Financing social protection in the context of the AAA Social Compact: a baseline for 2015[1]

In the Addis Ababa Action Agenda (AAAA) Member States committed to establish a new Social Compact to provide (1) fiscally sustainable and nationally appropriate social protection systems and measures and (2) essential public services for all (education, health, water, sanitation and other services).

This document focuses exclusively on social protection financing (1), in accordance with the international commitment of SDG 1.3 "implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."

In order to follow up on these commitments to implement social protection systems, including floors, a baseline for 2015 is required, that would allow monitoring up to 2030. The required monitoring comprises two categories:

- **Monitoring the commitment on social protection <u>in national budgets</u>:** National data already collected and classified by function in the framework of the System of National Accounts and Government Finance Statistics for general government spending; public expenditure on social protection is the sum of expenditure on contributory social insurance programs and expenditure on non-contributory programs financed through national public authorities, the definition excludes expenditures on health protection.

- **Monitoring the commitment on social protection <u>in development aid</u>**: This can be done through the existing OECD DAC CRS code 16010 (Social/Welfare Services).

Domestic financing represents the main source of resources for social protection in both developed and developing countries – it must be preserved and expanded. Extending fiscal space based on domestic sources is a fundamental part of the strategy to create comprehensive social protection systems, including social protection floors. However, it is important to highlight that significant gaps exist between the resources required and the resources that many developing countries are able to generate internally. In many cases, the long wait needed implies a high human cost, therefore ODA effective allocations must play a more relevant role in the context of the 2030 Agenda.

Innovative sources of financing should be considered and monitored once established internationally, complementing –but never replacing- ODA and domestic sources.

A. Monitoring social protection domestic public expenditures: 2015 baseline

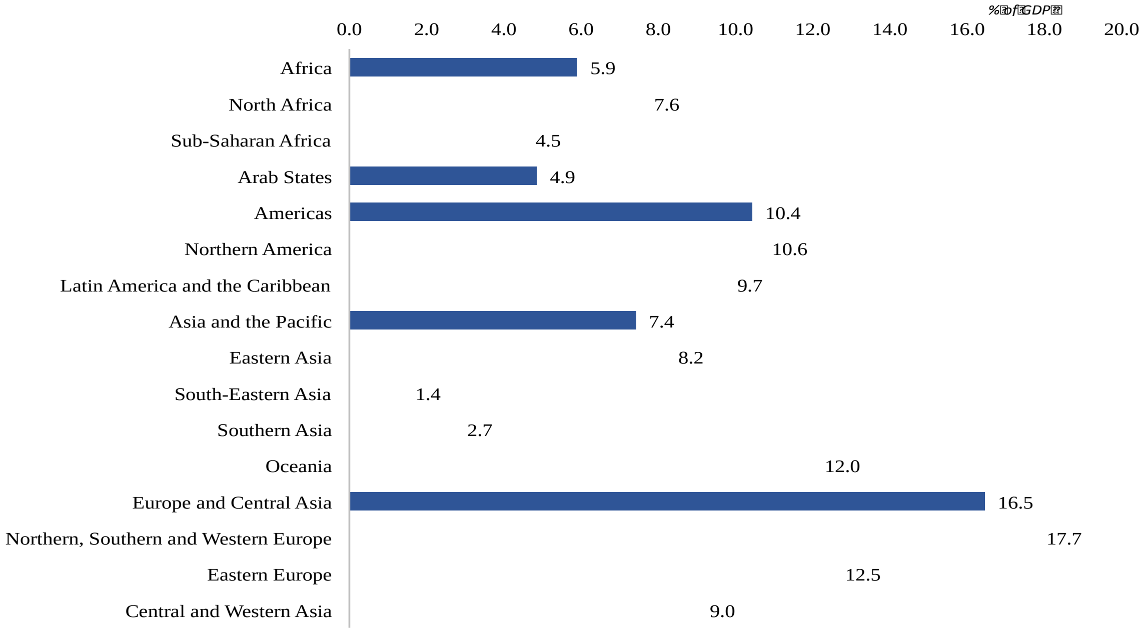
Figure 1 presents regional averages of public expenditures on social protection, excluding health, as a percentage of GDP for 2015 or latest available year. Annex I presents detailed figures on social protection expenditure at country level.

