CSocD - Financing Social Development

Financing Social Protection Floors

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Structure

- Short Background - The Social Protection Floor Initiative
- The non-affordability myth
- Strategies to ensure sustainability of social security systems
- Resources to finance the SPF
- Country studies - Social Protection Floor costing assessments and national dialogue processes
Since the establishment of the ILO in 1919, Social Security has been a core element of the Organization’s mandate.

Declaration of Philadelphia (1944): extension of Social Security

Article 22 of the Universal Declaration of Human Rights (1948) states: “Everyone, as a member of society, has the right to social security”

The Social Protection Floor concept tries to provide a logical and coherent framework for the core content of Basic Social Rights even in times of crisis.
Social security situation

- Social security coverage gap
  - 80% of the world population do not have access to comprehensive coverage
  - 30% of the population do not have access to essential health care
  - 60% of the elderly do not receive a pension
  - 50% of children are living in poverty, many lack access to health and education

- National social security strategies, based on social dialogue
- Strengthening social health protection
- Social pension programmes
- Child and family benefits
The ILO’s two-dimensional strategy for the extension of social security coverage - The progressiveness of protection
Global recognition: the UNCEB SPF-Initiative

Activities SPF Initiative:
1. Global and national advocacy
2. Technical and financial support
3. Capacity building
4. Joint SPF-I manual
5. Tools and methodologies: eg. joint UNICEF-ILO costing tool and RAP

=> High Level SPF Advisory Group

Bachelet report: “Social protection floor for a fair and inclusive globalization”
The Social Protection Floor: four nationally-defined guarantees

<table>
<thead>
<tr>
<th>TRANSFERS in cash or in kind</th>
</tr>
</thead>
<tbody>
<tr>
<td>all residents</td>
</tr>
<tr>
<td>• have access to a nationally defined set of essential health care services</td>
</tr>
<tr>
<td>all children</td>
</tr>
<tr>
<td>• should enjoy minimum income security through transfers in cash or kind aiming at facilitating access to essential goods and services, such as nutrition, education and care</td>
</tr>
<tr>
<td>active age groups unable to earn sufficient income in the labour market</td>
</tr>
<tr>
<td>• should enjoy minimum income security through social assistance transfers aiming to achieve access to essential goods and services</td>
</tr>
<tr>
<td>all residents in old age and with disabilities</td>
</tr>
<tr>
<td>• should enjoy minimum income security through pensions/transfers in kind that guarantee access to essential goods and services</td>
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</tbody>
</table>

Transfers in cash and in kind should guarantee geographical and financial access to essential services such as water and sanitation, health, and education.
Minimum income security and access to essential health care can be achieved by different delivery systems.
The non-affordability myth

- Insufficient fiscal space and increasingly ageing populations
  - Social Security is non affordable or sustainable?

- Countries with the same level of GDP/capita spend different shares of their resources on Social Protection

- Evidence: Some level of social security is affordable at all stages of economic development

- Scarce resources and opportunity cost: difficult choices what to do first
  - Introduce the SPF progressively

- Underestimated long-term economic returns from investing in social protection

- In about 30 developing countries basic social transfer systems are already being put in place, and they are financed by as little as 0.5% of GDP and can reach out - as is the case of Brazil - to about 25% of the population
### Real Live Evidence

<table>
<thead>
<tr>
<th>Programme</th>
<th>Cost in % of GDP around 2008/2009</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South-Africa: Old-age grant</td>
<td>1.4</td>
<td>Poverty gap of the elderly would be 2/3 larger without pension</td>
</tr>
<tr>
<td>Namibia: Non-contributory pensions</td>
<td>0.9</td>
<td>One or two elderly in a household can provide a safety net for the entire household</td>
</tr>
<tr>
<td>Brazil: Rural Pensions</td>
<td>1.5</td>
<td>Reduced poverty incidence among members of households with a pensioner by about 21%</td>
</tr>
<tr>
<td><strong>Child benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil: Bolsa Familia</td>
<td>0.3</td>
<td>Accounts for 20 to 25% of reduction in inequality</td>
</tr>
<tr>
<td>Mexico: Opportunidades</td>
<td>0.3</td>
<td>Has been responsible for 21% reduction of inequality</td>
</tr>
<tr>
<td>South Africa: Child Support grant</td>
<td>0.7</td>
<td>Reduced child poverty rate from 42.7% to 34.3%</td>
</tr>
<tr>
<td><strong>Transfers for people in active age groups</strong></td>
<td></td>
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<tr>
<td>India: NREGA</td>
<td>1.5</td>
<td>Has helped to reduce the intensity of poverty</td>
</tr>
</tbody>
</table>
Elements of the SPF already exist in many developing countries (85)

