security: A contested political terrain

Social security is widely recognised as a fundamental human right (UN, 1948). It protects individuals from contingencies along the life cycle and prevents households from falling deeper into deprivation. Social security also functions as an economic stabiliser, smoothing consumption and stimulating demand during economic downturns. Moreover, it contributes to social cohesion and can even serve as a driver of broader socio-economic transformation (Mkandawire, 2001). However, as Esping-Andersen (1990) argues in his influential book *The Three Worlds of Welfare Capitalism*, the objective, design and implementation of social security differs depending on prevailing ideas about the causes of deprivation, the redistributive role of the state and the economic effects of redistribution. While his typology has been widely critiqued – particularly for not engaging with the gendered and racialised dimensions of social welfare regimes (Seekings, 2008) – his core insight remains relevant: the basis of entitlements, levels of coverage and quality of benefits are the outcome of political struggles over the terms of redistribution. This section traces the historical evolution of state-administered social security systems and the contemporary challenges they face amid a rapidly changing world of work.

The first state-administered social security system was introduced by German Chancellor Otto von Bismarck in the 1880s. The objective was to ensure a healthy and productive workforce, promote economic efficiency, prevent labour unrest and counter the rising influence of socialism (ILO, 2009). The

scheme was financed by mandatory contributions from both workers and employers, with the state overseeing its administration. Participation was compulsory for blue-collar workers, and the scheme offered health insurance, workplace accident insurance and old-age pensions. While health services were universally accessible, other benefits were income related and calculated based on past contributions (Cremer and Pestieau, 2003). The Bismarckian model established a blue print for contributory, employment-based social insurance schemes that would shape the contours of social security across the globe for decades to come.

Following World War II, countries in the global North transitioned away from a Bismarckian employment-based model towards more universalist approaches to social security. This shift was driven by a deepening concern with social wellbeing and a growing consensus – rooted in Keynesian demand-side economics – that public expenditure was essential for long-term socio-economic progress. A pivotal moment came in 1942 with the publication of the Beveridge report, which proposed a universal, tax-financed social security scheme. Beveridge proposed guaranteed income support to all citizens during periods of unemployment, illness, disability and old age – alongside a publicly funded national health service (Beveridge, 1942). In 1948, social security was enshrined as a human right by the Universal Declaration of Human Rights (UN, 1948). In 1952, member states of the International Labour Organization (ILO) adopted Convention 102, which outlined the minimum standards for social security (ILO, 1952). However, many countries in the global South were still under colonial domination and the majority of their population were effectively excluded from emerging systems of social security by racialised labour and citizenship regimes (Arrighi et al., 2010).

At independence, most countries moved to deracialise the labour-citizenship regimes but social security systems continued to focus on a small group of "core" workers who were formally employed. The prevailing assumption was that as countries industrialised and moved towards full employment, workers would be gradually incorporated into employment-based schemes. However, postcolonial hopes of industrial convergence never materialised (Arrighi et al., 2003) and the notion of full employment proved increasingly elusive, if ever it were a realistic possibility (Castel-Branco, 2021). In Africa, for instance, only 17% of the economically active population are salaried workers and an even smaller proportion are covered by labour and social protections. This narrow base of employed workers limits the reach and effectiveness of employment-based schemes (ILO 2018b). The structural adjustment programmes of the 1980s and 1990s compounded the problem by rolling back the few forms of social provisioning that did exist. While many African governments have since introduced tax-financed social security schemes – often with support from international development agencies – these tend to be highly targeted, means tested and inadequate to meet even basic household needs (Ferguson, 2015).

In response to these limitations, there have been growing calls to decouple access to social security from employment through the introduction of tax-financed universal basic income (UBI). Proponents argue that a regular, unconditional cash transfer for all adults – including the "missing middle" – would address critical gaps in social security systems, while enabling people to pursue meaningful livelihoods beyond the labour market (Marais, 2020). UBI's universal character eliminates costly targeting errors, while its unconditional design protects vulnerable groups from being coerced into ultra-low-wage labour (Van Parijs, 2006). However, as Castel-Branco and Pons-Vignon (2025) caution, UBI can only fulfil its transformative promise if the benefits are sufficient to meet households' basic needs and if it is complemented by strong public provisioning in areas such as healthcare, education and housing. Given the fiscal constraints faced by African governments, it is no surprise that current policy proposals fall short of this benchmark.