There are large regional differences in the proportion of resources allocated to social protection, reflecting significant gaps both at country and at regional level, for example, South-Eastern Asia average spending on social protection is only 1.4 per cent of GDP; more than 10 times lower than

[1] This paper has been prepared in November 2017 by the International Labour Organisation, as the social protection cluster coordinator of the United Nations Inter-agency Task Force on Financing for Development. It reflects earlier work of the Task Force. The ILO would like to thank the participants of the Social Protection Inter-Agency Board (SPIAC-B) for their comments on an earlier draft.

the average spending in Europe and Central Asia. Other sub-regions facing major challenges in terms of social protection spending efforts are Southern Asia (2.7 per cent of GDP), Sub-Saharan Africa (4.5 per cent of GDP) and Arab States (4.9 per cent of GDP). [2] Evidently, investment deficits in social protection at the regional level reflect gaps of similar magnitude in terms of coverage. As presented in Annex I, the differences between countries, even within the same region or sub-region, are also noticeable.

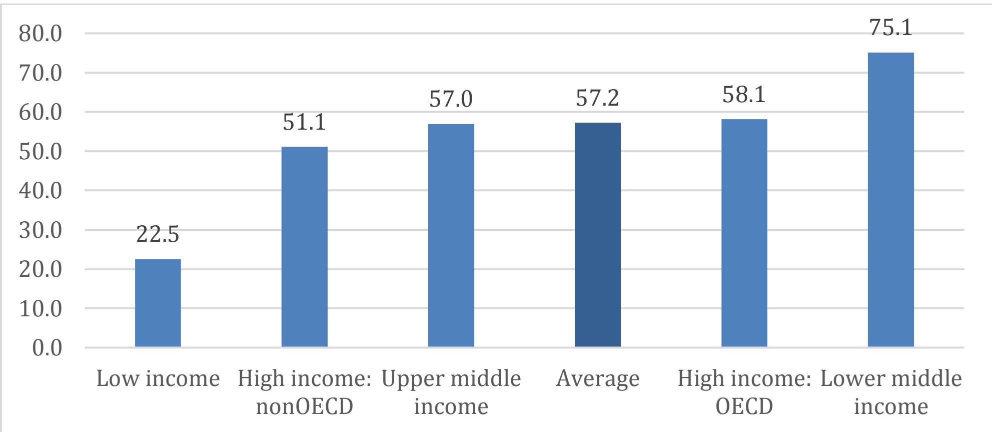
Figure 1. Public social protection expenditure (excluding health), by region and sub-region, 2015 or latest available year (percentage of GDP)



Source: ILO World Social Protection Database

The important role of social contributions (employers and workers contributions to social security) in financing public social protection can be appreciated in Figure 2.

Figure 2. Share of Social Contributions in social protection expenditure



Source: ILO World Social Protection Database

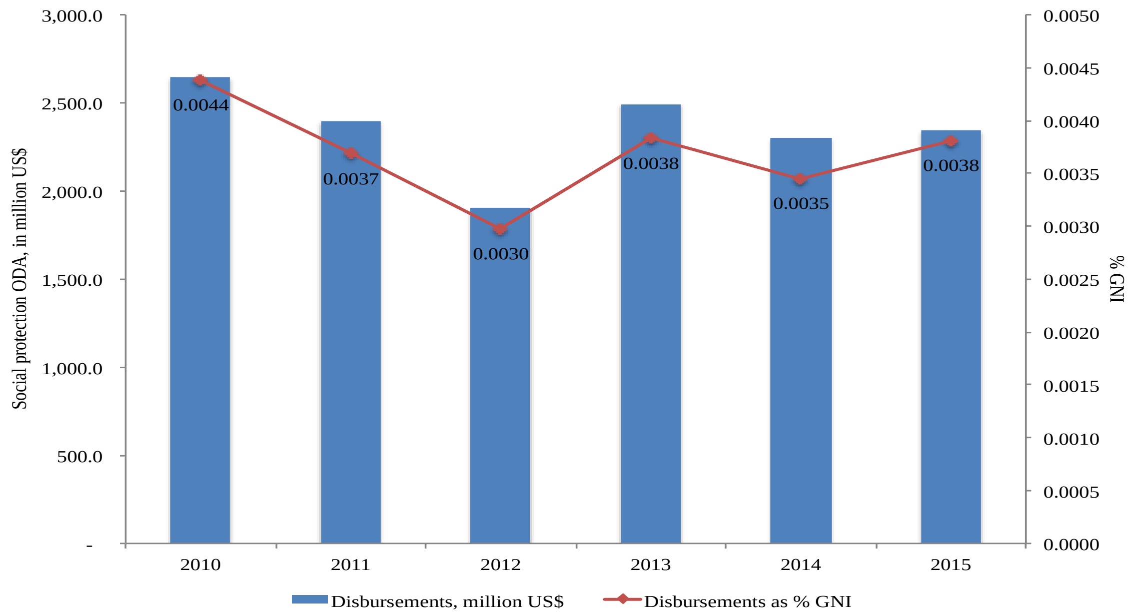
[2] Data on expenditure presented in this paper comes mostly from the International Monetary Fund (IMF), Eurostat, and OECD; sometimes updated with data from the UN Economic Commission for Latin America and the Caribbean (ECLAC), Asian Development Bank (ADB), Government Spending Watch (GSW), and national sources such as Ministries of Finance.

