INTER-AGENCY TASK FORCE ON FINANCING FOR DEVELOPMENT
Summary of the Expert group meeting on financing social protection floors
Wednesday 30 November 2016 • 9:00-17:30 • UN Headquarters

Highlights:

- Staff from 13 member agencies of the Inter-Agency Task Force (IATF) held an expert group meeting to discuss financing universal social protection floors. The co-hosts of the meeting, the Financing for Development Office of UN-DESA and the International Labour Organization (ILO), invited seven experts from academia, civil society and think tanks to contribute in their personal capacities.
- Implementation of two Addis Ababa Action Agenda commitments motivated the meeting: delivery of "nationally appropriate social protection systems and measures for all, including floors" as part of a social compact; and "strong international support for these efforts" with an exploration of "coherent funding modalities to mobilize additional resources, building on country-led experiences"
- Participants stressed that clarity on the definition of social protection is important. They expressed that social protection is a human right and that social protection floors differed from social safety nets because floors provide a base of protection for individuals at all times.
- Improved tracking of social protection spending through better monitoring and reporting mechanisms is needed; it could increase accountability of countries to their citizens.
- Roughly 20 countries adequately finance their social protection systems, while another 100 could do so with moderate revenue increases and/or expenditure reallocation. About 40 additional countries would need to broaden their tax bases significantly or introduce new taxes to domestically finance a system, but 13 countries would need significant support from the international community.
- Participants accepted the case for deeper international cooperation. International support was deemed especially helpful in the design, operation and monitoring of national social protection systems (including training and capacity building), rather than funding recurrent benefits.
- Current collaboration among Task Force members was appreciated, but participants agreed that some mechanism of pooled international funding or collaboration might facilitate more effective assistance programmes. More work would be needed on the modalities.
- The importance of counter-cyclicality in financing for SPFs was repeatedly emphasized; with participants highlighting the benefits of protecting social protection floor financing during difficult times. National policies like fiscal stabilization funds need to be tailored to country circumstances.
- There was interest in strengthening international counter-cyclical finance mechanisms such as multilateral credit lines, innovative credit instruments (e.g. GDP-linked bonds, 'sovereign cocos').
- Tax-based and contributory arrangements were seen to have roles to play in financing social protection. Tax compliance was also repeatedly stressed. Coherence between tax payment and social protection contributions could reap synergies and reduce tax evasion.
- Member States were encouraged to write plans for social protection priorities and financing structures (covering benefits, costs and obligations); stakeholders should be engaged, for example through tripartite national social dialogues, and also can be involved in oversight mechanisms.
- A more detailed options paper will be prepared for the Task Force, in support of further discussions in this area, including with Member States and other stakeholders.

Full Summary:

I. Background

The Addis Ababa Action Agenda announced a new social compact. This compact contains two components: a commitment to deliver social protection systems and measures for all, including floors; and a package of essential public services. Social protection generally refers to cash transfers and other social insurance, such as adequate pensions for older persons; essential public services include the provision of basic health and education, among others.

On Wednesday, 30 November 2016, the Financing for Development Office of UN-DESA and the ILO jointly organized an expert group meeting to explore coherent funding modalities for the social protection floor component of the social compact. The meeting, with morning and afternoon sessions, was conducted under the auspices of the Inter-Agency Task Force on Financing for Development and operated under Chatham House rule.

The expert group meeting aimed to follow-up and advance thinking on financing packages for social protection floors, as well as how to treat social protection floor financing in the 2017 IATF report. The meeting brought together IATF members, academics and other external experts. Twenty-seven staff members from 13 IATF member agencies joined the meeting, including through video and audio connections from Addis Ababa, Bangkok, Washington DC, Rome and Geneva. Seven external experts joined the meeting.