Moreover, the focus on tax-financed approaches often underestimates the continued importance of employment-based social insurance schemes in social security financing. As Calligaro and Centrangolo (2023) highlight, 176 countries have employment-based social security schemes, while only 120 have tax-financed alternatives. Even in low- and middle-income countries, employment-based schemes account for an equal if not greater share of gross domestic product than tax-financed schemes. Despite concerns about growing labour insecurity (see Standing, 2016 as an example), contributions to employment-based schemes have remained relatively stable. Nevertheless, international financial institutions such as the World Bank (2019) advocate replacing employment-based schemes with tax-financed alternatives, arguing that the former create "perverse incentives" to informality. Castel-Branco and Pons-Vignon (2025) counter this view, arguing that employment-based schemes often provide higher quality benefit because they hold capital directly accountable for workers' social reproduction. Ultimately, both employment-based and tax-financed schemes have redistributive potential. The next section offers a conceptual framework for assessing different approaches to social security financing.

## A conceptual framework for assessing social security financing sources

The organisation of social security systems is shaped by political bargains that reflect the distribution of power within society (Mkandawire, 2001). The design and scope of social security systems have varied across time and space, and have been influenced by evolving conceptions of citizenship and rights that have shifted understandings of the causes of poverty and inequality, and ideological views on the redistributive role of the state. Esping-Andersen (1990) identifies key differences in how states approach social security. In liberal regimes, the primary responsibility for social security falls on the market and the family, with the state playing a minimal role. Tax-financed security benefits are typically targeted, limited and stigmatised. Such arrangements do little to alter social stratification. Their primary aim is to promote

equality of opportunity rather than equality of outcome. In contrast, social democratic regimes place redistribution at the centre of social security provision. Tax-financed benefits are typically universal, expansive and destigmatised. This approach has a far greater impact on reducing inequality.

Esping-Andersen's typology is based on countries where employment-based schemes cover most of the population. However, as Seekings (2008) observes, this assumption does not hold in most African contexts. He identifies four alternative regimes: agrarian regimes, where redistribution occurs primarily through access to land rather than income support; corporatist regimes, where social security is largely tied to employment status; and pauperist regimes, which, like social democratic regimes, offer more expansive tax-financed benefits. Nevertheless, the key point remains: the objectives, design and implementation of social security systems vary widely – and these variations both reflect and inform approaches to social security financing. In proposing a normative framework for social security financing, the following questions must be considered: What are the core goals and objectives of social security? Who and what risks should be covered? Why should states allocate public resources to expand social security? What normative and practical principles should guide the financing of social protection?

**What are the core goals and objectives of social security?**

The primary objectives of social security include reducing poverty and deprivation, protecting individuals from risks throughout the life cycle, and stabilising consumption in response to economic shocks. Beyond these social goals, social security also serves important economic and political functions. It helps maintain a healthy and productive workforce. If combined with improved basic public services, it can offset low wages during periods of economic recovery. It also stimulates aggregate demand and economic activity by increasing consumer spending. In addition, it fosters social cohesion during political transitions and strengthens the legitimacy of political authority. To achieve these objectives, social security systems typically require some degree of risk pooling and redistribution, whether through tax incentives, direct cash transfers or the provision of state-subsidised goods and services. However, as already discussed, views differ on the appropriate level of redistribution, the balance between public and private provision, and the state's role in redistribution. These differing perspectives directly influence how social security systems are designed and implemented.

**Who and what risks should be covered?**

In designing a social security system, governments must make important decisions about which population groups to cover, the risks they are protecting against and what level of protection to provide. The ILO Convention 102 on Social Security adopted in 1952 set out the minimum standards for social security systems. It stipulated that, at the very least, social security systems should provide benefits to all formal

sector workers and gradually expand coverage to the entire population. It outlined nine branches of social security, namely medical, sickness, unemployment, old-age, employment injury, family, maternity, invalidity and survivor's benefits. Further, it established that benefits must be set at a level that ensures a decent standard of living and paid on a regular basis. These rights must be enshrined into law and social security systems must be managed in a transparent manner.