Figures 1 and 2 also show the need to extend non-contributory social protection floors in developing countries. The ILO[3] conducted a series of costing exercises in 57 low-income and lower-income countries that include estimations to provide social protection floors cash benefits to children, orphans, mothers with newborns, persons with severe disabilities and old-age persons, as social assistance (not including social insurance). The weighted cost of the social protection floors in the sample of reference was estimated at 4.2 per cent of GDP ranging from 0.3 per cent in Mongolia to 9.9 per cent in Sierra Leone. These figures are illustrative and exemplify a minimum social protection floor of non-contributory cash benefits. The main consideration here is the contrast between current financial allocations to social protection and the needs that exist in each region. Strategies to fill the gap at country level should consider the active exploration of all possible financing sources, including domestic resources, ODA flows, and others.

B. Monitoring Development Assistance to social protection: 2015 baseline

Between 2010 and 2015, the disbursed official development assistance (ODA) to social protection, OECD DAC CRS code 16010,[4] averaged US$2,346.7 million while the committed level of social protection ODA totalized US$ 2,647.7 million. Perhaps one of the key characteristics of the disbursed flows is the highly unstable growth rate. During the same period, social protection ODA grew at -1.0% so in three of the five assessed years the rate was negative. The disbursed flows represented 0.0037% of GNI and since 2011 this participation never turned back to 2010 levels[5].

Figure 3. ODA for social protection: total disbursements as % of GNI, 2010-2016



Source: OECD DAC database

3 See detailed figures at ILO (2017). Universal Social Protection Floors: Costing Estimates and Affordability in 57 Lower Income Countries. Social Protection Department, ILO, Geneva.

4 The OECD DAC CRS code 16010 includes ODA for the following areas: Social legislation and administration; institution capacity building and advice; social security and other social schemes; special programs for the elderly, orphans, the disabled, street children; social dimensions of structural adjustment; unspecified social infrastructure and services, including consumer protection (source: OECD DAC).

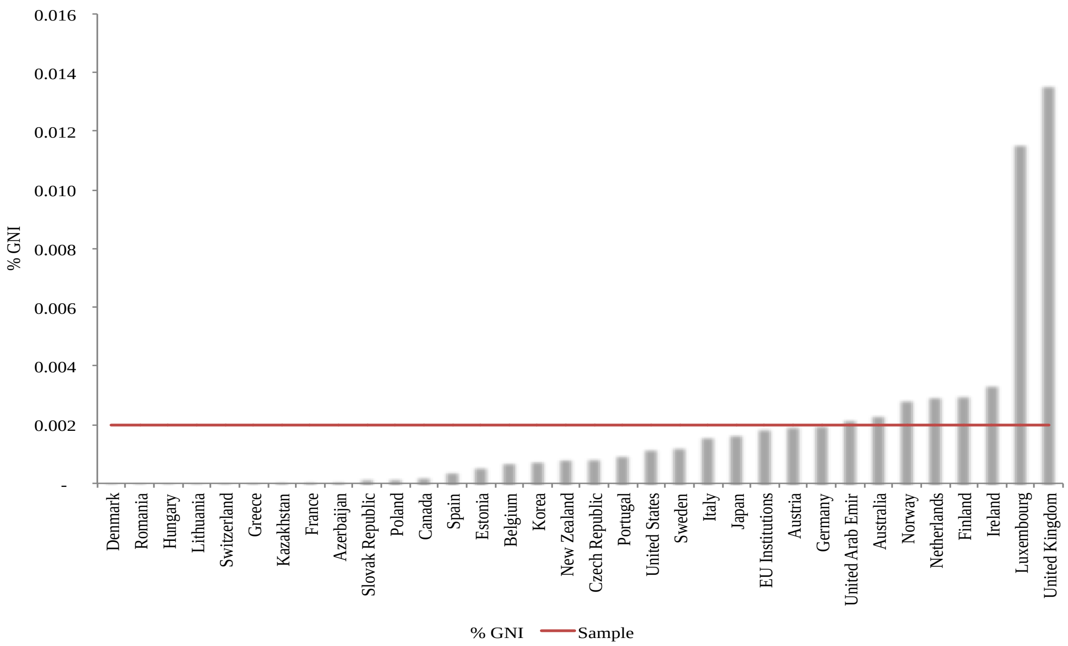
5 For analytical purposes, calculations were done using disbursements, that is, what is was effectively invested in that year. The GNI utilized was the sum of all the ODA donors, including DAC and non-DAC nations, as reported by OECD

