


International Labour Office

Fiscal Space for Universal Social Protection

Isabel Ortiz, Director Social Protection

International Labour Organization (ILO)

ITUC WSM FES Global Conference on Financing Social Protection

Brussels, 17 September 2018

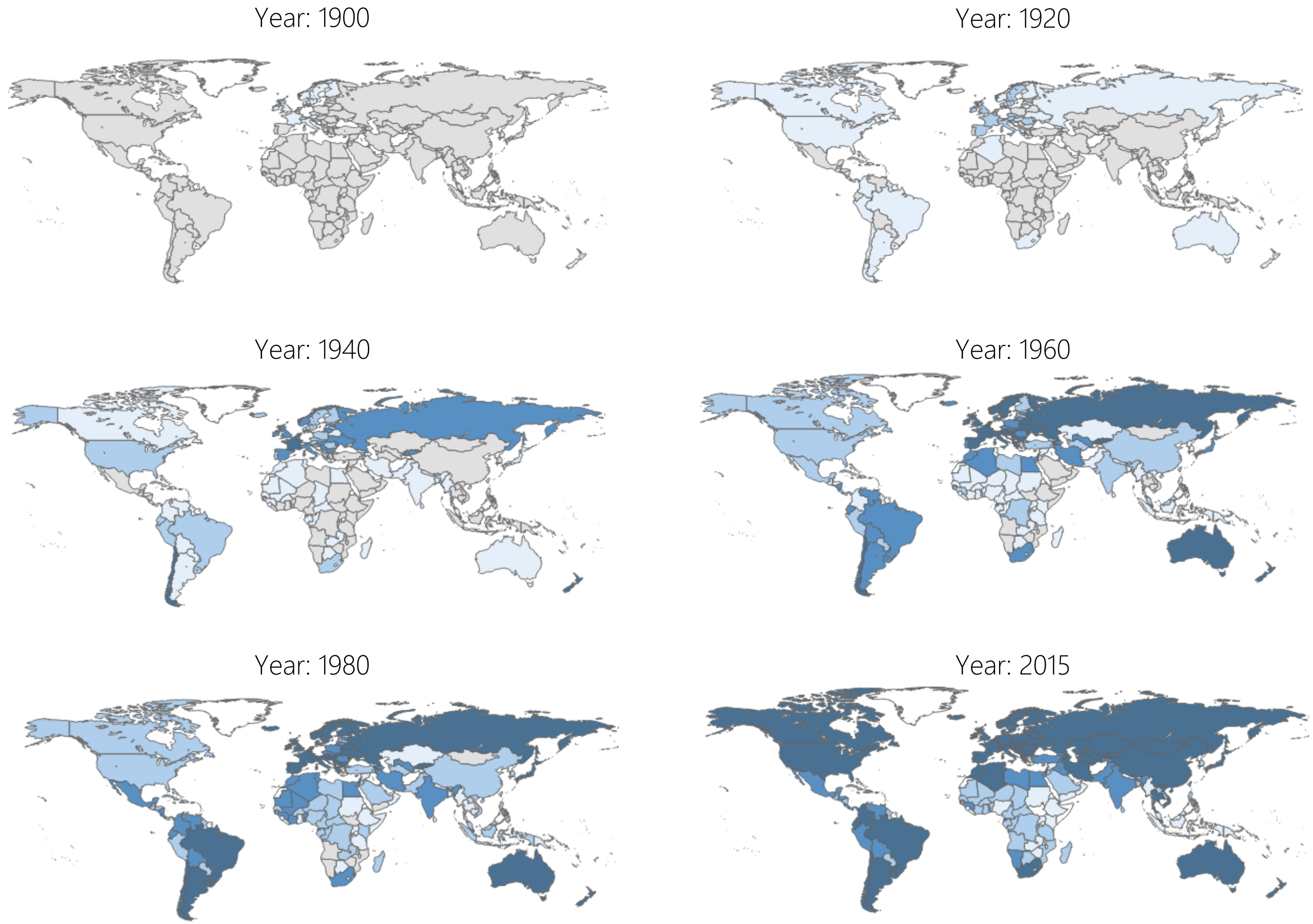
International Labour Office

ITUC CSI IGB

WSM Wereldsolidariteit Solidarité Mondiale World Solidarity Solidaridad Mundial

FRIEDRICH EBERT STIFTUNG

Introduction: Extending social protection systems over 100 years – a story of success



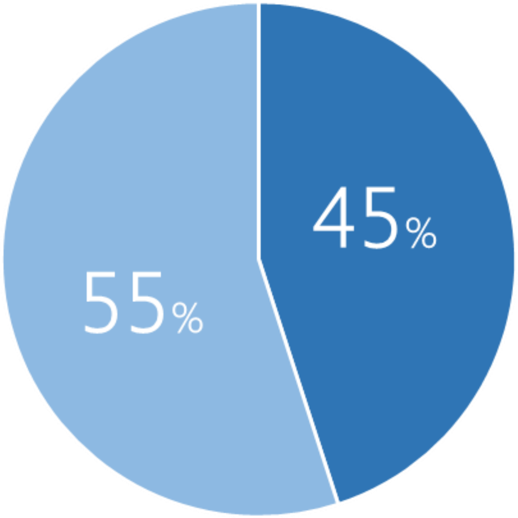
Scope of legal coverage

- Comprehensive scope (all 8 policy areas)
- Nearly comprehensive scope (7 policy areas)
- Intermediate scope (5–6 policy areas)
- Limited scope (1–4 policy areas)
- No data

Countries achieve universality by a mix of **social insurance** (*financed from contributions*) and a **floor of social assistance** (*financed from the general budget*)

Source: [ILO, World Social Protection Report 2017-19]

Financing social protection is an urgent priority



Only 45%

of the world population is covered by at least one social protection benefit (SDG indicator 1.3.1)

1 NO POVERTY

SDG indicator 1.3.1

4 billion people

(55%) are still unprotected

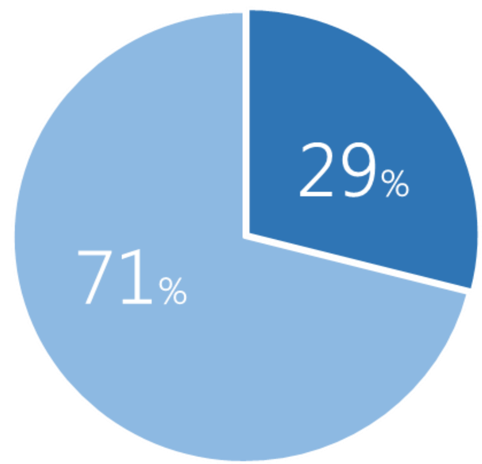
If we consider all areas of social protection from child benefits to old-age pensions

Only 29%

of the global population has access to comprehensive social protection

5.2 billion people

(71%) are not, or only partially, protected



Benefits must be adequate, according to ILO standards

Source: [ILO World Social Protection Report 2017-19]

How to Finance Universal Social Protection with Adequate Benefit Levels in Times of Austerity?

- About 124 countries cutting public expenditures in 2018 (81 developing and 43 high income countries)

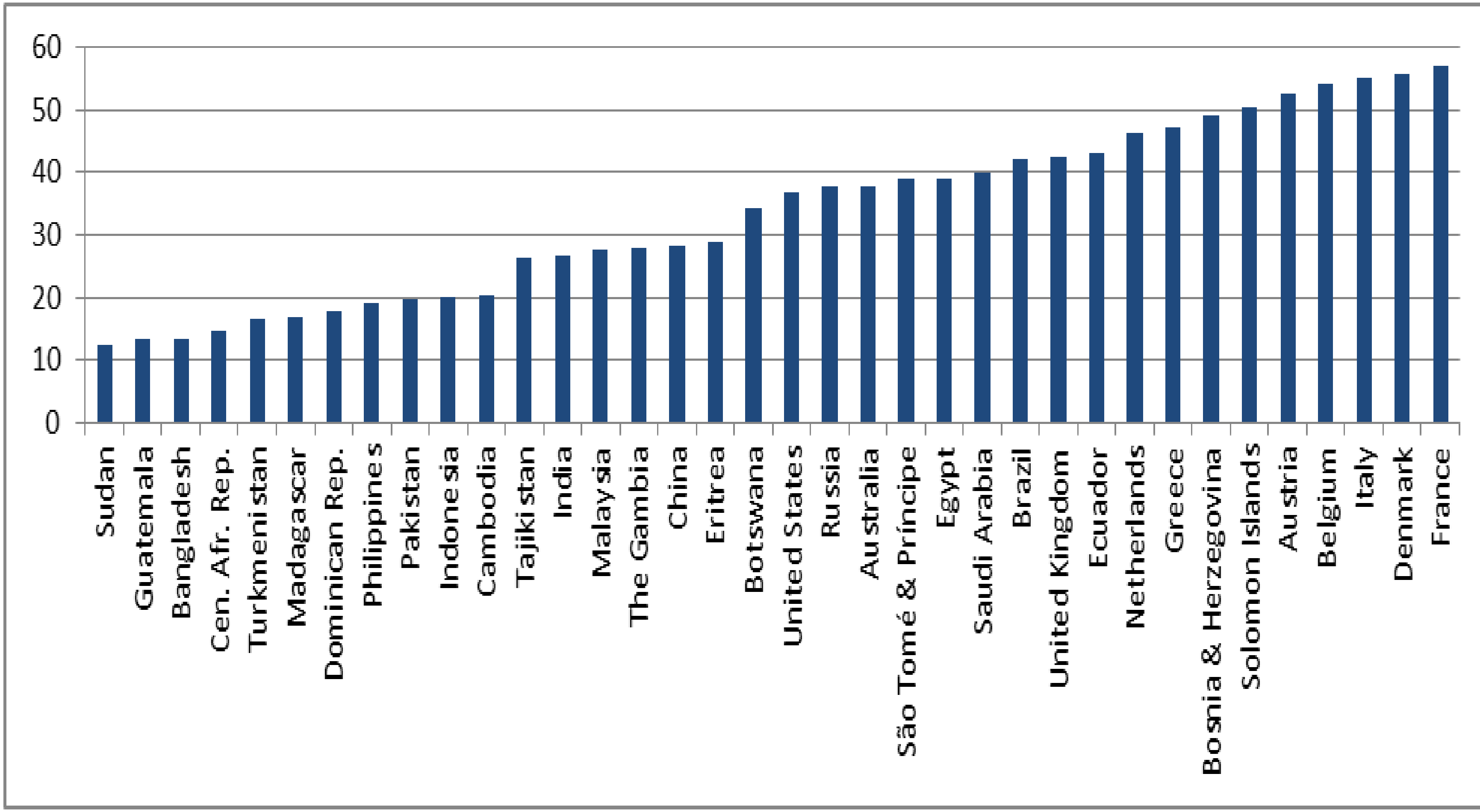
- Many governments considering wage bill cuts/caps, targeting social protection, pension reforms, health reforms