Although ILO Convention 102 has played a foundational role in the creation of social security systems, it does not adequately address the question of how to extend social security to those who are not formally employed. ILO Recommendation 202 on National Social Protection Floors adopted in 2012 sets out minimum social security guarantees for all workers, regardless of their employment status. Guarantees include access to essential healthcare, including maternity care; income security for children; income security for working-age adults during periods of sickness, disability, maternity or unemployment; and income security for older persons. These guarantees should be provided on a universal basis, in articulation with other economic and social policies. Benefits should be set at a level that ensures that they meet basic needs and are disbursed on a predictable basis. These rights must be enshrined into law and mechanisms put in place to monitor, evaluate and improve social security systems. The focus on the entire population is particularly important for low- and middle-income countries where only a small proportion of the workforce is engaged in formal employment.

Recently, the intensification of climate events has prompted policymakers to rethink the minimum guarantees for social security systems. Climate events are expected to have a direct and indirect impact on human life. This may include changing weather patterns, the intensification of extreme weather events including droughts, floods and cyclones, the emergence of new diseases, and the displacement of populations. Social security systems can play an important role in mitigating the negative impacts of climate-related shocks through the provision of universal health coverage and more adaptive forms of social security. Adaptive social security may involve creating additional schemes that provide immediate relief and help people recover after natural disasters. It may require developing mechanisms to anticipate and plan for emergency responses (ILO, 2024). It may also entail setting up transnational social security systems that can effectively respond to the needs of migrants. Although the ILO has yet to establish international standards on adaptive social security, any social security system must be inclusive, equitable and sustainable.

**Why should states use public resources to finance the expansion of social protection?**

As discussed above, states have different approaches to social security provision. ILO Convention 102 stipulates that governments must ensure access to social security and that social security systems must be financed through a combination of employment-based social contributions and public financing.

Furthermore, Recommendation 202 stipulates that social protection floors must be publicly funded and that countries should mobilise the domestic resources necessary to expand social security coverage over time. In other words, fiscal policy should be designed in function of social security needs rather than the other way around. There are several reasons states should direct public finances to the provision of social security guarantees rather than leaving individuals and households to manage risks. Social security is foundational to the contract between states and society. Not only do states have the legal obligation to ensure the progressive realisation of universal social security, but also they have the unparallel ability to regulate capital, enforce labour and social protections, pool and redistribute resources, and provide reliable social security (ILO, 2018a).

**What are the normative and practical principles that should inform the financing of social protection?**

ILO Convention 102 establishes that governments have the legal obligation to administer and regulate social security schemes. Recommendation 202 further emphasises that social protection floors should be publicly funded and designed to ensure long-term fiscal sustainability. The fundamental principles guiding social security provision are:

- Universal coverage, without discrimination based on gender, race, nationality, etc.;
- Set at a level sufficient to ensure a decent standard of living and paid regularly;
- Financed through the collectivisation of risk – avoiding over reliance on workers and employers – through reliance on public funds, as enshrined in the law;
- Rooted in social dialogue, access to information and transparency in decision making, with an appeals mechanism to ensure fair treatment.

To ensure that social security financing is sustainable, it is important to consider the following (see Lieven, 2012; Uemura, 2012):

- Progressivity: are the financing mechanisms fair, ensuring that those with greater means contribute more?
- Suitability: are the financing mechanisms appropriate, aligned with the goal of progressively expanding social security?
- Feasibility: are the financing mechanisms feasible, given political, financial and administrative constraints?
- Sufficiency: will the financing mechanisms generate adequate revenue to meet the social security obligations?
- Sustainability: are the sources of revenue predictable and stable over time, ensuring long-term viability?

Various factors determine the motivation and capacity of states to introduce or expand social protection programmes at any point in time. Variations in entitlement, levels of coverage, adequacy of benefits and sources of financing reflect evolving political settlements in response to changing conditions with the transition away from agriculture, the rise of an industrial working class and changes in labour demand. In the following section, we focus on three sources of financing for extending social security to the "missing middle" – social contributions, taxes and natural resource rents – and reflect on the key questions above.