1. Advocacy
- UNCSocD Resolution 2010
- UN Millennium Summit
- G8, G20
- Yaounde Triparite Declaration
- South South Dialogue
- Input to G20
- Signature campaign

2. Country operations
- Cambodia, Burkina Faso, Mozambique, Nepal, Togo, Benin, Vietnam with other agencies and IMF

3. High-level Social Protection Floor Advisory Group
- Established under chairpersonship of Ms. Michelle Bachelet
- Report issued in October 2011: “Social protection floor for a fair and inclusive globalization”

100th ILC and the emergence of a new policy paradigm

HEALTH: China (urban & rural), India (RSBY), Thailand (UCS), Mexico (Seguro popular), Colombia (regimen subsidiado), Uruguay, Chile (plan AUGE), Burkina Faso, Rwanda ...

Social pensions: Brazil, South Africa, Bolivia (pension dignidad), Chile (pension basica solidaria), Thailand (500 Bath scheme), China (rural old age pension)...

CCTs: Brazil (Bolsa Familia), Mexico (Oportunidades)

Employment guarantee schemes: India (NREGA), Uruguay (Política de empleo promovido), Argentina (Plan jefes y jefas de familias)
The case for the Social Protection Floor
Affordable even in low-income countries

- Two main questions related to affordability:
  - Does sufficient **fiscal space** exist, or can be developed, in competition with other national objectives, for the ongoing financial needs of a Floor package?
  - Is long-term **fiscal sustainability** ensured?

  - Not only resource but mainly political will and commitment
  - Efficiency and good management
  - Expansion of the fiscal space should be based on progressive taxation

- The ILO’s most recent studies, conducted in consultation with the IMF, for a group of selected countries suggest that at least some components of a national social protection floor can be implemented within cost envelopes that seem feasible over the short- and mid-term fiscal prospects.
### Exercise: 3 RAP-Scenarios + Plano Quinquenal Extrapolation - El Salvador

<table>
<thead>
<tr>
<th>RAP: Extreme Poverty</th>
<th>RAP: Poverty</th>
<th>RAP: Universalism</th>
<th>Plano Quinquenal</th>
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</thead>
<tbody>
<tr>
<td>• Target: Extreme Poverty as defined by Statistics Office</td>
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<tr>
<td>• CCT to Children (0-15, no grade limit)</td>
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<td>• CCT to Expecting Mothers</td>
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<td>• PATI</td>
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<tr>
<td>• Old-Age Pension (65+)</td>
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<td>• Disability Pension</td>
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<tr>
<td>• Basic Health package (US$ 49/capita)</td>
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<tr>
<td>• Target: Poverty as defined by Statistics Office, based on National Household Survey 2009</td>
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<tr>
<td>• Benefits: same as under Extreme Poverty scenario</td>
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<tr>
<td>• Universalizes Basic Health package, Old-Age Pension and Unemployment Benefit to all those not covered by Social Insurance</td>
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<tr>
<td>• Maintains poverty focalization for CCTs on Children and Expecting Mothers, and Disability Pension</td>
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<tr>
<td>• Extrapolation of current expenditure on monetary benefits and school uniforms program</td>
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<tr>
<td>• Hypothesis that strict focalization and stepwise expansion is maintained</td>
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<tr>
<td>• ECOs basic health expansion plan of Ministry of Health</td>
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</tbody>
</table>
Coverage of families, children, adults and aged persons, 4 SPF-scenarios