In 2015 (the benchmark year), social protection ODA amounted US$ 4,355.5 million distributed among 4,639 projects around the world. Of this total amount of resources, US$ 2,011.9 million were committed that year while an additional US$ 2,343.6 million were effectively disbursed. In other words, disbursed funds accounted for 53.8 per cent of the available resources in the baseline year.

Data from OECD DAC reported that 48 donors generate the whole social protection assistance. Among donor countries, 52.1 per cent of the disbursed funds (US$ 1,221.9 million) came from bilateral aid (including EU institutions) and the rest from multilateral organizations (US$1,121.7 million). DAC countries are, by far, the most important contributors (99.3 per cent of the total bilateral social protection ODA). On the other hand, six non-DAC countries (Azerbaijan, Estonia, Kazakhstan, Lithuania, Romania and United Arab Emirates) appeared in the list of social protection donors.

The levels of ODA allocated to social protection reflect the relatively low priority is given to this development area. The disbursed social protection ODA represented 0.002 per cent of the GNI of donor countries. In a similar line of argument, disbursed ODA for social protection accounts for 0.82 per cent of the total ODA among countries included in this analysis (i.e. DAC and non-DAC countries with ODA budgets for social protection). In DAC countries, social protection represents 0.84 per cent of total ODA while in non-DAC countries it represents 0.18 per cent only (Figure 4). See Annex II for more details.

Figure 4. Disbursed ODA for social protection as a percentage of GNI among donor countries

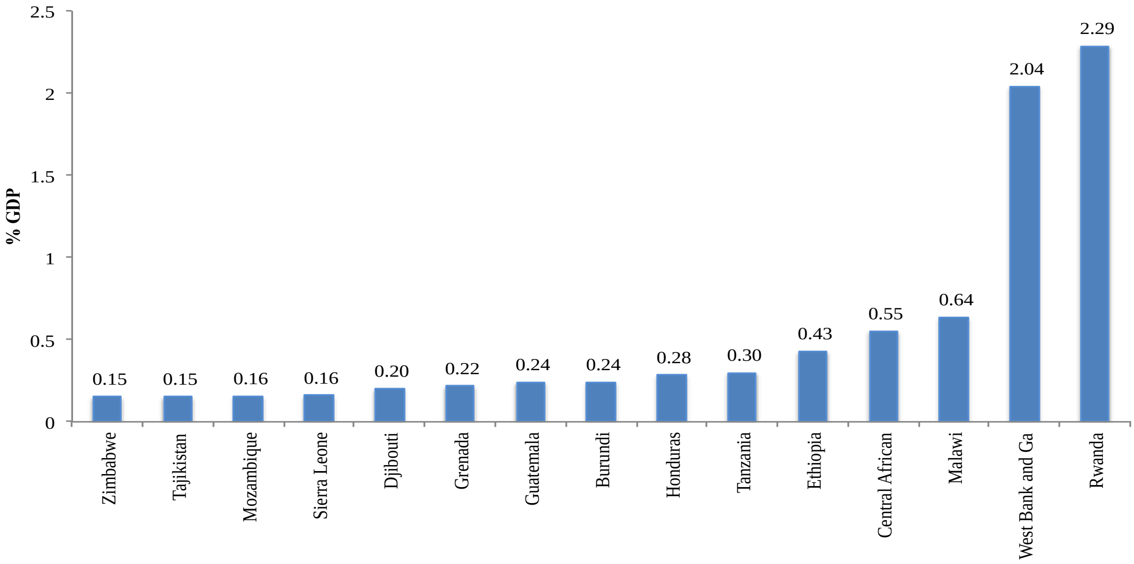


Source: OECD DAC database and World Bank Indicators

ODA funding for social protection is also highly concentrated in a few regions of the world. Sub Saharan Africa, South Asia and Central Asia and the Middle East receive seven out of ten US dollars (71.6 per cent) devoted to that sector. If all the sub-regions are added up by continent, Africa and Asia account for 64.6 per cent of the social protection ODA while the Americas got 15.7 per cent. Overall, more than 80 per cent of the disbursed ODA flows was addressed to Least Developed Countries (LDC) and Lower middle-income countries (LMICs).