- **There are alternatives**

Learn more and check your country here:
The Decade of Adjustment: A Review of Austerity Trends 2010-2020 in 187 Countries
ILO/IPC/South Centre

Government Spending Choices Vary Widely

Total Government Expenditures (% GDP), Selected Countries, 2014



Source: Ortiz, Cummins, Karunanethy 2017: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" ILO, UNICEF and UNWomen

…and likewise, Government Revenue Choices Vary Widely

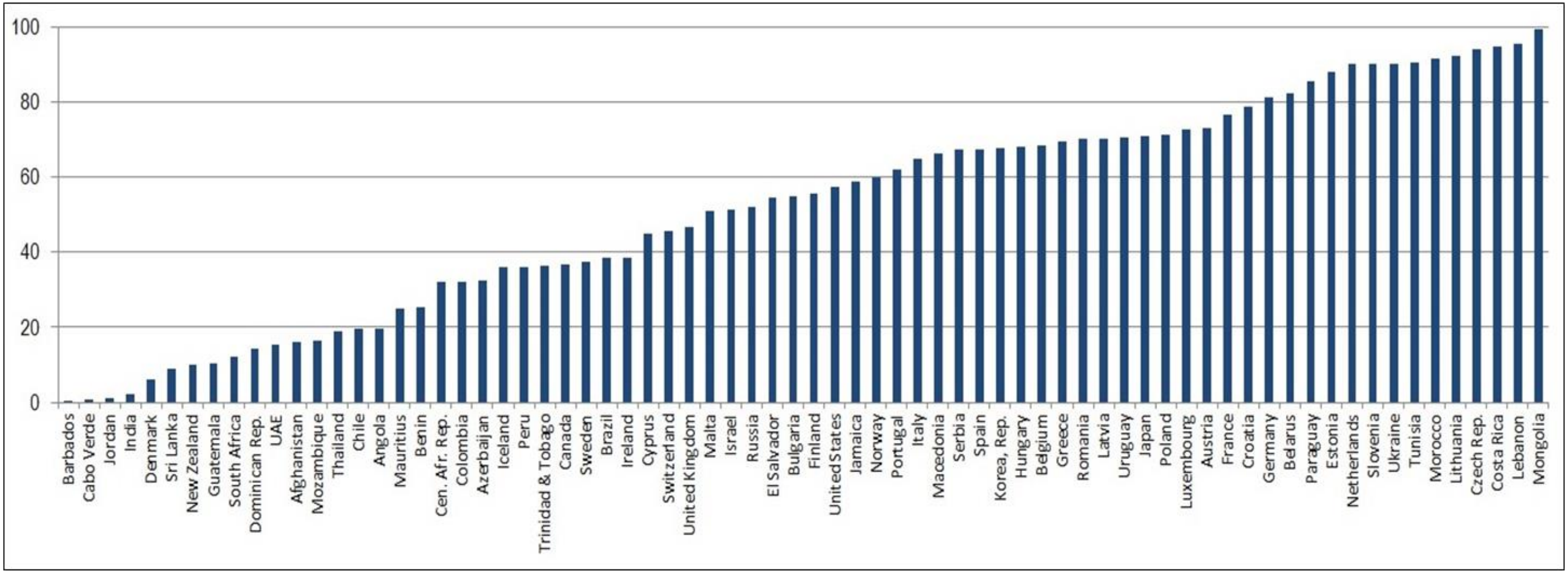
Fiscal Space for Universal Social Protection Systems/Floors, Exists Even in the Poorest Countries

- **There is national capacity to fund universal social protection systems/floors in virtually all countries. There are many options, supported by UN and IFIs policy statements:**
  1. Expanding social security coverage and contributory revenues
  2. Re-allocating public expenditures
  3. Increasing tax revenues
  4. Lobbying for increased aid and transfers
  5. Eliminating illicit financial flows
  6. Using fiscal and foreign exchange reserves
  7. Managing debt: borrowing or restructuring debt
  8. Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

OPTION 1. Expanding Social Security Coverage and Contributory Revenues

- Increasing coverage and therefore collection of contributions is a reliable way to finance social protection (eg. Argentina, Brazil, Tunisia, Uruguay)
- Social security contributions also encourage formalization of the informal economy.
- Typically through improvements in the administrative and institutional framework of the social contribution collection system, facilitating and increasing tax coverage and social security of micro and small enterprises

Ratio of social security contributions to public social protection expenditure (latest year available)



1.b. Extending Social Insurance Contributory Coverage

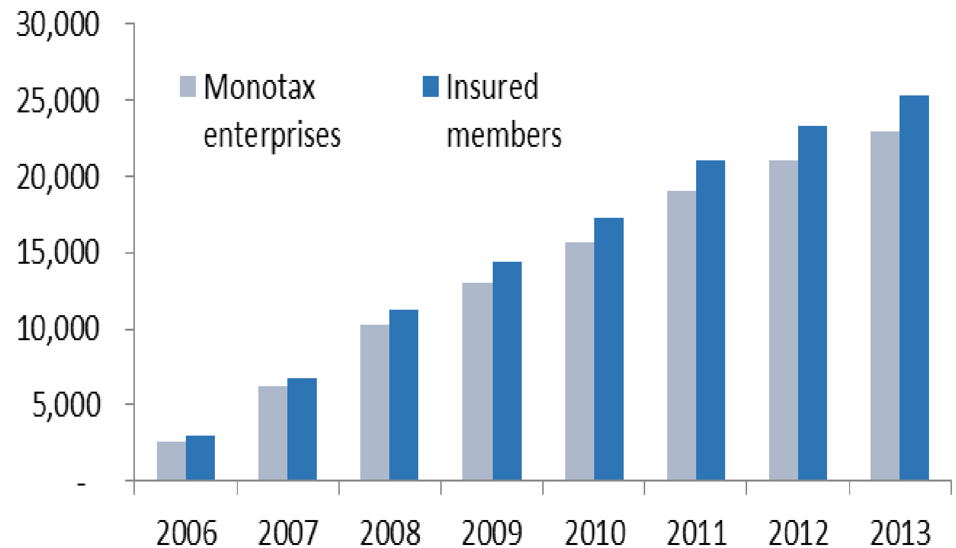
Typical Design Options

- Employers and workers contributions for public social insurance in accordance with ILO Conventions and Recommendations
- Extend to specific groups: Micro enterprises, Domestic Workers, Rural workers, etc encouraging formalization of the informal economy
- Subsidize benefits and simplify procedures eg **Monotax** in Uruguay (also Brazil, Argentina), a single payment covering taxes and contributions collected by the Uruguayan Social Security (BPS). Learn: [Duran, F. 2015. Monotax. ILO]

Get agreement through NATIONAL SOCIAL DIALOGUE, including Ministry Finance

- See [Assessment Based National Dialogue Guide]

Uruguay: Extending social security coverage to the self-employed and workers in microenterprises: Number of registered MONOTAX enterprises and insured members, 2006–13



1.c. Beware of attacks on social insurance

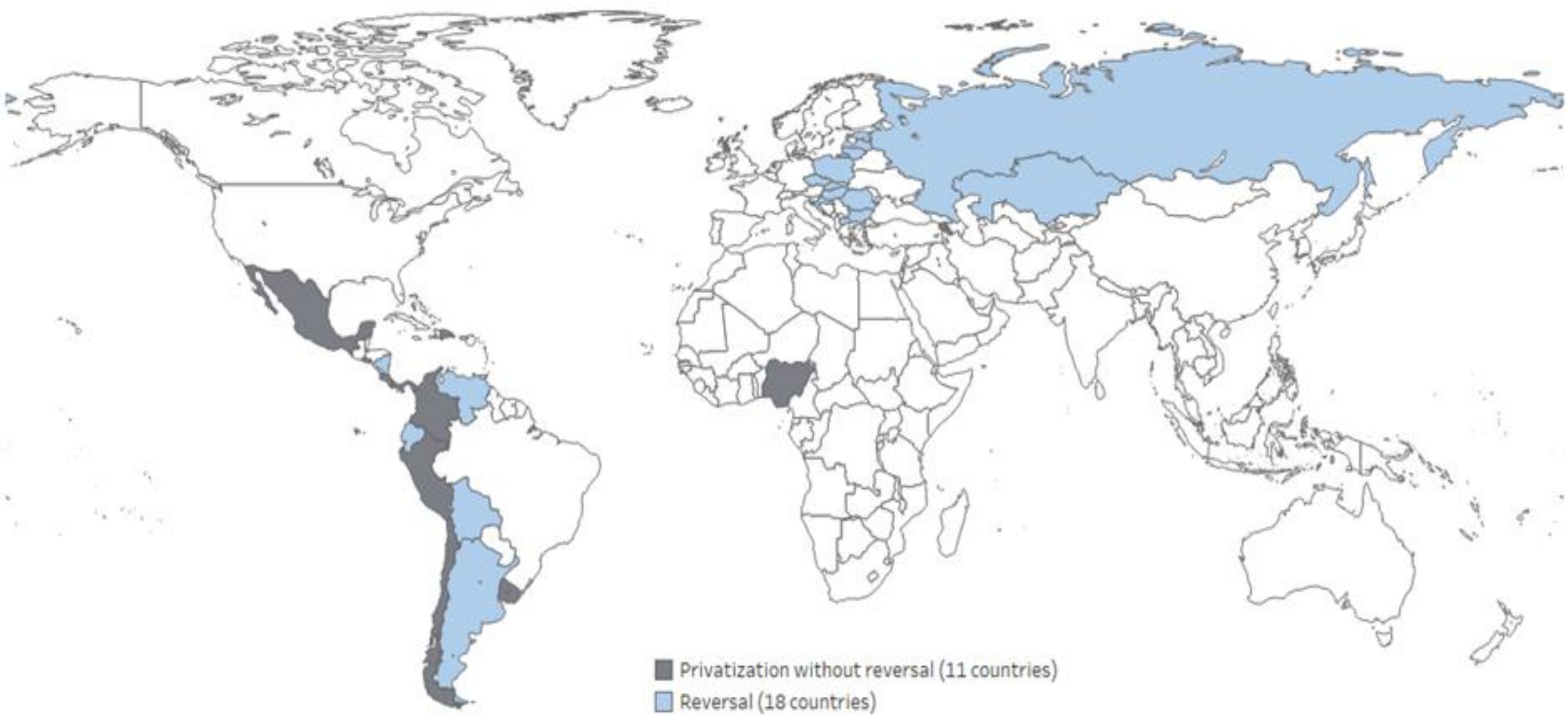
Social insurance schemes are redistributive for two main reasons:

- Transfers from employers to workers
- From the healthy to the sick, disabled or unable to work (eg maternity), from high income earners to low income earners

Beware of attempts to cut employers contributions (the so called “labor taxes”)

Beware of attempts to privatize social insurance and set individual accounts (no redistribution – individual saving schemes); negative fiscal and social impacts

Countries that privatized social security pensions and reversals from privatization



OPTION 2. Re-allocate Public Expenditures

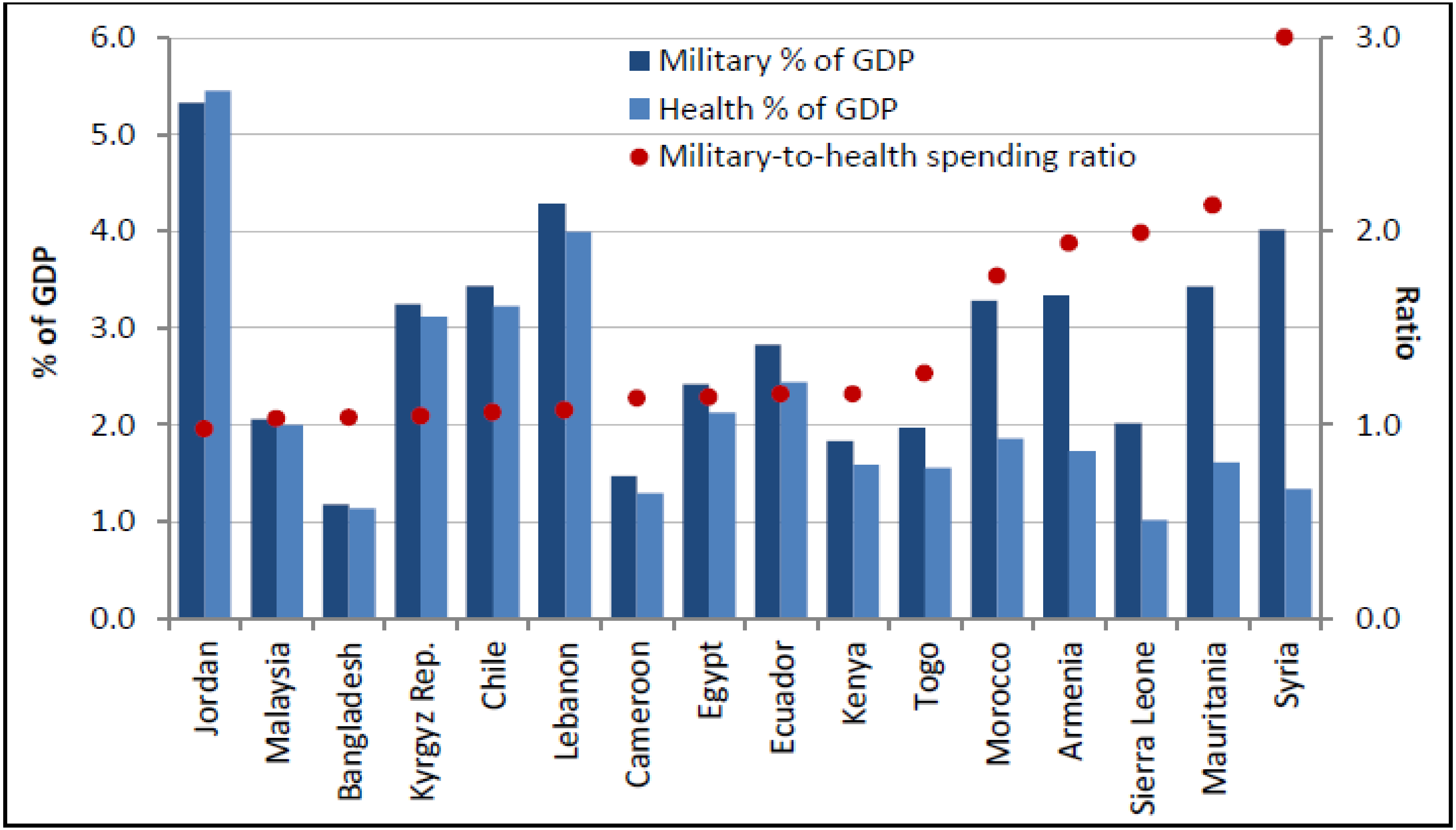
- Main options:
  - *Replacing high-cost, low social impact expenditures (eg. military)*
  - *Eliminating inefficiencies*
  - *Fighting corruption (estimated 5% world GDP!)*

Did you know that…

- Costa Rica and Thailand reallocated military expenditures for universal health
- Egypt created an Economic Justice Unit in the Ministry of Finance to review expenditure priorities.

2.b. Re-allocate Public Expenditures

Military and Health Spending in Selected Developing Countries, 2006-09
(countries with no major armed conflict since 2000)



Source: Ortiz and Cummins 2012: "Finding Fiscal Space," in *A Recovery for All*, UNICEF.

2.b. Re-allocate Public Expenditures: Fuel Subsidies

Reducing energy subsidies is a potential source of funding for universal social protection systems. When universal subsidies are withdrawn, food and transport prices increase and can become unaffordable for many households; also slow down economic activity and thus generate unemployment. This is why the elimination of subsidies has often been accompanied by the development of a "safety net" as a way of compensating the poor; **however beware of the following**:

- **Timing**: While subsidies can be removed overnight, developing social protection programmes takes a long time, particularly in countries where institutional capacity is limited. High risk that subsidies will be withdrawn and populations will be left unprotected, making food, energy and transport costs unaffordable for many households.

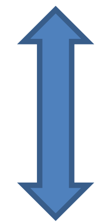
- **Targeting the poor punishes the middle classes and excludes vulnerable households.** In most developing countries, the "middle classes" have low incomes and are very vulnerable to price increases

- **Allocation of cost-savings to develop universal social protection:** The large cost savings resulting from reductions in energy subsidies should allow countries to develop comprehensive social protection systems: fuel subsidies are large, but compensatory safety nets tend to be small in scope and cost. For example, in Ghana the eliminated fuel subsidy was US$1 billion in 2013, whereas the targeted social protection LEAP programme costs only about US$20 million per year (where did the rest go?).

OPTION 3. Increasing Tax Revenues

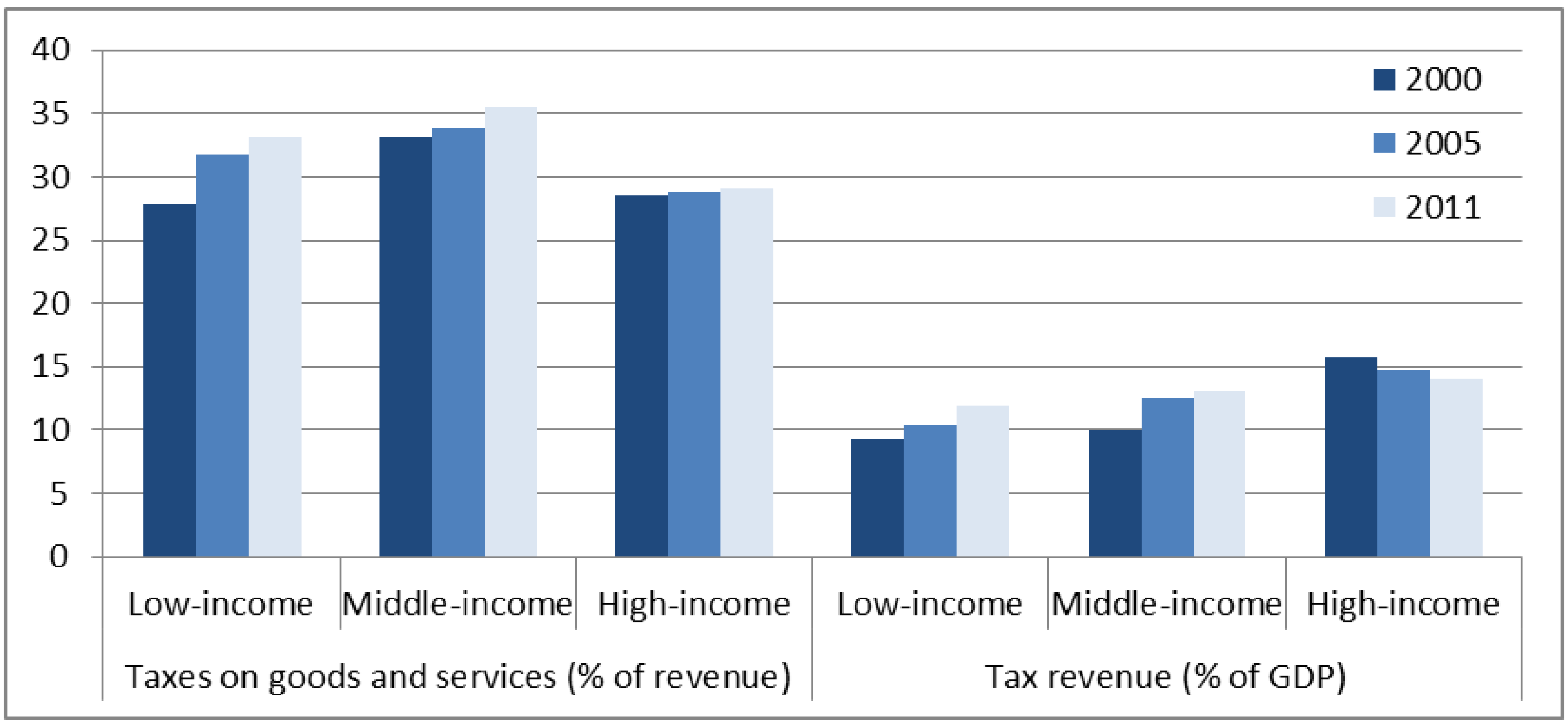
- Income taxes
- Corporate taxes, including the financial sector
- Taxing natural resource extraction
- Property and inheritance taxes
- Tariffs (imports/exports)
- Consumption/sales taxes, tolls