## Policy options for financing social security

### Social contributions

Social contributions from workers and employers are a key pillar of social security financing. According to the ILO (2018), employment-based contributions account for 22.5% to 75.1% of total social security expenditure in low- and middle-income countries (ILO, 2018a). Traditionally, state-administered contributory schemes have been limited to workers in standard employment. However, many countries are now experimenting with extending contributory schemes to workers in non-standard and informal employment. Proponents argue that these reforms can reduce pressure on tax-financed schemes, enhance the quality of benefits and ensure long-term sustainability (ILO 2019). This section examines three approaches to extending social contributions to workers in non-standard and informal employment:

- introducing standalone schemes for self-employed workers financed entirely by their own contributions;
- incorporating self-employed workers into existing schemes, with contributions solely from workers;
- incorporating self-employed workers into existing schemes, subsidised by the state or indirect employers and consumers.

We argue that only the latter meets the criteria for progressivity, suitability, feasibility, sufficiency and sustainability outlined above.

Some governments have introduced standalone schemes to cover the "missing middle". In Kenya, the Haba Haba scheme under the National Social Security Fund is a voluntary savings plan targeted at informal workers. Participants contribute KES 25 a day and can withdraw 50% of their savings after five years. Contributions are made and managed through mobile money or Mpesa, which offers some degree of flexibility. The scheme also covers refugees, migrant workers in Kenya and Kenyans living abroad. While it has 538 373 registered individuals, less than 20% have contributed to the scheme and an even smaller number make contributions on a regular basis (Omolo 2022; World Bank 2023). The government claims that the scheme constitutes a stepping stone towards universal social security coverage. However, the

Haba Haba scheme falls short of international social security standards for both expenditure and financing. The benefits provided are not aligned with international standards, the financing mechanisms have no redistributive effects, and the contributory burden on low-wage workers means that it is not a feasible mechanism to provide sufficient and sustainable social security in the long run.

Other countries have opted to integrate self-employed workers into existing schemes. In Mozambique, the National Institute for Social Security extended its mandatory social security scheme to informal workers. Unlike in Kenya, informal workers receive the exact same benefits as formal sector workers, including old-age pensions, disability, sickness and maternity benefits, and employment injury coverage. However, unlike formal sector workers, who contribute 3% of their wages, with employers adding 4%, self-employed workers – informal workers – must assume the full burden of contribution, which amounts to 7%. This contributory burden is unaffordable for most workers, which results in low levels of participation, with fewer than 7 000 active contributors. As a result, Mozambique's approach, while offering higher quality benefits, also fails to meet the international standards for social security expenditure and coverage (Castel-Branco and Sambo, 2020).

Some governments subsidise contributions made by informal workers. In Ecuador, the government created the Seguro Social Campesino, a subsidised social security scheme for rural farmers and fishermen. The scheme provides an old-age pension, health coverage and disability, maternity and funeral benefits (Durán-Valverde et al., 2013; IGP, 2019). To enrol, workers must be members of a peasant or artisanal fishing organisation and cannot be employed or employ other workers (IESS, 2023). Collective contributions from these organisations are transferred to the Ecuadorian Social Security Institute (IGP, 2019). Because the state subsidises the scheme, coverage is much higher. As of 2010, it covered 918 056 people and granted pensions to 36 135 people, making it one of the most successful examples of social security for informal workers (Durán-Valverde et al., 2013). Some governments have also facilitated collection of contributions from indirect employers and consumers. In India, welfare boards at the national and state level provide social protection for workers in certain sectors. These boards are funded through levies on production, consumption or workers' wages. Levies range between 30% and 45% of the total wage bill, with a small percentage funding administrative costs (Chikarmane and Narayanan, 2023). With the rise of digital labour platforms, the government amended the Social Security Law to facilitate the establishment of welfare boards for platform workers.

Ultimately, extending employment-based social security schemes to informal workers requires effective cost-sharing mechanisms. Self-financed schemes consistently suffer from low levels of participation due to the high cost of contributions relative to worker earnings, making them neither suitable nor feasible for progressively expanding social security to the "missing middle". Furthermore, because benefits are tied

directly to workers' contributions, the schemes have very little redistributive impact and thus fail to address broader inequalities. For social security initiatives to be sufficient and sustainable, they must be cross-subsidised by the state or indirectly funded by employers and consumers. Welfare boards offer a promising model for socialising the cost of social security schemes for workers outside of standard employment. However, it is unclear who ultimately bears the financial burden: do the levies function as a tax on employers' profits, workers' wages or consumer prices? This distinction is key because non-standard employment is often the result of deliberate strategies by employers to evade labour regulations. While welfare boards can help to fill a gap in social security provisioning, they must not shift the burden away from capital by relying on consumer taxation rather than corporate contributions. The next section explores the role of taxation in financing social security.

