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***The May edition of the Global Cooperation Newsletter highlights some policy issues related to financing social protection schemes. These issues were raised by the Global Coalition for Social Protection Floors, a network of almost 100 NGOs in which ICSW has actively participated since its inception in 2012, in its statement made at the United Nations Financing for Development Forum in April 2018.***

***We are also publishing a recently released update of The Social Protection Floor Index (2017).***

**Sergei Zelenev, Executive Director of ICSW and Editor of the Newsletter**

*continued on page 2*

continued from page 1

### **Financing for Development Forum in New York**

*The third Financing for Development Forum was convened by the President of ECOSOC from April 23-26, 2018 at United Nations Headquarters in New York. The event brought together high-level officials from ministries of finance, foreign affairs and development cooperation, and senior officials from the UN system, as well as from the World Bank and the IMF. Civil society organizations, the business sector and local authorities were also represented.*

*The Global Coalition for Social Protection Floors organized a side event to highlight the issues relating to social protection financing. The event took stock of the latest development in the financing of universal social protection, including floors, and discussed the responses to the questions regarding the current situation with regard to social protection financing worldwide, including how governments can ensure adequate national fiscal resources to sustainably finance universal social protection (SDG 1.3), how social protection spending can be protected in times of economic crisis and what initiatives should be encouraged to institute, foster, deepen and protect financing for universal social protection around the world.*

The statement of the Global Coalition is published below.

#### **Mobilize the financial means for social protection systems for all**

*by the Global Coalition for Social Protection Floors*

The international commitment is explicit and ambitious: "Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve

<sup>1</sup> The objective of universal, human rights-based, social protection is embedded in numerous international laws and agreements, including the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights as well as the ILO Convention on Social Security ( no. 102), and the ILO Social Protection Floors Recommendation No. 202.

substantial coverage of the poor and the vulnerable" (SDG target 1.3). Social protection systems include contributory and non-contributory schemes for children, people in active age and older persons, such as, for example, child grants, health insurance and pension programmes. Social protection floors provide at least a basic level of income security and access to health services for all residents in all main contingencies along the life cycle, as defined in the ILO Social Protection Floors Recommendation 2012 (no. 202).<sup>1</sup>

There is no doubt that social protection is a key instrument in the effort to end poverty and give people access to opportunities for a self-determined life in dignity. National social protection systems can also contribute to achieving other SDGs including food security, good health, decent work, gender equality, reduced inequality and cohesive communities.

The social protection target is ambitious, as there is an extremely wide gap between the commitment and the current situation. The ILO World Social Protection Report 2017-2019 shows that only 29 percent of the world's population is covered by adequate social protection.<sup>2</sup> And yet many more countries than those who already have complete SP systems could afford at least to complete their Social Protection Floors. The coming 2018 update<sup>3</sup> of the SPF Index that the Global Coalition on the SPF has published in 2016, finds that<sup>4</sup>

- 32 countries would require no more than 1 percent of Gross Domestic Product (GDP);
- 39 countries would require between 1 and 2 percent of GDP to complete their SP floors in the short run.

In the medium term,

- 45 countries with SPF gaps of between 2 and 4 percent of GDP and
- 9 further countries with gaps of between 4 and 6 percent GDP

<sup>2</sup> Cf. ILO (2017).

<sup>3</sup> Cf. Bierbaum, M. et al. Social Protection Floor Index 2012 and 2013 – Update and Country Studies

<sup>4</sup> These estimates assume that all transfers are perfectly targeted on the people living below the poverty line.

should be able to close most of their SP gaps.

In the longer term

- 12 further countries might be able to close most of their gaps between 6 and 10 percent of GDP.

However, even for countries that have the political will to close the gap and the organizational capacity to implement the required policies, a major challenge is to mobilize and maintain the necessary resources to cover the cost in a sustainable way, year in and year out, through good times and bad. Social protection spending is not a short-term effort but needs to be planned and guaranteed for the indefinite future.

### **Large differences in the funding of social protection**

The ILO found large regional differences in the funding of social protection, ranging from about 15 percent of GDP in Europe to 4.5 percent in Africa on average. That funding is almost exclusively mobilized through taxation, social security contributions and other public revenues. Very little official development assistance (ODA) is used to support social protection in developing countries. Total ODA for social protection disbursed in the years 2010-2015 varied between US\$ 1.9 billion and US\$ 2.6 billion or only about 2 percent of total ODA.<sup>5</sup>

In many countries, contributory pensions, employer-paid insurance for workers injured on the job and other social insurances provide social protection to some of the population, albeit usually not for all people, in particular not for people living in poverty in the informal economy, who are generally not in a position to pay the mandatory contributions. It is thus necessary to allocate government expenditures to social protection systems to protect people from poverty, for which countries need to build strong and fair national tax systems, increase their efficiency in tax collection and administration, and end tax evasion and fraud. In some cases, budget expenditures can be reallocated from less

essential uses to social protection. In some countries it will be necessary to raise taxes or other fiscal revenues, which should be done in a progressive manner, for instance by taxing personal and corporate income, as well as property and wealth.