MORE PROGRESSIVE



MORE REGRESSIVE

Taxes on goods/services and overall tax revenue by income groups, 2000-11



3.b. Increasing Tax Revenues

High income inequality should make governments move away from indirect taxation (eg. consumption/sales taxes) but…

Developing Countries that Lowered Individual and Corporate Income Tax Rates for the Top Income Brackets, 2014

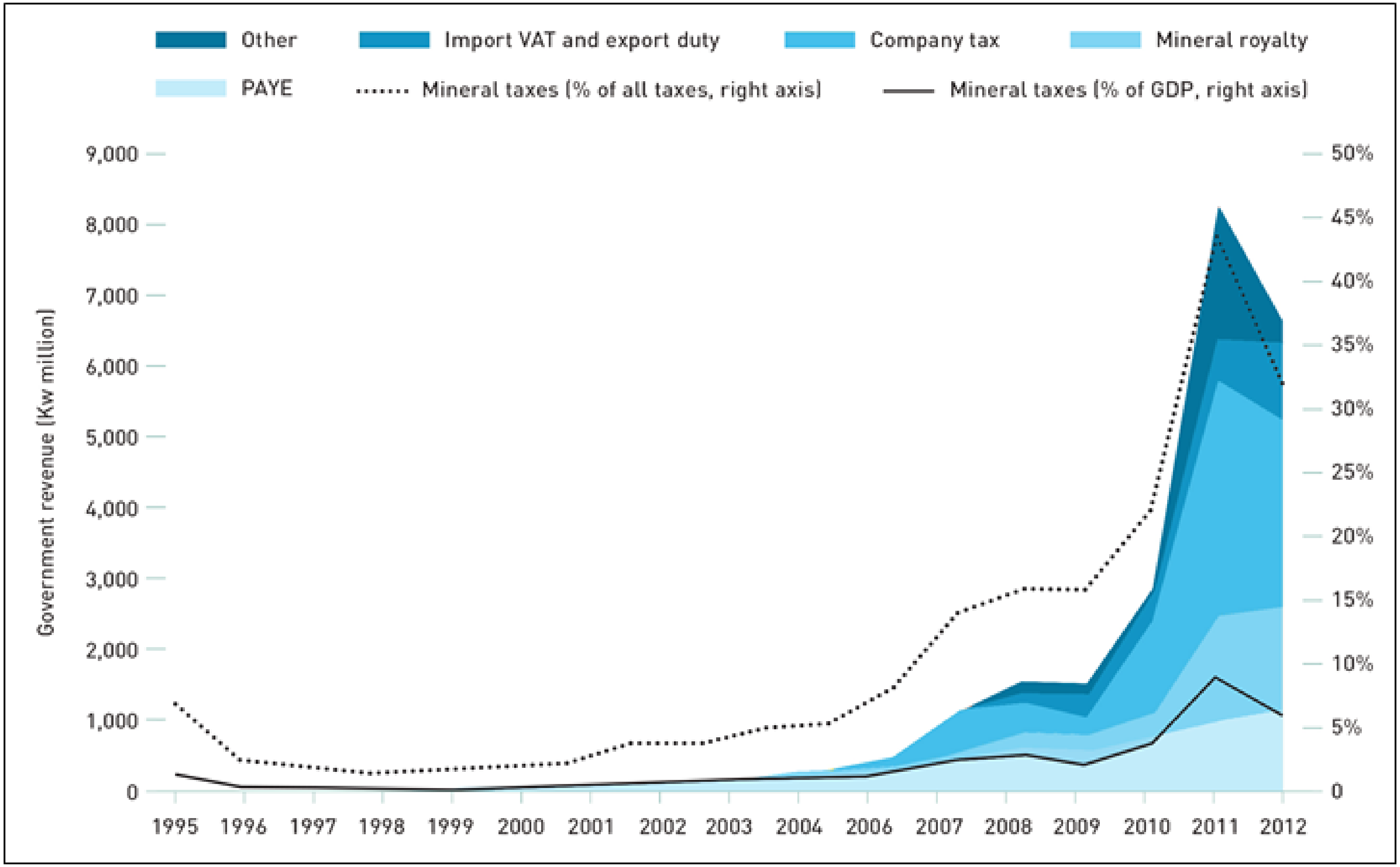
Individual income tax		Corporate income tax
Antigua and Barbuda	Mozambique	Sierra Leone
Ecuador	Netherlands Antilles	Albania
Fiji	New Zealand	Germany
France	Norway	Israel
Gibraltar	Pakistan	
Greece	Panama	
Guatemala	Samoa	
Hungary	Senegal	
Iceland	Sierra Leone	
Isle of Man	Sudan	
Jamaica	Swaziland	
Jordan	Syria	
Latvia	Tanzania	
Lebanon	Thailand	
Malawi	Tunisia	
Malta	United Kingdom	
Mauritius	Yemen	

Source: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" (2017) ILO, UNICEF and UNWOMEN

3.c. Increasing Tax Revenues

Taxing Natural Resource Extraction expanding in many developing countries

Fiscal revenues from the mining sector in Zambia



Source: "[Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries]" (2017) ILO, UNICEF and UNWOMEN

3.d. Increasing Tax Revenues

Other taxes:

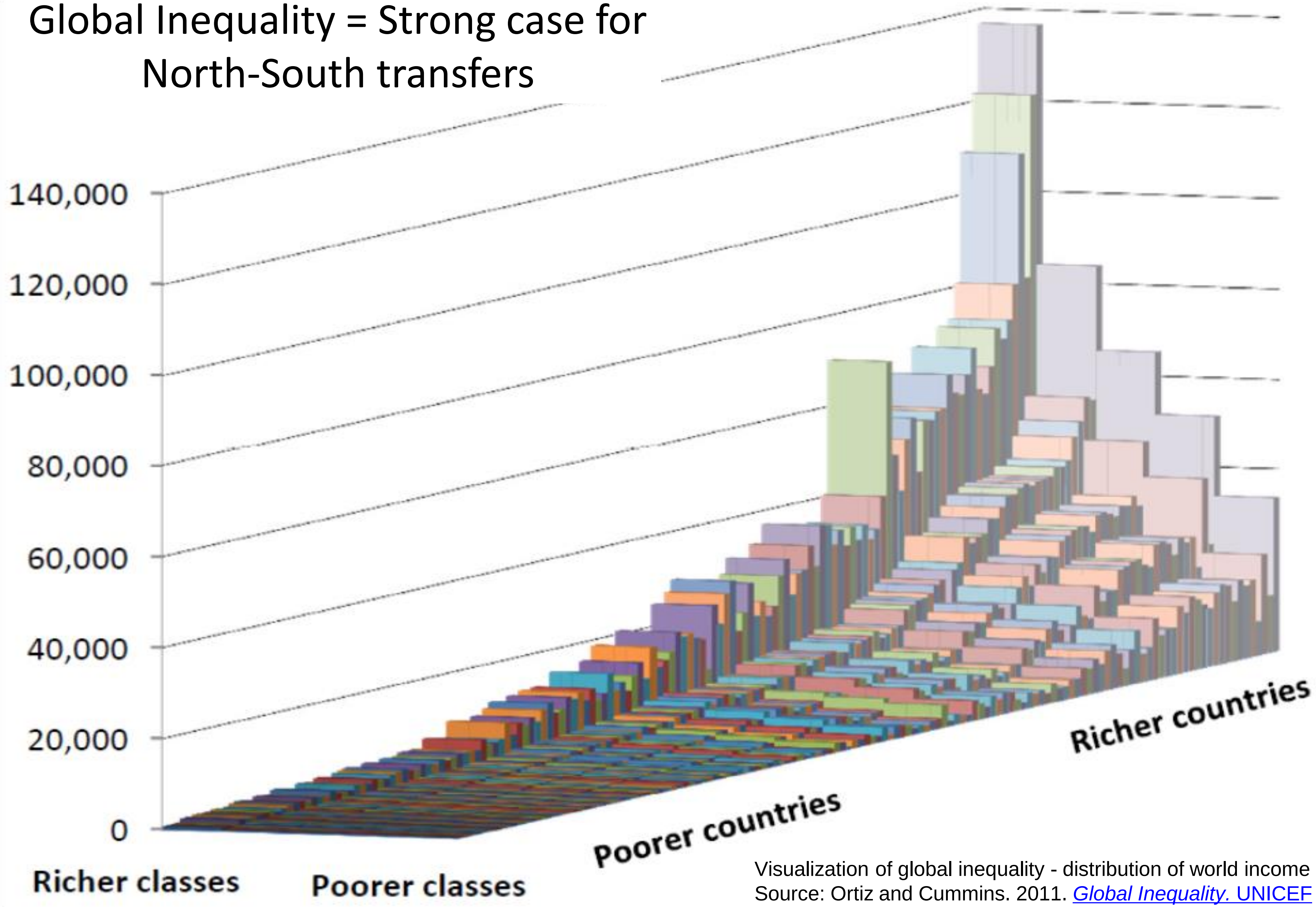
- Property and inheritance taxes
- Taxes on tourism, airlines and hotels (eg. Ghana, Liberia, Maldives)
- Remittance taxes (eg. Colombia, Georgia, Peru, Poland)
- National lotteries (eg. China Welfare Lottery, Spain's ONCE Lottery for the blind)