By country, the three most important recipients of social protection ODA (in terms of their participation in GDP) were Rwanda, the West Bank and Gaza Strip and Malawi between 0.64 per cent of GDP and 2.3 per cent of GDP. Indeed, Rwanda and West Bank were the only two countries where the disbursed social protection exceeded 1 per cent of GDP (Figure 5). Annex III shows the importance of the disbursed social protection for a list of recipient countries as a percentage of GDP (with available information).

Figure 5. ODA for social protection as a % of GDP, 15 highest beneficiary countries



Source: OECD DAC database and World Bank Indicators

C. Innovative sources of finance for social protection

Innovative sources of finance for social protection may be considered, complementing –but never replacing- ODA and domestic sources. It is important to remind that most of the countries considered in this analysis are poor nations with reduced private sectors and small purchasing capacity that establish several limitations to tax increments beyond certain levels. External funding in the form of ODA is critical to complement specific social protection actions.

The following is a list of options that have been implemented or have been proposed in the international literature as potential sources of funds for social protection purposes. The list is not exhaustive. More work needs to be continued to explore, operationalize and monitor additional innovative sources of financing for social protection.

Taxes, dues or other obligatory charges: this category includes options that establish national levies, which can benefit from international cooperation, with the resources generated by those resources devoted to social/developmental purposes. It is believed that there will be greater political support for these mechanisms if they are tied to a specific social benefit, such as social protection. The following are among the alternatives discussed in the literature:

- Airline tickets in particular, international transportation in general
- Arms trade taxes
- Taxes on foreign exchange and financial transactions
- Tourism and touristic services-related taxes
- Dedicated funds from extractive industries
- Taxes on big tech companies trade
- Tobacco and fast food taxes

- Elimination or reduction of illicit financial flows.

Voluntary solidarity contributions. Options under this group refer to donations that customer give during the purchasing of a good or service, especially through digital means. Mobile phone call can be subject of a solidarity levy. Other options, more in the solidarity conception, include:

- Asset recovery
- National lotteries.

Frontloading, debt-based instruments and related financial actions: financial-based instruments can be one of the key elements of future social protection funding. Recent developments in the field include frontload options where countries issue bonds that generate liabilities that are reportable as aid in several years' time. Debt-based instruments include options such as:

- Debt conversions (swaps): debt is reduced and freed funds must be allocated for social purposes
- Diaspora bonds linked to social protection, based on the view that a country's diaspora would be more willing to finance government debt if it is clearly linked to supporting the population

Other innovative sources of fiscal space at national and international level should be added, including their monitoring, in future work of the IATF on financing social protection floors.

From a country perspective, all options should be carefully examined, including the potential risks and trade-offs, and considered in national social dialogue. In assessing each option, apart from considering the country-specific characteristics, in particular the institutional capacity, at least the following criteria should be assessed for each source: sustainability, progressivity, innovative capacity, efficiency, environmental friendliness, effectiveness to correct misbehavior, political feasibility, the specific capacity of the country to collect the resources and the degree it corrects negative externalities, among others. A discussion is presented below. No single source of funding has the capacity to fully meeting financing needs, and some of them may have certain disadvantages in complying with the set of selection criteria mentioned above. For these reasons, a combination of sources is normally most adequate.

National dialogue, with government, employers and workers as well as civil society, academics, United Nations agencies, International Financial Institutions and others, is fundamental to generate political will to explore all possible fiscal space options in a country, and adopt the optimal mix of public policies for social protection and the SDGs.

DISCUSSION: A debate exists regarding the use of domestic and external funding. Certainly, most of the resources for social protection should come from local sources (VAT, income tax, custom taxes and other taxes, as well as social security contributions), but for certain countries these sources can have a limit. Most of the countries considered in this analysis are poor nations with reduced private sector and small purchasing capacity that establish several limitations to tax increments beyond certain levels. Therefore, external funding in the form of ODA is critical to complement specific social protection actions, in the understanding that ODA has a limited period of activity.

Some taxes may be not very sustainable, as is the case with tobacco taxes and fast food, but in compensation their implementation can be relatively simple and also have a high political acceptance, so that they can be a palliative option while more sustainable sources of financing are consolidated. Some other taxes may have a good assessment rate in terms of sustainability but they are dependent on the business cycle, so there is an issue of volatility that should be considered.

