

Financing Social Protection Floors

Background Note

Many people in all parts of the world today feel economically insecure. Developing country governments have been responding by broadening coverage and increasing national floors of social protection. They have been aided by the United Nations system, including an important joint initiative of the International Labour Organization (ILO) and the World Bank, whose leaders reported during the current General Assembly that more than 23 low and middle-income countries have achieved universal or near-universal social protection for specified classes of people (e.g., children, the elderly), while over 100 others were scaling up social protection and fast-tracking expansion of benefits to new population groups. On the other hand, as ILO has reported, only 27 per cent of the world population benefits from comprehensive social security coverage. Much work thus remains in this field, including assuring adequate social protection floors in difficult as well as buoyant times.

In addition to the social values that underlie it, the social protection floor (SPF) has important economic consequences. First, it expands the nation's "production possibility frontier" as the SPF enlarges the stock of healthy, educated and productive citizens who might otherwise be excluded from the main economy. Second, the SPF is an "automatic stabilizer" that lessens the contraction phase of macroeconomic cycles. Thus, both as social policy and as economic policy, support for social protection floors is an attractive idea. It is especially timely to discuss it now in light of the forthcoming review in the July 2017 High-Level Political Forum, *inter alia*, of the first sustainable development goal, "ending poverty in all its forms everywhere", one of whose targets is 1.3 on social protection.

The Department of Economic and Social Affairs and ILO thus organized an expert group meeting of the Inter-Agency Task Force (IATF) on financing social protection floors on 30 November 2016. This note builds on that discussion and other work to suggest policy options that may be taken at national and international levels to facilitate improved national provision of social protection floors.

The essence of social protection floors

Social protection floors (SPFs) were defined by the General Conference of ILO in 2012 to embody adequate cash transfers for all who need them and access to essential health care, which States would be responsible to see are provided in one way or another on universal, inclusive and non-discriminatory bases in diverse but sustainable ways (ILO recommendation 202). A key requirement is that the SPF be available when people need it, meaning it should not be classified as discretionary government expenditure but as an entitlement that the government provides at the promised level to all who require it. The metaphor is of a floor, something solid that all people can stand on and on which they can feel secure. But it is only a floor and not a house with a roof, which is to say, it is a minimal set of social protections. This has implications for how a SPF should be financed.

On national financing of social protection floors

The fiscal resources for SPFs will be required year in and year out, in largely foreseeable amounts although at some unpredictable points in time in larger amounts that will have to be accommodated. They thus need to be part and parcel of overall medium and long-term fiscal

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planning. In part, SPF planning exercises are very technical, for which reason the UN system of agencies, funds and programmes has devised various aides and guides, in particular, the Inter-Agency Social Protection Assessment Tools (ISPA). The UN system is also helping to build capacity to use these analytical tools. Moreover, the rapidly accumulating experiences in different countries have created increasingly rich opportunities for peer learning on SPFs.

The Addis Agenda has enumerated numerous sound tax and public expenditure policies and made commitments to help developing countries to strengthen their fiscal situations. In addition, however, attention must be paid to the political aspect of financing SPFs, which warrants transparent and well-informed discussion among the relevant stakeholders, full vetting by the legislature and follow-up monitoring. In this context, ILO is guiding a process with partners of national dialogues in Member States, involving governments, trade unions, employers and civil society organizations.

Sound fiscal policy should not only be measured in terms of long-run sustainability of public debt. When periods of economic contraction ensue, policymakers need to maintain their outlays for social protection and other essential expenditures. It is thus best that governments prepare to make countercyclical SPF expenditures well before they are needed. Some countries have approached this problem by building up fiscal reserves during boom times with the intention to draw them down during times of economic bust. Similarly, governments seek to build up foreign exchange reserves. Such precautionary measures can help maintain funding for SPFs during somewhat difficult times, but in more extreme circumstances international support is needed.

Policies for the international commitment to SPFs

The Addis Agenda in paragraph 12 commits to “strong international support” for national social compacts, including SPFs. Three categories of international cooperation may be identified in this regard.

First is capacity building, which individual donors and the UN system are undertaking, albeit at a level that could be scaled up substantially with additional allocations of official development assistance and more extensive South-South and triangular cooperation.

A second area of support is enhanced provision of quick disbursing countercyclical and natural crisis-response funding. The International Monetary Fund and the World Bank already have certain loan “windows” for such funding to pre-qualifying countries, including highly concessional funds for low-income countries. However, this category of lending can be significantly expanded and/or complemented by other assistance providers to meet more of the need. It has also been estimated that a small number of very poor countries would require ongoing financial assistance over the medium term.

A third area of assistance is in introducing innovations in financial instruments that would adjust debt-servicing obligations in difficult times. Creditors today are either fully paid or not paid at all in a debt crisis until it is resolved when they may receive less than full repayment. The one exception, which is not actually an exception, is Sharia-compliant sukuk. It is increasingly available internationally, but it is not a loan. A loan instrument specifies the interest and principal repayment

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schedule that the borrower must meet. The creditor may take the borrower to court if the obligations are not met.

The Bank of England and the Bank of Canada have led considerable financial and legal work on designing sovereign bond contracts that would require creditors to accept reduced payments during difficult times without going through a restructuring exercise. One proposal is called a “sovereign coco” (a contingent convertible bond in which a pre-specified event triggers delayed payment) and a related approach would link payments to changes in the borrowing country’s gross domestic product. Until now, GDP-linked interest payments have only been issued as part of sovereign debt workouts, notably by Argentina, Greece and Ukraine. The Agence Française de Développement has experimented with a similar instrument for loans to its low-income partners and the Paris Club of government creditors have on occasion unilaterally offered to reschedule loans of countries facing specific challenges. In short, the principle seems to have been accepted. It remains to turn it into standard practice.