The meeting began with reflections on the definition of social protection floors, as given in ILO Recommendation 202. The discussion then focused on past and recent country experiences with financing of social protection floors to explore lessons learned, with discussants highlighting experiences in Brazil, Ecuador, Ghana, Indonesia, Kazakhstan, Mongolia and Uganda. The morning also explored modalities for international support for universal social protection floors, including the role of official development assistance.

The afternoon session began with a discussion of domestic and international options for countering the usual loss of public revenues during economic downturns and shocks and the ensuing pressure to cut back on social protection outlays. Then the meeting proceeded to consider how to balance contributory revenues, often used with pension schemes, with general tax revenue for social protection finance. Finally, additional items were raised, such as expenditure reallocation. The meeting concluded with a session on next steps.

While this summary will inform the Task Force's work, including its 2017 report, participants in the meeting agreed that a more in-depth options paper should also be prepared to further inform the Task Force. Also, participating Task Force members agreed to explore how to increase engagement with Member States and external stakeholders on these topics.

Key points raised in the meeting are summarized below.

II. Context and country experiences

The first session began with a short discussion-starter reviewing the various conceptual issues in defining social protection floors and the mandate the Addis Ababa Action Agenda gave to the Task Force in relation to their financing. It was made clear that international norms were defined by the ILO Social Security (Minimum Standards) Convention 102 of 1952 and the Social Protection Floors Recommendation 202 of 2012. One presenter highlighted that the official definition of social protection floors refers to guarantees for "access to essential health care and to basic income security" rather than the delivery of specified social benefits, and that the provision of social protection should be kept separate from discussion of delivery of social services.

It was also stressed that social protection is a human right and that "social protection floors" differed from "social safety nets". The latter catches individuals as they fall from their normal circumstances for one reason or another. The "floor" implies a base of protection that underpins individuals at all times. A "safety net" can be created in response to the onset of a crisis; the "floor" should be in place well before the crisis erupts.

A number of country cases were discussed. Brazil has used earmarked taxation revenues to ensure consistent financing for floors. In Ecuador, debt repayment savings were earmarked for social protection. Ghana and Indonesia tied removing fossil fuel subsidies to increasing social protection benefits. In the case of Ghana, subsidy removal impacted the poor much more than the rich; thus, to mitigate the negative impact the government channelled some of the savings directly to the poor through a targeted programme called Livelihood Empowerment Against Poverty (LEAP), which is consistent with the Addis commitment to protect the poor and the affected communities when removing fossil fuel subsidies. In Indonesia, the objective to remove the fuel subsidies was not itself tied to funding social protection, but the cash transfer system was described as a general sweetener for adopting fiscal reforms. In the case of Uganda, the government released a business case for social protection in the last few months, including a financing arrangement, although it was based on highly optimistic assumptions of continued and consistent high growth. In the case of Mongolia, the strong optimism on scaling up universal social protection was ultimately unwarranted as copper price declines meant the government is now looking into how to downsize the system in the least negative way.

Part of the discussion focused on tax policies and taxpayer compliance, as taxes are the key source to fund social protection. The incidence of taxes, especially their progressivity, was deemed important, as social protection benefits received by the poor should not be cancelled out by higher taxes to pay for the social protection system. Others noted that expenditure reallocation, especially from military expenditure, could provide a viable source of funds for social protection finance. A participant said it was also important to distinguish budget commitments from actual spending, albeit acknowledging the difficulty in effectively tracking social protection spending owing to poor data.

One area of general agreement was the importance of monitoring mechanisms to follow-up on the Addis commitments and increase accountability of social protection spending. The role of stakeholder engagement in this regard was raised. It was noted that data are gathered internationally on government spending (particularly, by central governments), but there are time lags and huge gaps in international tracking. At the national level, some countries do not bring together comparable data on spending by subnational authorities. It was said that a major effort is needed to improve the tracking of social protection spending.

Participants agreed on the importance of addressing volatility in social protection finance. Some participants emphasized that the costs of social protection floors changes over time, both over the long run, as the population ages, and over cyclical periods, as economies experience recessions. The discussion on cyclicality was continued further in the afternoon session.