**Taxing the digital economy**

Taxes are a crucial source of public finance. This section examines key sources of tax revenue, how their composition has changed over time, and the implications for public financing of social security programmes. We then explore strategies for diversifying tax revenues amid global restructuring and digitalisation. In contrast to social contributions, a crucial factor to consider when examining the role of taxes in financing social security is that most tax revenue is not ringfenced, meaning that social security must compete with other budget priorities. Furthermore, given the increasingly transnational character of capital accumulation, the mobilisation and equitable redistribution of revenue requires greater international cooperation.

In the years leading up to the 2008/09 financial crisis, there was a global decline in effective corporate income tax (Abbas and Klemm, 2013). In low- and middle-income countries, governments were under pressure to reduce corporate tax and offer incentives to attract foreign direct investment. With national capital scarce and global capital highly mobile, states attempted to stimulate economic growth and employment through tax incentives and other fiscal subsidies (Abbas and Klemm, 2013; Klemm, 2010). However, evidence suggests that these tax incentives yielded limited benefits due to poor targeting and a misalignment between the intended economic outcomes and the timeframes for implementation. Far more decisive than tax incentives were broader economic and political conditions for investment, including political stability and governance, the regulatory environment, the quality of infrastructure, the availability of resources, labour force characteristics and access to markets (Abbas and Klemm, 2013; Barnes and Black, 2013; Calligaro and Cetrangolo, 2023; Lamprecht 2022).

Following the financial crisis, global tax revenues as a share of national income declined and, while they have started to recover, they remain below pre-crisis levels. This recovery was largely driven by the expansion of VAT, which has been used to compensate for declining revenues from corporate taxes,

excise duties and customs tariffs (OECD, 2023). The reliance on VAT has shifted the tax burden from capital to labour. As a consumption-based tax, VAT is a regressive form of taxation, meaning that low-income households pay a disproportionately higher share of their earning compared to wealthier individuals. This trend exacerbates inequalities and limits the purchasing power of low-income groups, which exacerbates economic disparities. If such shifts reduce overall tax revenues, governments will struggle to finance national budgets and therefore allocate sufficient financing for social security. A revised financing model must increase capital's contribution to financing social security programmes. However, this must be balanced against the feasibility of raising corporate tax contributions without ring fencing those revenues for social security (O'Neill, 2012).

Global restructuring, financialisation and digitalisation pose additional challenges for tax collection in low- and medium-income countries. Governments hope that the rise of digital technologies will offer new opportunities within the global economy to increase productivity, move up the chain of value addition and generate decent work. However, digital technologies also bring with them significant disruptions to the organisation of production and the possibilities for the collection of taxes. On the one hand, the rise of machine learning threatens to replace labour across global value chains, eroding the basis for income tax. On the other, the rise of footloose digital platforms, has made tax collection increasingly difficult in emerging sectors. Digital platforms generally register in tax havens, thereby avoiding paying taxes in the locations of their operation. This is possible because their value is increasingly tied to intangible assets such as patents, copyrights and digital content, which are portable to these tax havens and minimise taxable business income in higher-tax regions. According to the Organisation for Economic Co-operation and Development (OECD), tech companies face an average effective tax rate of just 9.5%, which is significantly lower than the 23.2% rate levied on traditional businesses. This loss of government revenue from the platform economy, among other factors, hampers the ability to fund social security programmes (Calligaro and Cetrangolo, 2023).

The tax implications of the digital economy necessitate a range of potential policy responses. The first, proposed by the G-20, is to apply tax regulations based on where goods and services are sold. This would involve the reallocation of taxing rights among the "countries of residence" (mainly the United States), tax havens and "countries of consumption" (such as Japan and Western Europe's high-tax jurisdictions). This would require sharing tax information, considering unitary taxation, raising corporate tax rates for multinational companies in oligopoly sectors as discussed above, withholding taxes from financial transactions and digital financial services, and applying robot taxes. Of course, the value creation in the digital economy is highly uneven and not every country may benefit equally from these interventions. Nevertheless, it is critical to develop the necessary infrastructure to effectively tax and redistribute the

gains generated from the digital economy. And given its footloose nature, this must be done at the global level.