Source: ILO Calculations, based on RAP+ and EHPM 2009
Vietnam: Costing the total gaps: Total cost of the cheapest benefit package
Strategies to ensure financial, economic and fiscal sustainability of social security systems

• Creating the necessary fiscal space (SPF financed by domestic resources)
• Political will
• Cost-control mechanisms
• Effective institutions:
  Maximize administrative capacity to deliver benefits efficiently and to minimize waste and misuse of resources
• Sound implementation structure and good governance:
  Processes for efficient service delivery, monitoring and evaluation and proper financial management
• Progressive formalization of the economy
• High levels of productive employment
Strategies to ensure financial, economic and fiscal sustainability of social security systems - Creating the necessary fiscal space

**Domestic resources**

- Economic growth
- Reallocating expenditure - reallocating of existing public spending
- Increasing contributions and taxes
  
  Tax reforms to increase fiscal resources including:
  - Enhancing the effectiveness and efficiency of tax collection
  - Reduce waste, tax evasion and avoidance
  - Increase overall tax rates - broadening tax base or modifying taxation design
    - Direct taxation
    - Indirect taxation (sales tax, VAT, excise tax)

Introduce self financing insurance systems (largely health care)
Strategies to ensure financial, economic and fiscal sustainability of social security systems - Creating the necessary fiscal space

**International resources**

- **International cooperation**

  Joint effort with the international donor community during suitable transition period
  - Including: International taxation (e.g. financial transaction tax), People-to-People Partnerships: Global Social Trust, ...

  BUT budgetary planning for funding needed in the medium run, when **domestic resources** would have to substitute external grants in order for SPFs to be **sustainable in the long run**.
Innovative sources of financing applied to social protection:

- Ad valorem tax on share trades of 10-50 basis points. On average, these taxes raise less than 0.5 per cent of GDP.
- In Brazil, the provisional contribution on financial transactions helped to consolidate the universalization of the health system.
- The Bill Gates report to the G20 Cannes Summit estimates that a small tax of 10 basis points on equities and 2 basis points on bonds would yield about US$48 billion a year in the G20 (Lamb, 2011).
- The Leading Group on Innovative Financing for Development estimated that a tax of 0.005 per cent on foreign exchange transactions in all major currency markets at the point of settlement would raise about US$25 billion to US$36 billion for the four major currencies (dollar, euro, yen and sterling).
- The group suggests the resources be used to set up a Global Solidarity Fund, which could be dedicated to international development cooperation, including the implementation of social floors.

- In 2006, Brazil, Chile, France, Norway and the United Kingdom, in collaboration with the UN, agreed to tax airline tickets and invest the funds raised in basic health protection in low-income countries. Benin, Burkina Faso, Cameroon, Republic of the Congo, Côte d’Ivoire, Guinea, Republic of Korea, Madagascar, Mali, Mauritius and Niger joined.
- The cost to passengers ranges from US$1/economy class tickets to US$40/business class.
- Since its creation, (UNITAID, 2010) the airline levy has helped UNITAID to collect about US$2 billion to fund programmes benefiting people in 94 countries.
Implementing the Social Protection Floor - Committing donors and promoting innovative financing

- Labour migration has always been a source of informal social protection for households left behind. Remittance flows to developing countries are projected to reach US$346 billion in 2011, accounting for about 2 per cent of the GDP of developing countries and 6 per cent of GDP in low-income countries (World Bank, 2010c).
- They have proven to help increase consumption and reduce poverty in the countries of origin of migrants.
- Decisive action to reduce transaction costs, which are estimated to average 9 per cent, can increase the net income transferred.
- A recent study in rural areas of Mozambique shows that migration associated with remittances is positively related to stimulating solidarity in communities.
- Risk pooling and financial inclusion mechanisms among remittance recipients could also be stimulated to enhance the impact of remittance flows on community well-being and convert informal arrangements into formal social floor schemes.