Did you know that…

- Brazil used a financial transaction tax to expand social protection coverage
- Bolivia is taxing hydrocarbons to finance "*Renta Dignidad*", a universal social pension for all older persons
- Mongolia finances a universal child benefit from a tax on copper exports

OPTION 4. Increased Aid and Transfers

Global Inequality = Strong case for North-South transfers



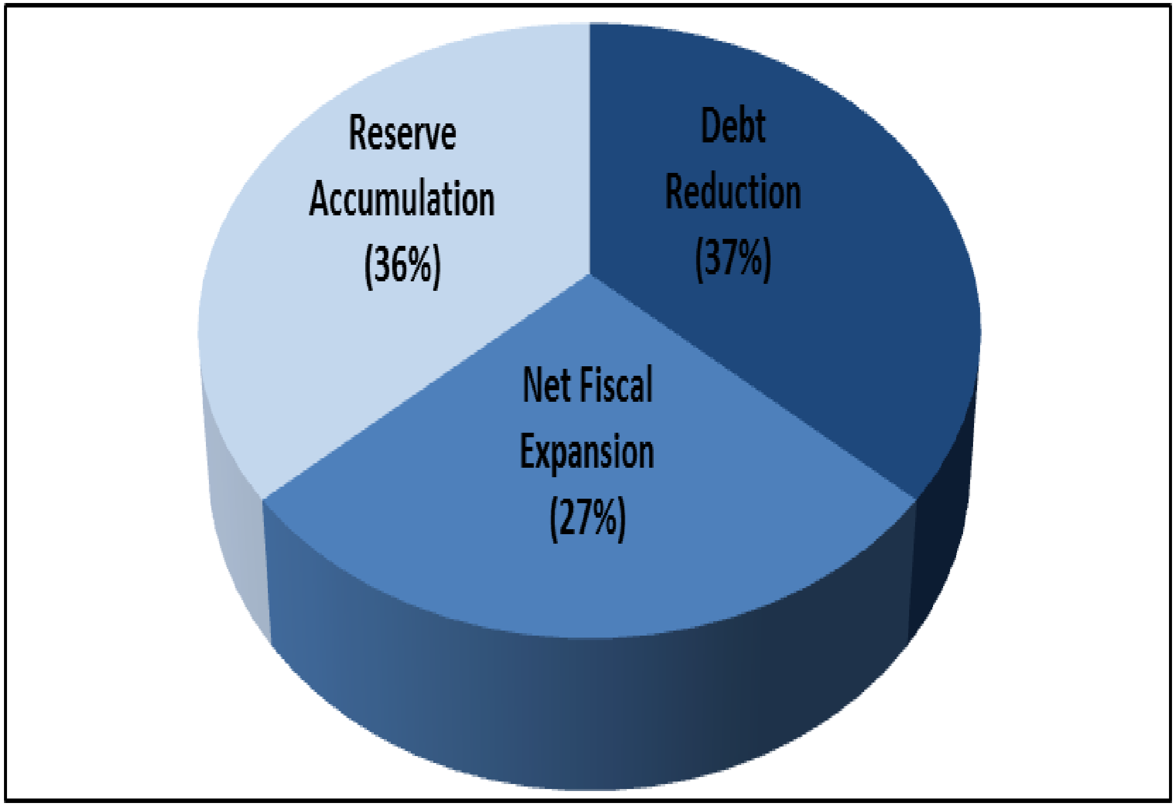
Visualization of global inequality - distribution of world income
Source: Ortiz and Cummins. 2011. *Global Inequality.* UNICEF

4.b. Increased Aid

- Strong justification for North-South transfers
- Limited volume, at about 0.3% of GNI donors
- Issues such as concentration of aid, utilization

	Country	% of global aid
Significant aid flows	Afghanistan	4.7
	Iraq	2.7
	Ethiopia	2.7
	Vietnam	2.6
	Congo, Dem. Rep.	2.4
	Tanzania	2.0
	Pakistan	2.0
	India	1.9
	West Bank / Gaza	1.9
	Mozambique	1.5
	Kenya	1.5
	Turkey	1.5
	Sudan	1.4
	Nigeria	1.3
	Total/average	**30.1**
Limited aid flows	Burundi	0.4
	Malawi	0.7
	Liberia	0.7
	Niger	0.5
	Eritrea	0.1
	Guinea	0.2
	Central African Republic	0.2
	Sierra Leone	0.3
	Rwanda	0.8
	Togo	0.3
	Gambia, The	0.1
	Guinea-Bissau	0.1
	Nepal	0.6
	Total/average	**5.0**

Use of ODA in Sub-Saharan Africa, 1999-2005

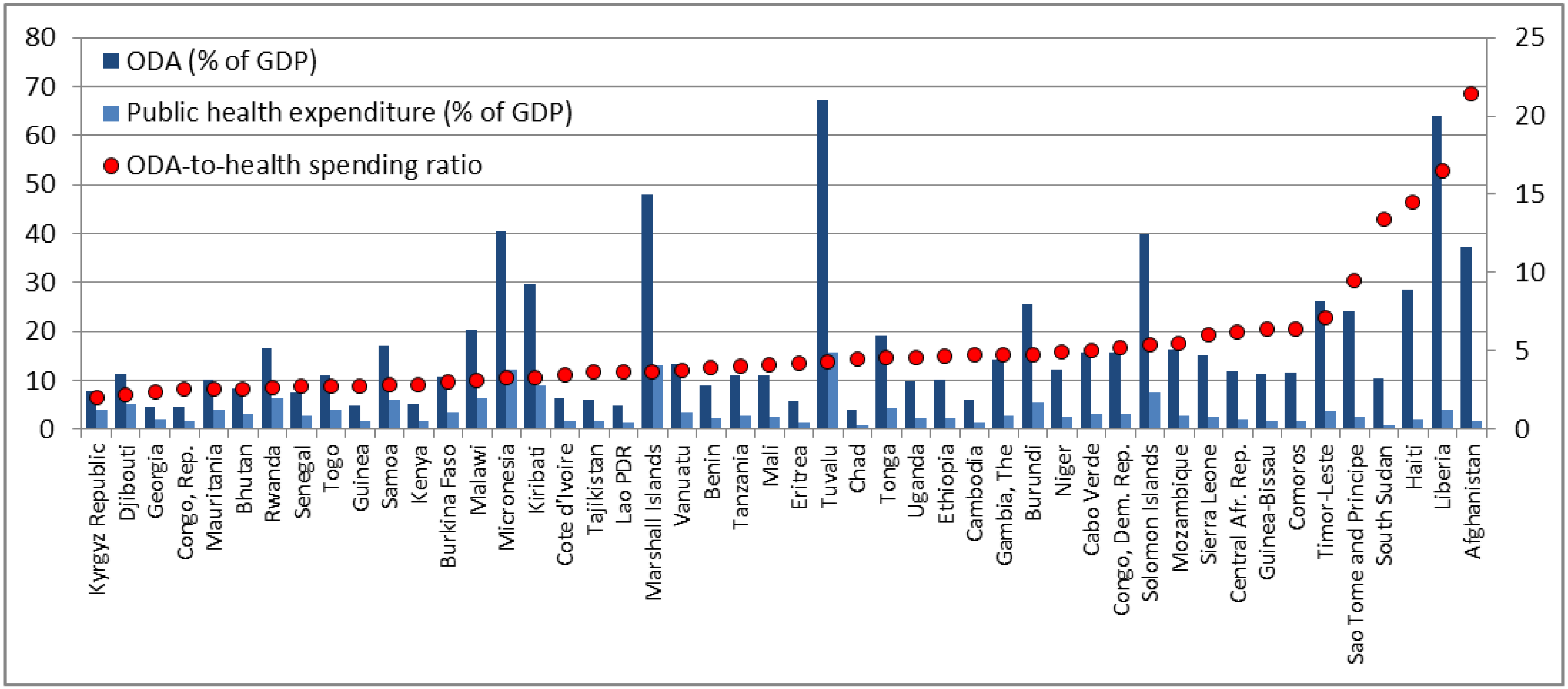


Source: IMF (2007)

4.c. Lobbying for North-South transfers (ODA) and South-South transfers

- Engage with donor governments or international organizations in order to ramp up North-South or South-South transfers
- South-South cooperation smaller but growing

ODA and health spending in selected developing countries, 2010-12 (average values)



Source: "[Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries](#)" (2017) ILO, UNICEF and UNWOMEN

Avoid South-North Transfers!

- Debt interest payments, profit remittances and public/private investments in capital markets in developed economies largely offset net financial inflows to developing countries

Net Transfer of Financial Resources to Developing Economies, 1998-2014

(in billions of US dollars)