Financial Transaction Taxes (FTT) are taxes levied on a range of financial instruments, products and services traded by individuals and institutions. FTTs are often introduced in times of crisis to quickly generate revenue (Kirilenko, 2006). Popular following the global financial crisis, they targeted firms involved in speculative investments that promised high returns and posed great risk to the financial system (Beitler, 2010). Consequently, they are both a means to discipline capital and raise additional revenue to finance social security and other budgetary needs (Ortiz et al., 2015). FTTs are easy to implement, as they are typically applied through highly regulated banking systems. In terms of progressivity, FTTs are less regressive than VAT as there is little impact on low-income groups who demand less of the products liable for taxation. There are several types of FTTs, including bank transaction taxes (BTTs), securities transaction taxes (STTs) and currency transaction taxes. BTTs are most common in Latin America, where they are applied to deposits or withdrawals from bank accounts to fund programmes such as health, education, social security and housing. They exclude certain types of transactions such as transfers between accounts by the same person, payments made from or to public sector agencies, or charitable institutions (Coelho et al., 2001; Kirilenko, 2006). However, BTTs can lead to financial disintermediation, eroding the tax base and requiring annual increases to generate the same level of revenue. Ultimately, the gains from additional revenue raised must be contrasted against cumulative revenue losses. STTs apply to trades in equities and bonds. They have been extensively used in Argentina but faced resistance in many parts of the globe.

The most promising FTT for social security financing is the currency transaction tax (CCT), which derives from the Tobin tax. CCTs target foreign exchange transactions and other financial instruments and derivatives (Puławska 2022). The advantage of CCTs is that they are relatively easy to collect due to the cecentralised nature of global payment systems (Lieven, 2012). Furthermore, because they capture value across the global economy, they account for the uneven returns and productivity across sectors and geographies. Therefore, they are considered an effective tool to combat global tax evasion, reduce global inequality and fund social security systems (Uemura, 2012). The EU Commission analysed and eventually approved the request for their introduction in 2013. Nationally legislated and administered FTTs were implemented in France, Italy, Belgium and Greece (Hemmelgarn et al., 2016). In France, the taxes raised one third of the total projected revenue. Of the funds so raised, 25% are allocated to the Solidarity Fund for Development managed by AFD, the French Development Agency (Capelle-Blancar,d 2017). The success of FTT initiatives has renewed calls for the development of a solidarity-based global fund for social security. However, this requires states to willingly relinquish their sovereignty and right to collect revenue and disburse it accordingly (Bird, 2018; Lieven, 2012). Robust governance structures and the

involvement of a diverse set of stakeholders are necessary for the successful development and implementation of such a solidarity-based fund (Yeates et al., 2023).

Taxing digital financial services (DFS), including mobile money transactions, is another revenue raising strategy. This approach is particularly popular in low- and middle-income countries with large informal sectors because it offers a relatively easy and affordable way to tax transactions outside the formal sector. The use of DFS has expanded rapidly in the past decade. Following the Covid-19 pandemic, Tanzania, Ghana, Cameroon, Uganda, Zimbabwe, Côte d'Ivoire, Kenya and the Republic of the Congo all introduced mobile money taxes to cover fiscal deficits (Anyidoho et al., 2023). Like VAT, users are charged a flat fee per transaction (Anyidoho et al., 2023; Apeti and Edoh, 2023). However, as Anyidoho et al. (2023) point out, this strategy disproportionately affects low-income groups, whose primary avenue for financial inclusion is mobile money. Meanwhile, multinational corporations can evade taxation by shifting their profits offshore to low-tax jurisdictions. This has limited the effectiveness of DFS taxes and left low-income users to absorb the largest share of the cost. This issue is particularly acute in developing countries, where significant power imbalances and limited tax administration capacity hinder effective revenue generation (Clifford, 2020). Furthermore, the introduction of DFS taxes appears to be driven largely by the desire to plug revenue shortfalls rather than finance social security to expand access. However, the regressive nature of taxes and their potential to reduce overall revenue must be carefully considered (Anyidoho et al., 2023; Clifford, 2020; Ndung'u, 2019). While DFS taxes offer opportunities for revenue generation, their success depends on appropriate tax rates and suitable design. This includes ringfencing all or part of the funds to ensure that the funds are directed towards social provisioning (Ortiz et al., 2015).