Participants disagreed on the advisability of earmarking certain revenues for financing of social protection floors. Some spoke strongly in favour of earmarking to get social protection systems financed. Others were more cautious of earmarking, as it reduces budgetary flexibility to address changing circumstances, especially if the revenue source is subject to volatility, for example being linked to commodity prices or business cycles.

Given the perpetual competition for resources among ministries, an intervention noted the importance of stakeholder engagement to build the constituency for social protection as well as to better inform policy makers, a topic to which the meeting returned at the end of the day. It was noted that in some systems, parliaments and the government may not agree, and that advocates for finance for social protection may need to make the case to parliaments.

Some other issues discussed included that social protection coverage in rural areas is weak and there may be a need to adapt programmes and financing to the needs of the rural poor. Additionally, a participant raised the issue of social assistance financing in humanitarian emergencies. It was noted that the meeting was not meant to discuss emergency finance, and that the Task Force may organize another technical workshop on the nexus between humanitarian and development finance to further explore those issues.

Several participants stressed that cash transfers are not the only means available for social protection, and that other tools such as food subsidies, or food price interventions can be used. One participant emphasized the need to generate integrated strategies that provide a clear link between social protection floors and the other SDGs (not just Goal 1) as well as the need to mainstream the consideration of the environmental dimension of sustainable development, as was done with fuel subsidies.

III. International support for universal social protection floors

The discussion next focused on international cooperation. A speaker characterized social protection as the “orphan” of official development assistance (ODA), because it receives much less attention, and little fanfare by donors compared to ODA directed to social services, especially health and education. Two types of costs were highlighted in provision of social protection floors: first, the design of the system and operational costs of running it, and second, the value of the periodic transfers made. Donors have expressed more interest in supporting the former than the latter, though the amount is very low. The assistance is provided by individual countries or international institutions, although trust funds and mechanisms could be used to pool donor resources. It was argued that ODA and other financial commitments in support of social protection floors should be well monitored.

A presentation highlighted some of the existing international mechanisms for coordination on social protection. For example, the Social Protection Inter-agency Cooperation Board (SPIAC-B) enhances global monitoring, coordination and advocacy on social protection (economic and political) and coordinates international cooperation through joint policy support. An additional mechanism is the ILO and World Bank Group Universal Social Protection Initiative. It was suggested that joint international organization monitoring of social protection coverage and expenditure would be beneficial, and that more indicators might be reported through the Financing for Development monitoring process than are currently stipulated for SDG monitoring. The presenter also endorsed the call in the Addis Agenda for countries to set social spending targets and the importance of an integrated approach for social policies.

Another speaker presented country-by-country estimates of the gaps between individual income levels and an international poverty line as an estimate of the order of magnitude of spending that might be needed if social protection floors were to close that gap. The presenter estimated that about 20 countries had fully funded gap-closing social protection systems and that 100 countries could afford to close their gaps in social protection through moderately increased domestic revenue mobilization and/or expenditure reallocation. However, for 43 countries the costs of closing the poverty gap would be over 10 per cent of their tax-to-GDP ratio, meaning they would need to increase their tax base or introduce new taxes to close the gap. For 13 countries the costs would be so substantial as to require significant assistance from the international community. The presenter also suggested an international facility to pool aid resources and earmarking 15 per cent of ODA for this purpose. One caveat voiced was that most ODA funds, especially multilateral ones, are for projects and so it could be difficult to cover cash transfers per se out of ODA. It was also noted that a shift of ODA from its current use to social protection of this magnitude was unlikely to happen at the current time.

The proposal for a dedicated fund for channelling international support into social protection was brought up, although it was acknowledged that the idea has very little donor country support. The Addis Ababa Action Agenda negotiations were recalled, where several Member States explicitly rejected the idea of a global fund for social protection. One consideration was whether such international support should flow to national budget support or would have to be provided as concessional project finance. More work would be needed on the modalities. Another proposal was to find a way for agencies to use their existing funds in a more pooled manner to create more impact in countries.