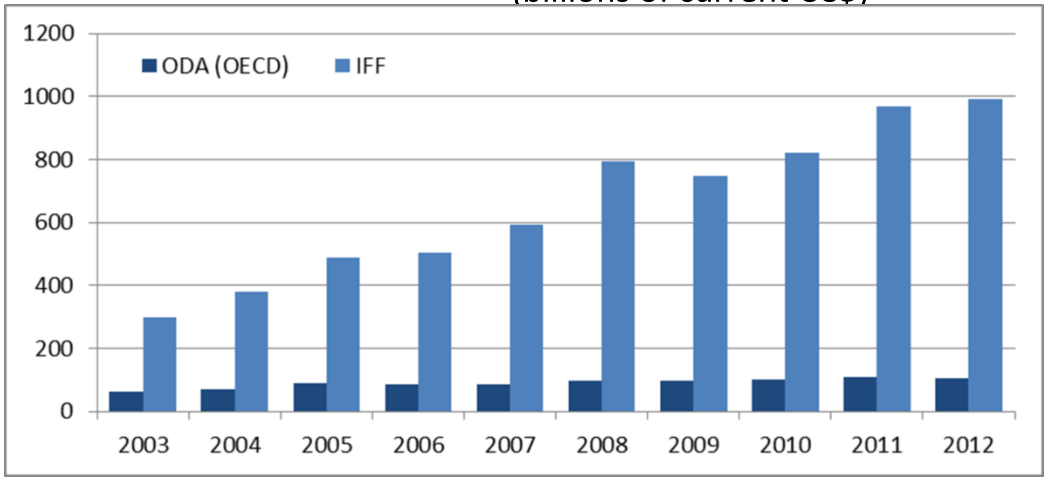
Developing regions	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Africa	-9.9	-20.6	-38.5	-85.0	-102.3	-97.0	-97.7	14.6	-44.9	-44.2	-37.0	-3.7	37.1
Sub-Saharan Africa*	4.9	6.1	5.6	1.2	-6.0	-3.5	1.4	39.3	15.1	8.1	24.9	35.0	38.4
East and South Asia	-152.2	-185.5	-194.7	-293.3	-415.3	-557.6	-535.9	-458.0	-503.6	-455.7	-454.8	-567.9	-622.1
Western Asia	-25.9	-50.1	-70.9	-142.3	-173.3	-132.8	-224.7	-53.6	-125.3	-305.5	-371.3	-311.8	-372.8
Latin America	-35.1	-66.6	-87.2	-111.4	-137.0	-102.9	-67.0	-68.8	-49.6	-60.1	-27.5	6.3	-12.9
All developing economies	-223.1	-322.7	-391.3	-632.1	-827.8	-890.2	-925.3	-565.9	-723.4	-865.5	-890.5	-877.1	-970.7

Source: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" (2017) ILO, UNICEF and UNWOMEN

OPTION 5. Eliminate Illicit Financial Flows (IFFs)

IFFs versus ODA, 2003-12

(billions of current US$)



Illegal activities, including:

- trade mispricing
- tax evasion
- money laundering

Exporting Illicit Capital and Health Spending (% GDP, latest available)

Country	IFF (2009-12 avg annual value)	Public health spending (2012)	Country	IFF (2009-12 avg annual value)	Public health spending (2012)
Togo	60.0	4.4	Panama	18.9	5.2
Liberia	57.1	4.6	Samoa	17.8	6.0
Costa Rica	40.3	7.6	Guyana	17.7	4.3
Djibouti	35.3	5.3	Lesotho	17.3	9.1
Brunei Darussalam	31.3	2.1	Paraguay	17.1	4.3
Dominica	30.4	4.2	Comoros	15.4	2.5
Vanuatu	26.3	3.1	Malawi	15.2	7.0
Equatorial Guinea	24.1	2.6	Zambia	14.9	4.2
Bahamas	23.0	3.5	St. Vincent	14.6	4.3
Trinidad and Tobago	22.1	2.7	Suriname	13.1	3.4
Nicaragua	21.8	4.5	Ethiopia	12.1	1.9
Honduras	21.1	4.3	Chad	12.0	0.9
Solomon Islands	20.7	7.7	Armenia	11.5	1.9
Malaysia	19.1	2.2	Iraq	11.0	1.9

OPTION 6. Use of Fiscal Reserves

Sovereign Wealth Funds based on Fiscal Reserves, Selected Countries, June 2014

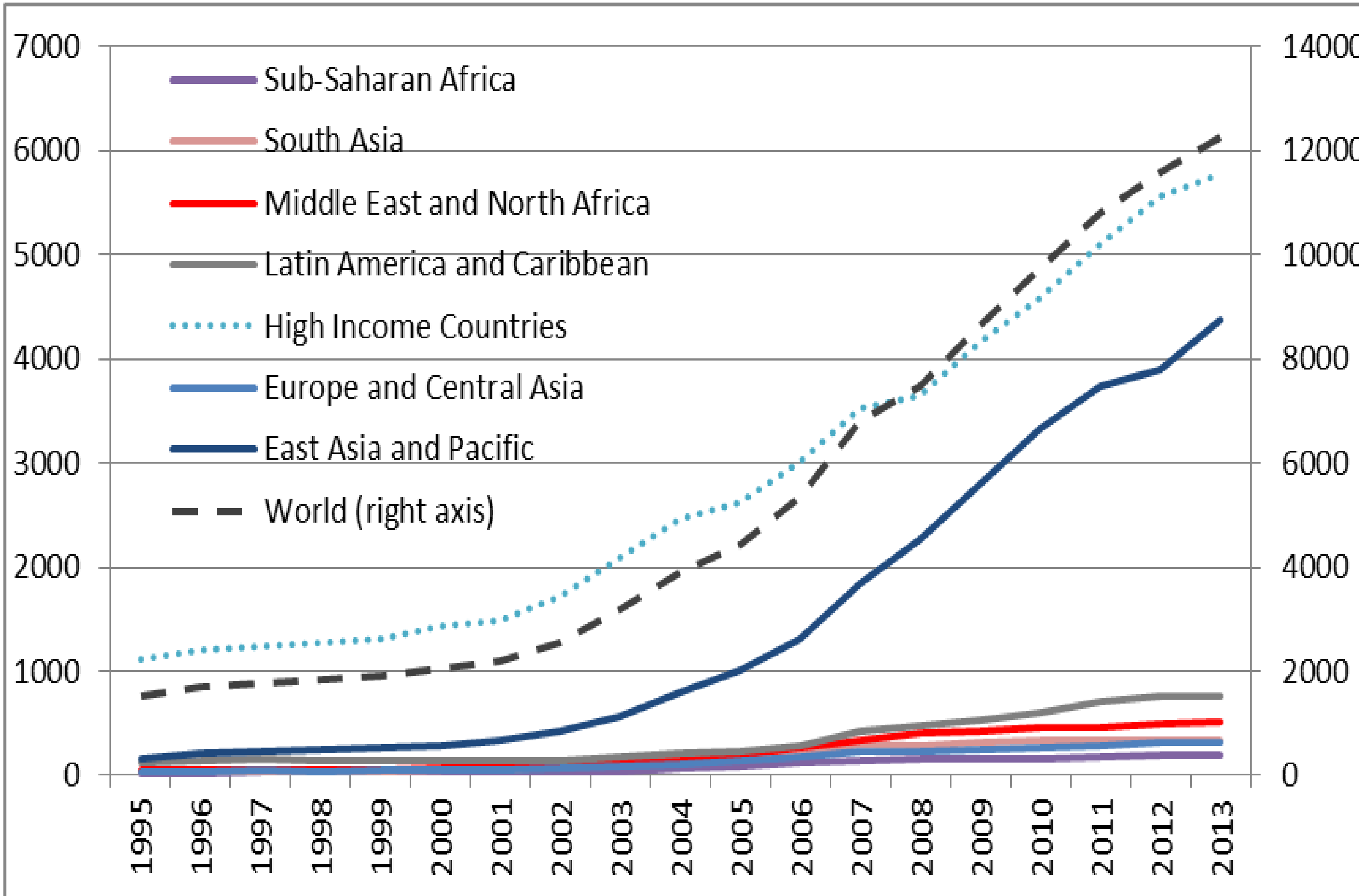
Example - Timor Leste – Low human development indicators but billions invested overseas in SWF

Country	Fund name	Assets*	Inception	Origin
China	China Investment Corporation	652.7	2007	Non-Commodity
China	SAFE Investment Company	567.9	1997	Non-Commodity
China – Hong Kong	Hong Kong Monetary Authority Investment	400.2	1993	Non-Commodity
China	National Social Security Fund	201.6	2000	Non-Commodity
Russia	Reserve Fund	88.9	2008	Oil
Russia	National Welfare Fund	79.9	2008	Oil
Kazakhstan	Samruk-Kazyna JSC	77.5	2008	Non-Commodity
Algeria	Revenue Regulation Fund	77.2	2000	Oil and Gas
Kazakhstan	Kazakhstan National Fund	77.0	2000	Oil
Libya	Libyan Investment Authority	66.0	2006	Oil
Iran	National Development Fund of Iran	62.0	2011	Oil and Gas
Malaysia	Khazanah Nasional	40.5	1993	Non-Commodity
Azerbaijan	State Oil Fund	37.3	1999	Oil
Iraq	Development Fund for Iraq	18.0	2003	Oil
Timor-Leste	**Timor-Leste Petroleum Fund**	**16.6**	**2005**	**Oil and Gas**
Chile	Social and Economic Stabilization Fund	15.2	2007	Copper
Russia	Russian Direct Investment Fund	13.0	2011	Non-Commodity
Peru	Fiscal Stabilization Fund	7.1	1999	Non-Commodity
Chile	Pension Reserve Fund	7.0	2006	Copper
Botswana	Pula Fund	6.9	1994	Diamonds Minerals
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil

Source: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" (2017) ILO, UNICEF and UNWOMEN

6.b. Use of Reserves

Foreign exchange reserve accumulation by developing region, 1993-2013 (in billions of current U.S. dollars; excluding gold)



Source: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" (2017) ILO, UNICEF and UNWOMEN