Some financing options may have multiple objectives besides resource generation for social protection programs. For instance, taxes on financial transactions and the reduction of illicit financial flows correct negative externalities. Undesirable social or environmental behaviour can be affected through tobacco and fast food taxes, extractive taxes and airline ticket levies.

Some of the options presented consider the use of earmarked taxes. There are different views on the convenience of creating specific earmarked taxes, in particular because they reduce the degree of flexibility for governments to reallocate resources between different tax uses in response to changing needs. Some critics consider that having an earmarked tax creates poor incentives for improvement and continuous progress because the institution has secured its revenues year after year without any obligation to achieve better outcomes. The argument could be valid. However, the option should be analysed in the light of each specific national context, specifically in those cases where a dedicated tax for a good cause, such as social protection programmes, may be politically more plausible compared to the option of increasing general tax revenues. On the other hand, an earmarked tax or social contribution for social protection has the advantage that it provides some degree of isolation to face the changing decisions in social investment policy that affects countries facing some political instability. In many countries, the volatility of resource allocation for financing social protection is a great challenge.

The discussion between short and long term may not be necessary polarized. Some taxes can be implemented for specific purposes (i.e. to improve social infrastructure) so they may have a shorter lifespan than other options that are oriented to cover recurrent expenditures. One example of this is the tobacco tax. In this case, the implementation of this type of initiatives can generate funds for both health prevention and promotion and to finance curative programs for illnesses related to smoking. If the consumption of tobacco falls, then the negative implications of the practice will decrease and therefore fewer resources are required for this punctual activity.

There is still some practical evidence on the design of innovative sources and their feasibility of implementation. For instance, one may ask if there will be a global collection mechanism or each country has its own arrangement. Policymakers may also be concerned on how globally generated income may be distributed.

It is also important to determine the effects of the different financing sources. In terms of taxation, the level of progressivity/regressivity of certain tax depends also in the way public spending is distributed and the final beneficiaries of such allocation. Social contributions are frequently blamed for increasing labour costs and informality and unemployment and then reducing the level of competitiveness in the country. However, empirical evidence shows that the most competitive economies are, at the same time, those ones with higher levels of social contributions. This is explained on the grounds of the virtuous cycle that exists between both variables because at the end social contributions finance programs and initiatives that improve human development and consequently the act in favour of the economic capacity of the country.

A comprehensive financing strategy should also take into consideration two additional things. First, the capacity of the country to effectively collecting approved taxes. Institutional capacity of enforcement is usually weak in developing countries and consequently evasion tends to be high. Second, the allocation mechanisms in place as tools to improve spending and link results to concrete results.

Above all, finding and implementing new financing sources for social protection is a political exercise. Even if technically the proposal is correct, only if there is political will the new taxes or any other financing mechanism will be implemented. National public dialogue, with employers, unions, government, civil society and development partners, is good strategy to generate consensus and political will.

Annex I: Public social protection expenditure by country, 2015 or latest available year (percentage of GDP)

Country	Total SP Expenditure as % of GDP	Year	Country	Total SP Expenditure as % of GDP	Year
Albania	9.05	2014	Korea, Republic of	5.73	2014
Algeria	4.75	2011	Kuwait	11.44	2011
Angola	6.94	2014	Kyrgyzstan	5.41	2014
Armenia	5.15	2014	Lao People's Democratic Republic	0.24	2013
Australia	12.38	2014	Latvia	10.51	2014
Austria	19.13	2014	Lesotho	7.20	2011
Azerbaijan	6.23	2014	Libya	4.41	2010
Bahamas	1.20	2014	Lithuania	10.25	2014
Bahrain	4.01	2010	Luxembourg	17.18	2014
Bangladesh	0.86	2014	Malaysia	1.56	2012
Barbados	7.40	2010	Mali	3.17	2010
Belarus	14.98	2014	Malta	11.46	2014
Belgium	20.92	2014	Mauritania	3.35	2010
Belize	0.74	2015	Mauritius	7.42	2014
Benin	1.51	2010	Mexico	8.11	2014
Bhutan	0.05	2014	Moldova, Republic of	12.58	2014
Bolivia	5.88	2014	Morocco	4.51	2010
Botswana	3.05	2010	Netherlands	13.18	2014
Brazil	13.24	2015	New Zealand	10.29	2014
Brunei Darussalam	0.25	2011	Nicaragua	2.86	2005
Bulgaria	13.89	2014	Niger	0.75	2010
Cape Verde	3.44	2010	Norway	14.14	2014
Cameroon	0.82	2010	Oman	3.55	2013
Canada	9.80	2014	Palau	1.76	2014
Central African Republic	0.79	2012	Panama	3.89	2015
Chad	0.12	2010	Papua New Guinea	0.55	2014
Chile	11.18	2015	Paraguay	2.99	2010
China	5.70	2014	Peru	3.07	2015
Colombia	9.15	2015	Philippines	0.83	2014
Congo, Democratic Republic of	1.80	2012	Poland	14.98	2014
Costa Rica	6.98	2015	Portugal	18.36	2014
Côte d'Ivoire	0.30	2014	Romania	10.33	2014
Croatia	15.21	2014	Russian Federation	10.66	2014
Cuba	7.89	2011	Rwanda	4.38	2010
Cyprus	19.67	2014	Saint Kitts and Nevis	3.08	2010
Czech Republic	13.63	2014	Saint Lucia	1.93	2010
Denmark	19.84	2014	Saint Vincent and the Grenadines	4.39	2010
Djibouti	1.95	2007	San Marino	16.75	2010
Dominica	3.94	2010	Sao Tome and Principe	2.26	2010
Dominican Republic	3.12	2015	Saudi Arabia	3.64	2011