Participants also raised the issue of international actors' impact on financing of social protection, for example in the context of IMF programmes. It was mentioned that the IMF had collaborated with the ILO in some countries, introducing ring-fencing clauses in loan agreements so that social spending would not be cut. Participants had mixed feelings about this experience, observing that in some cases country authorities did not want to ring-fence social protection spending, preferring to have more flexibility.

Another idea introduced in this session highlighted the attention being given to capacity development for domestic resource mobilization, and suggested linking capacity building on the revenue side to expenditures, and particularly social protection. Other ideas included having emergency and humanitarian finance disbursed through national social protection institutions to build the capacity of those systems. Also mentioned was linking the discussion on social infrastructure, including social protection systems, to on-going discussions on infrastructure finance by the multilateral development banks. One participant proposed suggesting this lin to the Group of 20 under the German presidency in 2017, though others felt it might not be the best way to move forward.

IV. Countering the pro-cyclical nature of public finance

The first session in the afternoon was dedicated to exploring domestic and international options to counter the pro-cyclical nature of public finance and its impact on financing for social protection floors. An opening presentation further highlighted the difference between social protection floors and safety netsFloors need to be built beforehand so they can function smoothly to maintain or increase outlays during crises. Social protection floors thus have a macro-economic as well as a social benefit in downturns as they act as an automatic economic stabilizer. Building up a surplus in "good times" can help ensure availability of funds for a crisis and also moderate the "boom" phase of the cycle. The presentation also emphasized that floors should be seen as a right or an entitlement to avoid recipient's uncertainty about receiving them in bad times. Assuring protection to people can also help enable innovative risk taking by the poor that can help achievement of the SDGs.

Many options for the design of counter-cyclical instruments were highlighted during the session. One of the most heavily discussed related to dedicated fiscal reserve funds. A positive experience was the Chilean fund, which was built up in the context of high copper prices. It was noted that such funds were less successful in Mongolia and Nigeria owing to design problems. Some participants stressed that with high poverty, the opportunity costs of building a reserve fund would be too high and that other kinds of buffers were necessary for crises. Others noted a fiscal stabilization fund has a fundamentally different purpose than a sovereign wealth fund, meaning it needed to be invested primarily in liquid assets, so that it could be drawn down under difficult circumstances, including when financial markets become more volatile in a crisis. Some participants noted that with low commodity prices, building a reserve fund now would be difficult, and that non-commodity-exporters might not find it viable to build up a stabilization fund even if commodity prices increased again. It was suggested that sharing of knowledge, capacity building and technical advice regarding these issues would be useful.

Another alternative discussed was the provision of international official credit. The option of semi-automatic multilateral credit lines for low- and middle-income countries in support of maintaining essential outlays under sustainable medium-term macroeconomic frameworks was discussed. However, it was also noted that major shareholders of the multilateral financial institutions are sceptical of instruments that are not accompanied by conditionality under adjustment programmes.

Other possibilities discussed included counter-cyclical clauses in sovereign loan or bond contracts (e.g. "bisque clauses" to allow borrowers to postpone interest payments when needed, such as "sovereign cocos"). Some participants thought that linking loan repayment amounts to economic outcomes (such GDP) could be pioneered by official lending.

Design of sovereign debt restructuring processes in cases of insolvency was also considered. As an example, recent US legislation requires a financial oversight and management board for Puerto Rico to assure that “adequate funding” of Puerto Rico’s pension obligations be set aside when restructuring its defaulted debt obligations. Some participants also mentioned the possibility of having specific social protection floor financing references included in the review of the World Bank-IMF Debt Sustainability Framework, though other participants noted that in the Addis Ababa Action Agenda negotiations language on SDG inclusion in the DSF was weak and very general. An additional idea was the use of other instruments to deal with volatility, particularly when it comes to hunger, such as food reserves or grain price stabilization mechanisms or a general re-insurance fund created by development banks.