- Since 2007, under the Debt2health swap scheme, Australia and Germany have converted about US$160 million in bilateral debt owed by Côte d'Ivoire, Egypt, Ethiopia, Indonesia and Pakistan into investments in basic health in these countries.
- Under this scheme, the creditor cancels bilateral debt and the debtor commits to invest in basic health.
- Debt swap and debt cancelation facilities could be enhanced to increase investment in social protection (The Global Fund, 2011).
<table>
<thead>
<tr>
<th>Fiscal space for social protection, policy options by country</th>
<th>Bolivia</th>
<th>Botswana</th>
<th>Brazil</th>
<th>Costa Rica</th>
<th>Lesotho</th>
<th>Namibia</th>
<th>South Africa</th>
<th>Thailand</th>
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<tbody>
<tr>
<td>Mineral-based taxation or similar single taxes for specific purposes (earmarked taxation)</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Increasing general taxation</td>
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<td>x</td>
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<tr>
<td>Social contributions</td>
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<td>x</td>
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<td>x</td>
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<tr>
<td>Budget surpluses</td>
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<td>x</td>
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<td>Budget redefinition. Reduction of non-priority spending or decline of military expenditures</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>Debt and debt service reduction</td>
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<td>Official development assistance</td>
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<td>Sales of State assets</td>
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<td>Efficiency channel</td>
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<tr>
<td>Constitutional channel</td>
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<td>x</td>
<td>x</td>
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<td>x</td>
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</tr>
</tbody>
</table>

Source: ILO
Implementing the Social Protection Floor
Fiscal space and financial sustainability

**South Africa**
The government decided to fund social programmes in full from public revenue. This was made possible by shifting priorities in budget allocations, which included a 48 per cent decrease in defence spending.

**Bolivia**
In 1997, the government introduced a universal social pension paid annually to everyone over 65. The benefit was partially financed by a fund set up with resources coming from the privatization of public enterprises. In 2007, the age limit was lowered to 60 years, and the government shifted the financing source to a tax on hydrocarbon sales.

**Ethiopia**
Productive Safety Net Programme, one of the largest among low-income countries in the region, has been financed through a donor cooperation group providing long-term funding.

**Ghana**
Debt cancellation enabled the initial financing of the Livelihoods Empowerment Against Poverty Programme, and discussions are under way to scale this programme up (ILO, 2010f). Through the Multilateral Debt Relief Initiative (MDRI), managed by the IMF, the World Bank, and the African Development Fund (AfDF), some low-income countries can access debt relief to support the achievement of the MDGs.

No single recipe!
Rapid Assessment Protocol (RAP):
A tool to cost measures that close coverage gaps and to simulate alternative financing options (i.e. fiscal space analysis)

Steps:
1. Policy environment - Social Protection strategy
2. SPF Gap diagnostics (Assessment Matrix - where are the gaps?)
3. Costing the closure of the SPF gap, fiscal space and poverty impact
4. Policy conclusions
Important features:

- Nationally dialogue process ensuring national ownership
- Detailed and comprehensive assessment including existing schemes
- Priority-setting and sequencing for gradual implementation
- Strengthening national institutional capacities
- Fiscal space: detailed assessment of status quo and options for extension as necessary
- Moving to a comprehensive and ambitious social security strategy
- Collaboration with IMF, UNICEF and other partners
Policy implications and challenges:

• Financing of social security, particularly with respect to national SPFs
  - Identifying and extending fiscal space within current budgets (collaboration with IMF)
  - Challenge: Identifying possible options for more effective collection of taxes and other sources of revenue

• Effective policy dialogues at national level
  - Identification of priority benefits, priority target groups and sequencing in gradual implementation processes
  - Dynamics of national policy dialogues
  - Including estimates on direct impact on poverty

• Strengthening national institutional capacities
  - Starting from existing institutional frameworks where possible
  - Building up sustainable institutional capacities and ensuring their effectiveness
  - Importance of monitoring and policy planning
“The world does not lack the resources to eradicate poverty, it lacks the right priorities.”

Juan Somavia, Director General of the ILO
1. Visit the SPF website: http://www.socialprotectionfloor.org


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More information....