Diminishing national growth has imposed significant constraints on domestic revenue mobilisation and limited states' capacity to collect tax revenues. This has been reflected in our discussion around the challenges faced by governments in collecting taxes from innovative financial instruments and other digital channels. The free movement of capital has enabled firms to separate the location of revenue generation from the jurisdiction in which taxes are paid, if they are paid at all. While this presents a challenge, it also opens avenues for innovation in tax collection aimed at expanding access to social security. One such approach involves bilateral or regional cooperation among states to conceptualise and implement mechanisms for taxing centralised global payment systems, which are often standardised and relatively transparent. This raises questions of state sovereignty, and these must be addressed for increased uptake and the overall success of this mode of revenue generation.

A third avenue for taxing the digital economy is robot taxes. Robot taxes are, effectively, corporate taxes on the additional profits made by capital-intensive firms through the introduction of labour-saving technology. Proponents of a robot tax argue that it enables the redistribution of profits from labour-saving

capital investments to finance a minimum-level welfare package for displaced workers, which includes social security, retraining and reemployment programmes. Some also see it as a way of raising the cost of automation and preserving jobs that might otherwise be lost (Merola, 2022). However, the robot tax has been criticised for several reasons. On the one hand, some argue that the costs of maintaining, repairing and replacing robots are significant and that a robot tax would act as a disincentive to investment in innovative technologies. After all, there are benefits to automating certain tasks, particularly where these are highly repetitive, hazardous and pose a danger to occupational health. In these instances, automation may both reduce costs to capital and be welfareenhancing for workers. On the other hand, critics contend that a robot tax could be used to deflect from the introduction of more meaningful corporate taxes. After all, the mechanics of robot taxes are so poorly articulated that it is not clear whether what is proposed is a tax on a "robot" – and whether this machine then acquires some legal person status – or a levy on any range of labour displacing equipment (Kaminska, 2017).

The only country that has successfully implemented a robot tax is South Korea. However, in the case of Korea, the robot tax was coupled with a reduction of corporate taxes and was used to incentivise labour replacement rather than the other way around (Konkolewsky, 2017, Yoon, 2023). For low- and middle-income countries, with large numbers of unemployed or informal workers, the introduction of labour-saving technologies is often seen as a greater risk to job security, with potentially high social costs in terms of income and social security. However, the implications of automation and considerations regarding robot taxes are not always so straightforward. After all, automation can also lead to higher industrialisation, higher levels of productivity and competitiveness, and the expansion of new sectors. Ultimately, the debates about robot taxes are not only about job creation or job replacement. Automation may reduce the sources of employment and, by extension, possible sources of tax revenue for financing social security, particularly in more advanced industrialised countries. However, it may also expand the tax base in less advanced industrialised countries, by enabling a process of structural transformation and providing higher quality jobs. This was the traditional route through which formal state and social security institutions have been established and funded to deliver higher levels of welfare.

**Sovereign wealth funds**

Sovereign Wealth Funds (SWFs) have become an increasingly important avenue for raising public revenues and expanding the fiscal space for social security, particularly in resource-driven economies (Das et al., 2010). SWFs are state-owned investment funds, financed by natural resource rents that are then invested in the domestic and global economy, with the objective of yielding competitive financial returns (Meggison et al., 2023, 253–254). Historically, the main function of SWFs has been to mitigate against the negative consequences of natural resource wealth, commonly known as the "resource curse". According to Hicks (2018) and Fundira (2014), SWFs have the potential to:

- build public wealth and distribute public dividends among citizens by creating a public stake in capital markets to which each citizen has the same nominal claim and from which they earn some real monetary benefits;
- regularise benefits from short-lived economic windfalls and preserve wealth for future generations;
- stabilise the economy during counter cycles by offering support to domestic industries and financial markets, bolstering public finances and contributing to long-term economic growth;
- fund infrastructure and social welfare programmes, such as health, education, social security and housing.