V. Balancing contributory schemes with general or earmarked taxation

During the second session in the afternoon, the participants discussed the role of earmarked taxation versus general tax revenue as well as the issue of balancing contributory revenues with general tax revenue for social protection finance. Employer and worker contributions to social security finance are about half of the total social protection expenditures and therefore are considered to be an important avenue for domestic resource mobilization and expansion of social protection in the formal sector.

The opening presentation discussed some lessons learned from a broad brush review of social security systems around the world. The five main conclusions about the characteristics of successful systems were: (1) those that mixed pay-as-you-go finance with some variation of benefits paid tied to contributions made; (2) those that reduced or eliminated means testing; (3) those that kept the contribution or tax rate low and the base wide; (4) those that avoid individually directed investment of accumulating funds; and (5) those that layered payments from the system with advance funding.

In the ensuing discussion participants stressed the importance of compliance and the need for forceful strategies to deal with non-compliant tax payers (audit and prosecution). Some participants stressed the need for citizens to appreciate that tax compliance leads to higher benefits received, which requires that the benefits have to be seen as large enough to warrant voluntarily paying for them.

According to some participants, tax rates are quite high in many countries, but in a complicated tax structure that allows a lot of people to escape paying their taxes and contributions. Good practice was identified as a social security system to which even the very rich are attached. This can be facilitated by having large and inclusive systems rather than separate systems for different population segments. Another identified good practice was linking social protection payments to tax filing, so that compliance is built into the system. There was also a discussion around the drivers of non-compliance and informality, with some participants concluding that perfecting administration of clear and regular pay-outs improves compliance with taxes and contributions.

Most participants agreed that contributions cannot fully fund all social security obligations, and that necessitating use of general tax revenues. A country-specific approach to balancing the two sources was broadly supported. Also noted was that despite the common practice of separating support programmes by stage of life, social protection payments are really transfers to households that may get shared among different household members such as pensions supporting grandchildren’s wellbeing.

VI. Final discussion and conclusions

In a final discussion, participants stressed the need to build consensus around different reforms and improved transparency in support of social protection floors. Moreover, country stakeholder engagement, for example through tripartite national social dialogues, should cover not only benefits but also obligations and costs of financing the benefits. Some participants argued that such national dialogues need to be carried out with representative groups – trade unions, employers, civil society organizations, parliaments, academics. The experience in countries with such joint discussions on the budget for social protection floors was said to have increased buy-in and strengthened the voice of the ministers of labour or welfare in their discussions with ministers of finance. These lessons could be shared through more regional and international dialogues for peer learning.

Some participants also suggested, considering the obligation in the SDGs to bring people out of poverty, some form of international rule or guidance for minimum levels of spending on social sectors. Others were not convinced about setting targets since they tend to vary across countries. It was pointed out that there was no consensus during the Addis Agenda negotiations on what such an approach might look like, as well as discussions on the risks of pursuing one-size-fits-all policies. Some participants recommended that discussion of social protection should be informed by both a rights-based approach and that outlays for social protection are investments in human capital.

The discussion concluded with agreement that it would be useful to have a paper that spelled out in greater detail a range of policy options for consideration by Task Force members and Member States. It was agreed that the paper would include technical options, ranging from conservative to bold, and that it would feed into the production of the 2017 IATF report. It was also agreed that the Task Force should seek to informally discuss the paper and further work on social protection floors with interested Member States and external stakeholders, preferably in advance of the Financing for Development Follow-up Forum in May 2017. It was agreed that an outline would be produced and distributed to participants in the expert group meeting for comments by the end of the year with a draft paper to follow by mid-January 2017. Feedback and comments from Task Force members would be sought.