### **Financing mechanisms for social protection**

The choice of financing mechanisms should take account of the administrative demands of their implementation and their impact on investments and economic performance. But it is essential also to consider the net fiscal impact and incidence of the combination of financing choices and transfer payments on poverty and on inequality.<sup>6</sup> A well-designed mix of financing mechanisms and social protection transfer programmes can both reduce poverty and reduce inequality, as decades of experience in Europe and other parts of the world have shown.

Striving for universal social protection, some countries have used and improved the fiscal resources earned from extractive industries. A case in point is that of Bolivia, where the sharing of revenues from gas exports changed from 18 percent to the government and 82 percent to the producers to a 50-50 split of the revenues, which led to the pledge of additional funds to core social services, including a universal old-age pension, and a cash transfer for children in public primary schools to compensate for the cost of books, uniforms and transportation.<sup>7</sup>

Political will, as well as long-term fiscal planning, is needed to maintain social protection expenditures in the face of economic volatility (and increase them as conditions warrant). For commodity-dependent developing countries, some governments have built up a reserve fund during boom times to draw down during bad times. It requires government discipline during boom times when there may be strong political pressure to expand government expenditure in unsustainable ways and in which the government administration might well assume that the next crisis will fall on a successor government. The success of such a strategy

<sup>5</sup>  
Cf. UN (2017).

<sup>6</sup>

Cf. Inchauste/Lustig (Ed.) (2017).

<sup>7</sup>

Cf. Ortiz/Cummins/Karunanethy (2017), p. 13.

requires good fiscal monitoring, including by civil-society organizations.

Even if at first sight social protection seems to be a purely domestic public task, there is - without any doubt - also an international responsibility to support developing countries in this regard, as backed by the extraterritorial state obligations agreed upon in the International Covenant on Economic, Social and Cultural Rights (ICESCR, Art. 2.1). One element of this responsibility is to help individual countries to collect taxes owed that now escape their fiscal systems. Internationally coordinated efforts are required to effectively reduce tax evasion. Technical assistance is also beneficial so as to help countries design systems that prevent opportunities for legal, but unethical, tax-avoidance schemes, and so not offer competing tax incentives to foreign investors that erode the national tax base in other countries and can lead to a fiscal "race to the bottom".

There is a human rights obligation to protect ongoing social protection spending in times of economic distress. Austerity measures typically taken after crises occur must not cut into social protection spending, which protects people from the most disastrous fall-out from these crises. The Committee on Economic, Social and Cultural Rights in General Comment 19 (2008) has noted that states have a minimum core obligation to provide some form of social protection, which is not subject to the availability of resources. The positive economic effects of social protection as investments in social and economic development must also be recognized, for instance in terms of supporting skill development and employability, as well as sustaining aggregate demand. During the international financial crisis of 2008, for instance, we observed the stabilizing effect of social protection schemes in some countries, preventing worse impacts on people and economies and enabling faster recoveries. One reason that social protection tends to be threatened in crisis periods is that priority is given to continuing to pay creditors of the government. It is high time to re-calibrate the risk-sharing between the parties involved. The

obligation to protect people from intolerable hardship should take precedence over the obligation to honour debt payments when government revenues contract. However, we do not need to wait for sovereign bankruptcy and measures of last resort to protect spending for basic social protection. Proposals to design loans and bonds that automatically postpone or cancel debt servicing during periods of economic stress, called "state-contingent debt", have many supporters but need to be put into practice. Moreover, the practice of lending conditionalities requiring states to scale back their social protection systems must be reconsidered immediately.

International ODA for social protection has to increase. Public funds will be usefully spent in contributing to the effort of countries to design, implement and finance national systems of social protection. A reliable international funding mechanism for social protection could have added value, especially as a bridging mechanism for least developed low-income countries that might not have sufficient fiscal capacity yet. In this regard a Global Fund for Social Protection has been proposed by some that would aim at creating a solidarity-based financing mechanism for social protection floors.<sup>8</sup> The Fund would be governed by a board consisting of representatives from various constituencies, including the UN, the ILO, donor countries, recipient countries and civil society. ODA resources could be complemented by innovative sources of development finance, such as a financial transactions tax (FTT), carbon taxes, and/or a decision by the International Monetary Fund (IMF) to issue new Special Drawing Rights (SDRs) for unrestricted use.

Mobilizing adequate public resources to cover the cost of social protection floors and social protection in a wider sense presents challenging terrain on the international and the national levels. And yet, the challenge can be met, because the requisite techniques and mechanisms of public finance exist. They will have to be implemented so as to ensure that nobody is left behind.

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Cf. de Schutter/Sepúlveda (2012), Cichon (2015) and Global Coalition for Social Protection Floors (2015).

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## The Social Protection Floor Index (SPFI), Update and Country Studies (2017).

The Global Coalition for the Social Protection Floor developed the Social Protection Floor Index (SPF Index) to indicate the financial size of national SPF gaps in selected years. The Index measures the amount of resources that a country would have to allocate to social transfers and health services in order to achieve the minimum level of income and health security that is required by Recommendation R. 202 concerning national floors of social protection of the International Labour Organization (ILO). The recent publication provides an update of the SPF Index.

For more information:  
<http://www.socialprotectionfloorscoalition.org/>

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