SWFs can provide an important complimentary role for social security financing, but they are not a panacea for the financing challenges faced by low- and middle-income countries (Ajami and Karimi, 2023). On the one hand, SWFs tend to be limited to resource-rich countries. On the other, much like general budget allocations, they are subject to competing priorities. Ultimately, raising revenue to finance social security systems requires governments to strike a balance between providing solid taxation governance structures and improving domestic resource mobilisation. In the past two decades, more revenue has been lost in Africa through illicit financial flows, smuggling and corruption than has flowed into the region from external aid, making a compelling case that the continent could be financing its own development without resorting to deficit spending (Fundira, 2014). For example, in 2019, the African Union (AU) Commission estimated that the amount of illicit financial flows from Africa ranged from US$ 50 billion to US$ 80 billion annually. The 2020 estimate by the United Nations Conference on Trade and Development (UNCTAD) is even higher at around US$ 88.6 billion annually or 3.7% of Africa's gross domestic product (AU Commission, 2019; UNCTAD, 2020). Despite the possible advantages of SWFs playing a role in financing social protection programmes, these are not without their disadvantages. One concern is the potential for mismanagement and corruption through poor governance and lack of transparency. The degree of transparency and accountability is largely influenced by their home countries' governance structures (Ajami and Karimi, 2023). Another challenge is the potential of SWFs to distort local markets creating social and economic inequalities, especially if the benefits are not distributed equitably among the population. Lastly, there is the question of the heavy reliance on extractives and the need for SWFs to contribute to the development of industries beyond the extractives industry to foster sustainable investments and growth (Ajami and Karimi, 2023).

## Conclusion

Social security is critical to social development, political stability and inclusive economic growth (Mkandawire, 2001). Despite progress, only a small proportion of the working-age population in low- and middle-income countries is covered by social security systems, which poses a challenge for equitable

development. Disruptions to the world of work – resulting from demographic change, decarbonisation, digitalisation – are likely to simultaneously amplify the need for and undermine access to social security. It is critical, therefore, to design social security systems with the capacity to provide adequate and adaptable social security benefits, through a combination of social contributions and tax-financed schemes. How then, can entitlements be strengthened? How do we ensure that those with greater means contribute more? How do you guarantee that the financing mechanisms are sufficient and aligned with the goal of progressively expanding social security? How do you ensure that the financing mechanisms are feasible and can generate predicable revenue over the long run?

There are several, well-developed options for extending social security. These include increasing tax revenues by increasing tax rates, introducing new taxes or strengthening the efficiency of tax collection, reallocating public expenditure from high-cost, low-impact investments to social security financing, managing debt by borrowing or restructuring debt. There has also been some research done on using fiscal and central bank foreign exchange reserves, curbing international illicit financial flows, and adopting a more accommodating macro-economic framework (ILO, 2018a). In this paper, we explored three less common approaches to financing social security systems, which we clustered into three broad categories: expanding social contributions, increasing tax revenues through more effective taxation of the digital economy, and improving the management of dividends and rents through SWFs.

Ultimately, this paper is also asking how we can coerce capital to finance social security regardless of the workers employment status, overall and in relation to them? Drawing on the South African Broad-based Black Economic Empowerment (formerly B-BBEE but more commonly referred to as BEE) legislation and the Skills Development Act, the government incentivised companies to prioritise and finance the skills development of their own employees, non-employees (through learnerships) and unemployed people. In return, firms are awarded higher points on their BEE scorecard and this favourable score enables them to trade with the State. In this example, we see how the State can use its convening role to negotiate for a specific outcome with the different social actors towards the given outcome.

Given the extent of informality and rising labour insecurity, social contributions must be paired with other sources of financing if schemes are to provide universal, adequate and predictable benefits. For low-income countries, development aid may, at least in the short term, continue to be an important source of financing as part of a global strategy of redistribution. Ultimately, what combination of financing sources governments choose to pursue hinges on political bargains over the terms of production, distribution and redistribution (Mkandawire, 2001). As Recommendation 202 highlights, it is critical to ensure solidarity in social security financing while seeking to achieve a balance between the responsibilities and interests of those who finance and benefit from social security schemes.

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