SDG 1

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 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, as for example child grants, health insurance or 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).[1]

There is no doubt that social protection is a key instrument to end poverty and to 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.[2] And yet many more countries than those who already have complete social protection systems could afford at least to complete their Social Protection Floors (SPFs). The forthcoming 2018 update[3] of the SPF Index that the Global Coalition for Social Protection Floors has published in 2016, finds that

- 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 SPFs in the short run.[4]

In medium term, a number of countries should be able to close most of their social protection gaps, including:

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

In the longer term

- 12 further countries might be able to close most of

1 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 102 on Social Security, and the ILO Social Protection Floors Recommendation No. 202.

2 ILO (2017).

3 Bierbaum et al. (2018).

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

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.[5]

In many countries, contributory pensions, employer paid insurance for workers injured on the job and other social insurance systems provide social protection to some of the population, albeit usually not for all people and 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 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 through taxing personal and corporate income, as well as property and wealth.

Financing mechanisms for social protection

The choice of financing mechanisms should take account 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.[6] A well-designed mix of financing mechanisms and social protection transfer programmes can reduce both poverty and inequality as decades of experience in Europe and other parts of the world show.

Striving for universal social protection, some countries have used and improved the fiscal resources earned from extractive industries. A case in point is Bolivia, where the sharing of revenues of gas exports changed from 18 percent to the government and 82 percent to the producers to a revenue 50-50 split, 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.[7]

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 build 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 assume that the next crisis will fall on a successor government. The success of such a strategy 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 doubt also an international responsibility to support

5 UN (2017).

6 Inchauste/Lustig, ed. (2017).

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

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 presently escape their fiscal systems. Internationally coordinated efforts are required to effectively reduce tax evasion. Technical assistance is also beneficial 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 constitute 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 that protects people from the most disastrous fall-out of 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 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 in some countries, preventing worse impacts on people and economies and enabling faster recoveries.

One reason social protection is threatened in crisis periods is that priority is given to continuing to pay government creditors. It is high time to re-calibrate the risk-sharing between involved parties. 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 immediately reconsidered.

International ODA for social protection has to increase. Public funds will be usefully spent to contribute to national efforts to design, implement and finance 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 yet have sufficient fiscal capacity. In this regards a Global Fund for Social Protection has been proposed that would aim at creating a solidarity-based financing mechanism for social protection floors.[8] The Fund would be governed by a board consisting of representatives from different constituencies, including the UN, 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 is a challenging terrain on the international as well as the national level. And yet, the challenge can be met because the requisite techniques and mechanisms of public finance exist. They will have to be implemented to guarantee that nobody is left behind.

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

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The Global Coalition for Social Protection Floors is a network of around 100 NGOs and unions promoting the right of all people residing in a country to social security, regardless of documentation. It promotes social protection floors as key instruments to achieve the overarching social goal of the global development agenda.

See www.socialprotectionfloorscoalition.org.