Ecuador	4.47	2014	Senegal	2.97	2010
Egypt	10.05	2014	Serbia	16.98	2014
El Salvador	6.69	2015	Seychelles	4.41	2014
Estonia	10.95	2014	Sierra Leone	1.48	2005
Fiji	0.36	2014	Singapore	1.41	2014
Finland	22.89	2014	Slovakia	13.48	2014
France	22.91	2014	Slovenia	16.46	2014
Georgia	9.01	2014	South Africa	5.84	2014
Germany	16.15	2014	Spain	19.67	2014
Ghana	1.56	2010	Sri Lanka	5.61	2014
Greece	21.09	2014	Sweden	17.11	2014
Grenada	1.17	2010	Switzerland	11.58	2014
Guatemala	2.24	2011	Syrian Arab Republic	0.41	2010
Guinea	0.46	2010	Tanzania, United Republic	4.73	2010
Guyana	3.72	2010	Togo	0.58	2014
Haiti	1.55	2013	Trinidad and Tobago	5.94	2010
Honduras	1.31	2010	Tunisia	6.24	2011
Hungary	16.49	2014	Turkey	9.31	2014
Iceland	9.50	2014	Ukraine	20.62	2014
India	1.27	2014	United Kingdom	14.00	2014
Iran, Islamic Republic of	10.11	2010	United States	10.68	2014
Ireland	14.02	2014	Uruguay	10.88	2015
Israel	11.49	2014	Uzbekistan	8.51	2014
Italy	21.98	2014	Venezuela, Bolivarian Republic of	8.68	2015
Jamaica	1.62	2011	Viet Nam	2.00	2014
Japan	15.22	2013	Yemen	9.56	2012
Jordan	8.93	2014	Zambia	3.31	2011
Kazakhstan	3.89	2014	Zimbabwe	3.48	2011
Kiribati	2.76	2014			

Source: ILO World Social Protection Database, based on ADB, ECLAC, Eurostat, GSW, IMF, ILO, PAHO, World Bank, WHO, and national governments.

Annex II. Disbursed ODA for social protection as a % of GNI and as % of total ODA, donor countries

Donor	ODA-Social Protection	% GNI	ODA-SP as % Total ODA
Australia	30,722,890	0.002	0.88
Austria	7,355,609	0.002	0.56
Azerbaijan	50,000	0.000	0.39
Belgium	3,325,171	0.001	0.17
Canada	3,709,853	0.000	0.09
Czech Republic	1,502,123	0.001	0.75
Denmark	27,775	0.000	0
EU Institutions	306,055,100	0.002	2.24
Estonia	127,565	0.001	0.38
Finland	7,023,903	0.003	0.55
France	2,190,349	0.000	0.02
Germany	68,604,050	0.002	0.38
Greece	132,188	0.000	0.06
Hungary	28,654	0.000	0.02
Ireland	7,630,190	0.003	1.06
Italy	29,162,580	0.002	0.73
Japan	76,368,890	0.002	0.83
Kazakhstan	142,006	0.000	0.33
Korea	10,790,030	0.001	0.56
Lithuania	16,328	0.000	0.03
Luxembourg	4,279,940	0.012	1.18
Netherlands	22,180,140	0.003	0.39
New Zealand	1,434,848	0.001	0.32
Norway	11,618,950	0.003	0.27
Poland	890,107	0.000	0.2
Portugal	1,885,661	0.001	0.61
Romania	37,752	0.000	0.02
Slovak Republic	162,010	0.000	0.19
Spain	4,980,740	0.000	0.36
Sweden	6,280,474	0.001	0.09
Switzerland	389,695	0.000	0.01
United Arab Emir	7,911,304	0.002	0.18
United Kingdom	383,383,600	0.014	2.07
United States	221,544,000	0.001	0.71
Total donor countries	1,221,944,474	0.002	0.82
Multilateral organizations	1,121,675,102	0.002	0.75
Total	2,343,619,575	0.004	1.57