OPTION 7. Managing Debt: Borrowing and Debt Restructuring

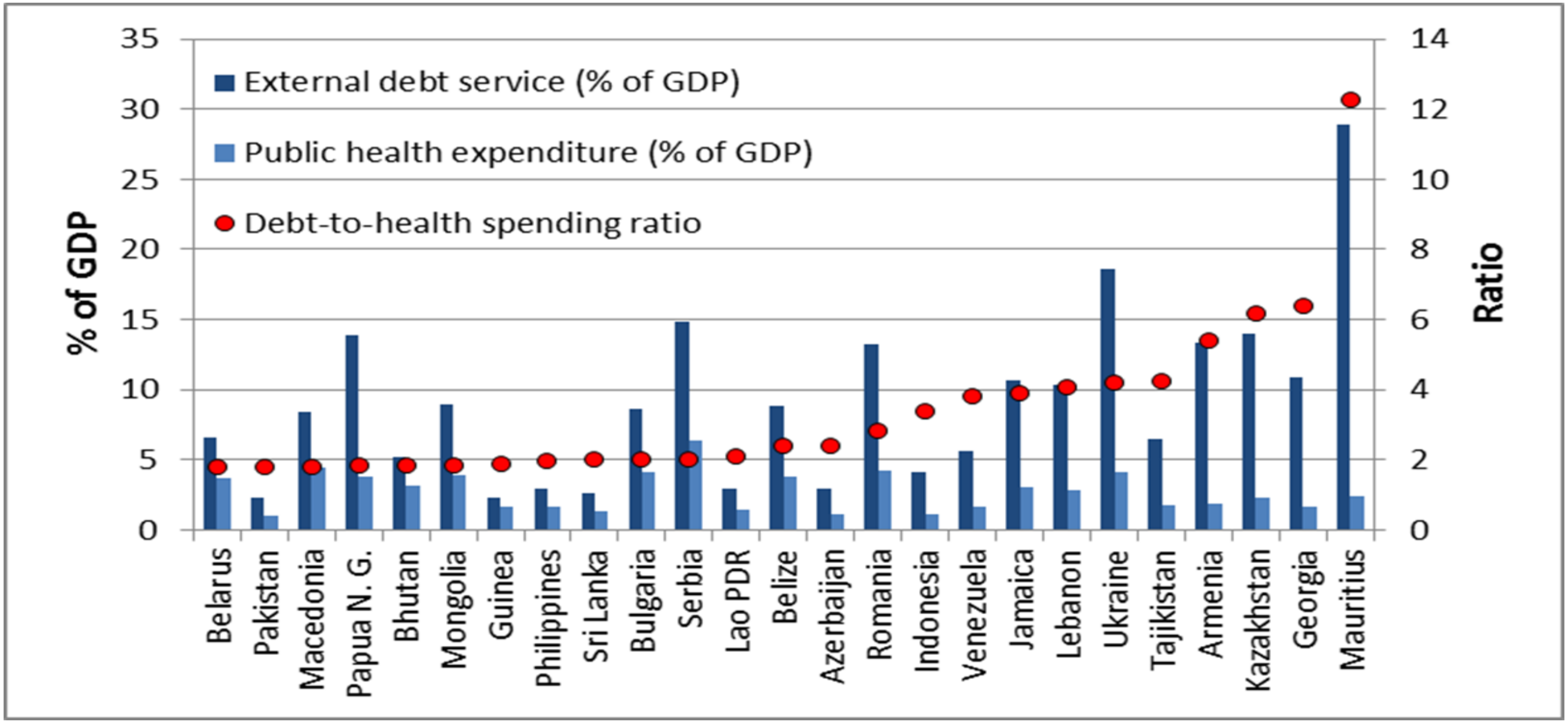
Borrowing

Some developing countries show potential capacity to engage in further borrowing, both domestically and externally

- Loans, either from commercial or development banks or funds
- Issuing government securities, such as bonds

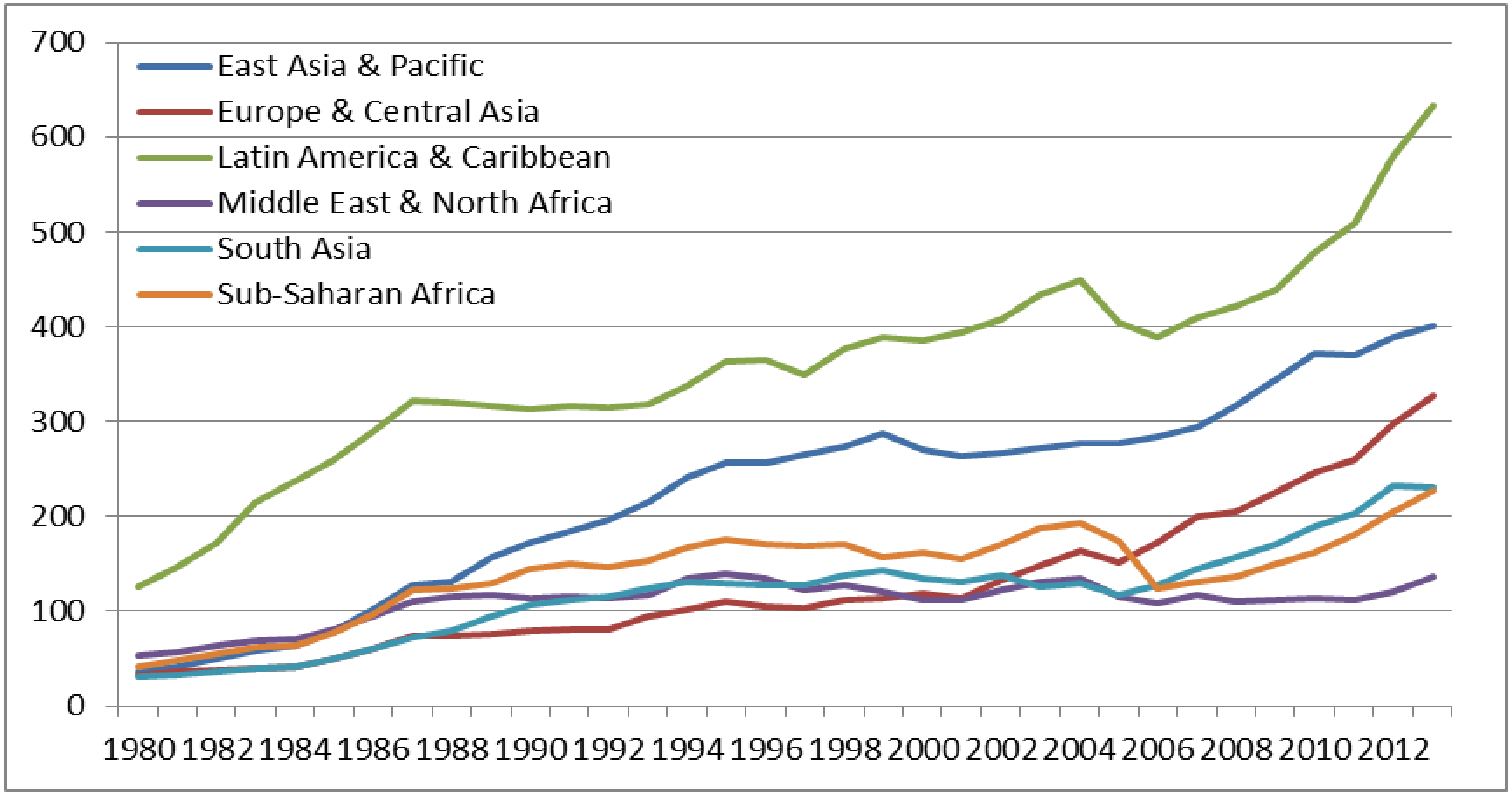
Debt restructuring

Some developing countries need to reduce existing levels of debt or debt service.



7.b. Borrowing

Public bonds by developing regions, 1980-2013* (in billions of current US dollars)



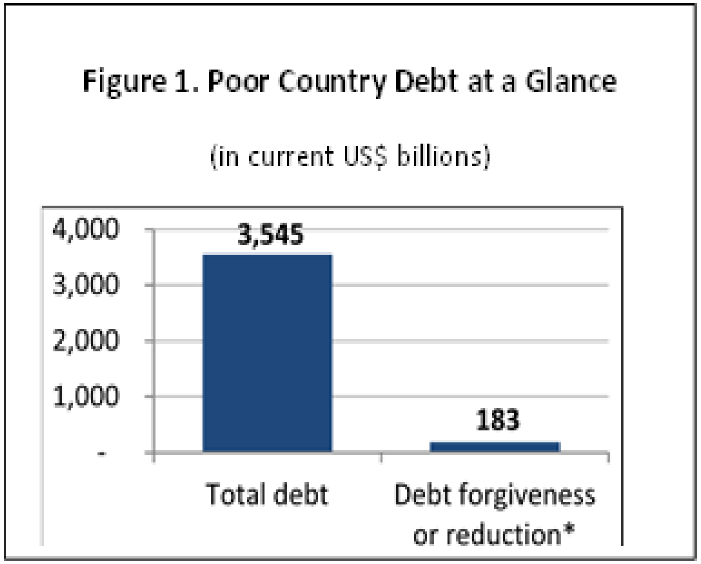
Did you know that…

- South Africa issued municipal bonds to finance basic services and urban infrastructure after the apartheid era

7.c. Debt Restructuring

Five main options available to governments to restructure sovereign debt:

- *Re-negotiating debt* – More than 60 countries since 1990s
- *Achieving debt relief/forgiveness* - HIPC
- *Debt swaps/conversions* – More than 50 countries since 1980s
- *Repudiating debt* – Iraq, Iceland
- *Defaulting* – more than 20 countries since 1999, including Argentina and Russia