Note: Percentages for multilateral organizations were estimated using the total GNI of the donor countries
Source: OECD DAC database

Annex III. Disbursed ODA for social protection as a percentage of GDP and total ODA of recipient countries

Recipient	SWS as % GDP	Recipient	SWS as % GDP	Recipient	SWS as % GDP
Afghanistan	0.15	Ghana	0.03	Nigeria	0.00
Albania	0.02	Grenada	0.22	Pakistan	0.07
Algeria	0.00	Guatemala	0.24	Palau	0.00
Angola	0.01	Guinea	0.11	Panama	0.00
Antigua and Barb	0.01	Guinea-Bissau	0.05	Paraguay	0.03
Argentina	0.00	Guyana	0.02	Peru	0.00
Armenia	0.04	Haiti	0.09	Philippines	0.00
Azerbaijan	0.00	Honduras	0.28	Rwanda	2.29
Bangladesh	0.02	India	0.00	Samoa	0.04
Belarus	0.00	Indonesia	0.00	Sao Tome	0.06
Belize	0.02	Iran	0.00	Senegal	0.08
Benin	0.05	Iraq	0.01	Serbia	0.01
Bhutan	0.09	Jamaica	0.00	Seychelles	0.00
Bolivia	0.03	Jordan	0.02	Sierra Leone	0.16
Bosnia and Herze	0.02	Kazakhstan	0.00	Solomon Isl.	0.03
Botswana	0.01	Kenya	0.06	Somalia	0.07
Brazil	0.00	Kiribati	0.02	South Africa	0.00
Burkina Faso	0.10	Kosovo	0.08	South Sudan	0.03
Burundi	0.24	Kyrgyzstan	0.07	Sri Lanka	0.00
Cabo Verde	0.03	Lao PR	0.02	Sudan	0.01
Cambodia	0.06	Lebanon	0.02	Suriname	0.02
Cameroon	0.02	Lesotho	0.14	Swaziland	0.02
Central African	0.55	Liberia	0.11	Tajikistan	0.15
Chad	0.03	Madagascar	0.02	Tanzania	0.30
Chile	0.00	Malawi	0.64	Thailand	0.00
China (People's	0.00	Malaysia	0.00	Timor-Leste	0.05
Colombia	0.01	Maldives	0.06	Togo	0.09
Comoros	0.07	Mali	0.10	Tonga	0.02
Congo	0.02	Marshall Isl.	0.00	Tunisia	0.01
Costa Rica	0.00	Mauritania	0.04	Turkey	0.00
Côte d'Ivoire	0.02	Mauritius	0.01	Turkmenistan	0.00
Democratic Repub	0.03	Mexico	0.00	Tuvalu	0.07
Djibouti	0.20	Micronesia	0.01	Uganda	0.09
Dominican Republ	0.00	Moldova	0.13	Ukraine	0.01
Ecuador	0.00	Mongolia	0.02	Uruguay	0.00
Egypt	0.00	Montenegro	0.04	Uzbekistan	0.00
El Salvador	0.07	Morocco	0.01	Vanuatu	0.02
Equatorial Guine	0.00	Mozambique	0.16	Viet Nam	0.01
Ethiopia	0.43	Myanmar	0.03	WestBank Gaz	2.04
Fiji	0.06	Namibia	0.01	Yemen	0.05
Former Yugoslav	0.02	Nauru	0.00	Zambia	0.09
Gabon	0.00	Nepal	0.12	Zimbabwe	0.15
Gambia	0.06	Nicaragua	0.13	Total	0.22
Georgia	0.11	Niger	0.10		

Source: OECD DAC database and World Bank Development Indicators. Calculations were done for countries with GDP data available for 2015. This list represents 90% of the total ODA for social protection.

NA: not available