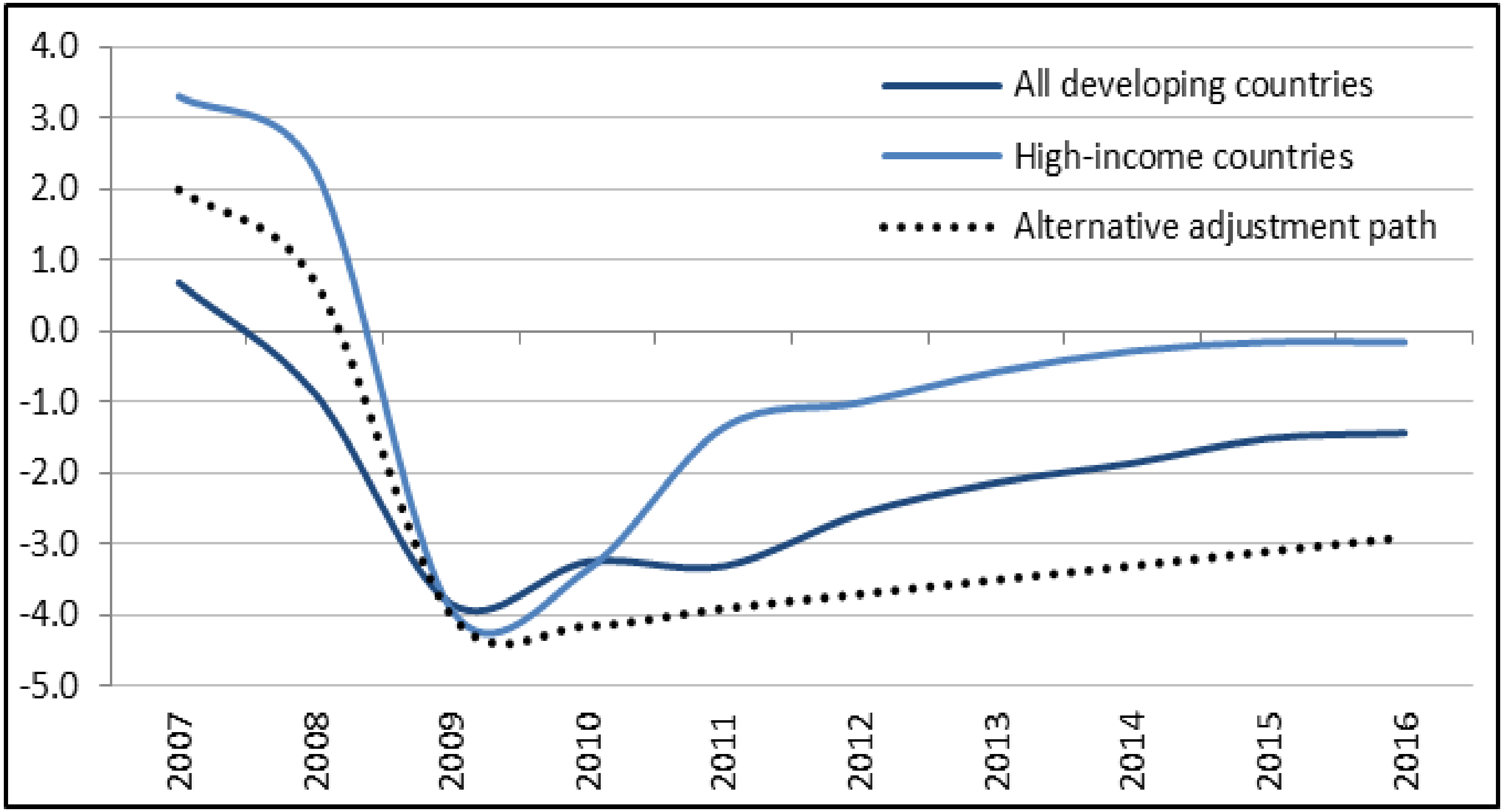
Important – concept of illegitimate debt: responsibility not only debtors, but also creditors

Need for an international debt work-out mechanism

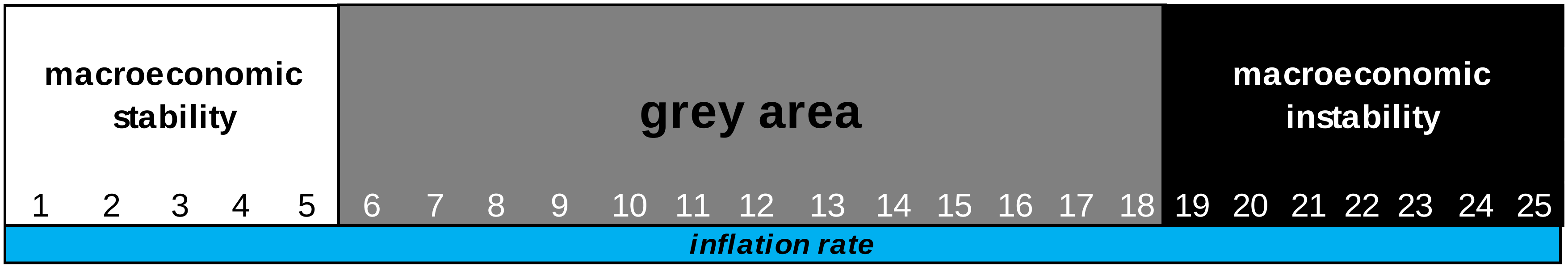
OPTION 8. Adopt a more Accommodating Macroeconomic Framework

Fiscal policy

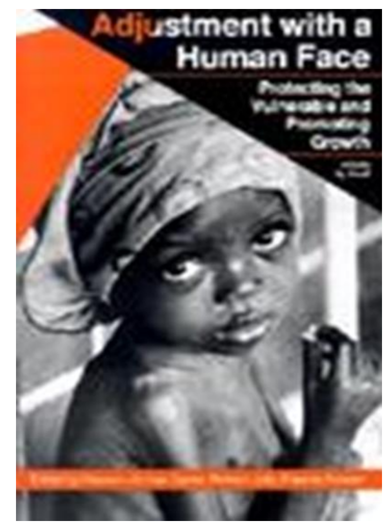
Projected Budget Deficits and Alternative Adjustment Path, 2007-16 (% of GDP)



8.b. More Accommodating Macroeconomic Framework



Country	Fiscal Deficit 2014	Health Budget in % total budget	Infant Mortality Rate (U5MR)	A 2% increase in Fiscal Deficit would allow 2014
South Sudan	- 9.0%	4.0%	64.1	22% more health expenditures
Guinea	-5.9	6.8	64.9	6.8% more health expenditures



8.c. Monetary policy

Purported Safe Inflation Thresholds for Developing Countries

Source	Author(s)	Inflation Threshold (%)
Academic Papers	Fischer (1993)	15-30
	Bruno (1995)	20
	Barro (1996)	10-20
	Bruno and Easterly (1998)	40
	Gylfason and Herbertsson (2001)	10-20
	Rousseau and Watchel (2002)	13-25
	Burdekin et al. (2004)	3
	Gillman et al. (2004)	10
	Sepehri and Moshiri (2004)	5-15
	Pollin and Zhu (2006)	14-16
	Li (2006)	14
	Vaona and Schiavo (2007)	12
	US GAO (2009)	5-12
	Bick (2010)	12
	Kremer et al. (2011)	17
IMF Papers	Sarel (1996)	8
	Ghosh and Phillips (1998)	>5
	Kochar and Coorey (1999)	5
	Khan and Senhadji (2001)	11-12
	Selassie et al. (2006)	5
	Espinoza et al. (2010)	10
	Blanchard et al. (2010)	4

Countries with Inflation Rates <4%, 2014

Country	Inflation rate	Country	Inflation rate
Guinea-Bissau	-1.3	Kiribati	2.5
Samoa	-1.2	Rwanda	2.6
Bulgaria	-1.2	Guyana	2.6
Niger	-1.1	Suriname	2.6
Greece	-0.8	Chad	2.8
Montenegro	-0.6	Azerbaijan	2.8
Senegal	-0.5	Colombia	2.8
South Sudan	0.2	Malaysia	2.9
Zimbabwe	0.3	Jordan	3.0
Hungary	0.3	Comoros	3.0
Dominica	0.6	Palau	3.0
Côte d'Ivoire	0.6	Maldives	3.0
Cabo Verde	0.8	Ecuador	3.1
Kosovo	1.0	Djibouti	3.2
Macedonia	1.0	Cameroon	3.2
Bosnia and Herzegovina	1.1	Algeria	3.2
Morocco	1.1	Panama	3.2
St. Vincent and the Grenadines	1.2	Peru	3.2
Fiji	1.2	Mauritania	3.3
El Salvador	1.2	Tuvalu	3.3
Romania	1.5	Micronesia	3.3
Mali	1.5	Costa Rica	3.4
Burkina Faso	1.5	Guatemala	3.5
Togo	1.5	Lebanon	3.5
Grenada	1.6	Dominican Republic	3.6
Tonga	1.6	Seychelles	3.6
Benin	1.7	Mauritius	3.7
Vanuatu	1.7	Sri Lanka	3.8
Marshall Islands	1.7	Mexico	3.9
Armenia	1.8	Haiti	4.0
Belize	1.8	Philippines	4.5
Albania	1.8	Cambodia	4.5
Thailand	2.1	Georgia	4.6
St. Lucia	2.1	Mozambique	4.6
Republic of Congo	2.2	Iraq	4.7
China	2.3	Gabon	4.7
Serbia	2.3	Botswana	4.8
Dem. Rep. of the Congo	2.4	Paraguay	4.8
Timor-Leste	2.5	Libya	4.8

RECAP: EIGHT OPTIONS
supported by UN and IFIs policy statements:

1. Increasing contributory revenues (eg Argentina, Brazil, Tunisia, Uruguay)
2. Re-allocating public expenditures (eg. Ghana, Indonesia, Thailand)
3. Increasing tax revenues (eg. Bolivia, Brazil, Mongolia, Zambia)
4. Fighting illicit financial flows
5. Lobbying for increased aid and transfers
6. Tapping into fiscal and foreign exchange reserves (eg Chile, Norway)
7. Restructuring/managing debt (eg Ecuador, Iceland, Iraq)
8. Adopting a more accommodative macroeconomic framework (e.g. tolerance to some inflation, fiscal deficit)

Fiscal Space Strategies for Social Protection: Country Examples

	Bolivia	Botswana	Brazil	Costa Rica	Lesotho	Iceland	Namibia	South Africa	Thailand
Re-allocating public expenditures				X	X	X		X	X
Increasing tax revenues	X	X	X		X	X	X		X
Expanding social security contributions			X	X	X		X	X	X
Reducing debt/debt service	X	X	X	X	X	X		X	X
Curtailing illicit financial flows						X			
Increasing aid							X		
Tapping into fiscal reserves	X	X	X						
More accommodative macroeconomic framework	X		X						X

Source: "Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" (2017) ILO, UNICEF and UNWOMEN

Each Country Has Different Policy Options that Must Be Agreed In National Social Dialogue

- **Social protection has strong impacts on people, addressing households and families' daily concerns.**

- **But decisions affecting people's welfare are often taken behind closed doors, without adequate consideration of their distributional impacts.**

- **Ministers of Finance/Planning should have all possible fiscal scenarios and options, associated social impacts, risks and trade-offs, fully explored.**

- **A set of alternative policy options for inclusive development should be discussed in national social dialogue.**

Thank You

International
Labour
Office

Contact:

Isabel Ortiz ortizi@ilo.org
Fabio Duran duranf@ilo.org
Taneem Muzaffar muzaffar@ilo.org

Download:

Ortiz, Cummins, Karunanethy 2017:
"Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries" Geneva and New York: ILO, UNICEF and UNWOMEN – translated to Français + Español

ILO: World Social Protection Report 2017-19:
Universal social protection to achieve the Sustainable Development Goals
translated to Français + Español