International Labour Organization

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Social Protection Spotlight

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Financing gaps in social protection:
Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond

Key points

- Social security is a human right, but a reality for far too few people. The COVID-19 crisis has provided another dramatic demonstration of the consequences of unacceptably high coverage gaps. Currently, only 45 per cent of the global population is effectively covered by at least one social protection benefit. The remaining population – as many as 4 billion people – were completely unprotected when the crisis hit.
- These coverage gaps are linked to significant financing gaps in social protection. In order to fulfil the global community's commitments to extend coverage, as set out in the ILO's Social Protection Floors Recommendation, 2012 (No. 202) and targets 1.3 on social protection and 3.8 on universal health coverage of the Sustainable Development Goals (SDGs), substantial investments will be required. Developing countries would need to invest an additional US$1.2 trillion – equivalent to 3.8 per cent of their gross domestic product (GDP) – to close the annual financing gap in 2020. Low-income countries represent US$77.9 billion of this total financing gap, equivalent to 15.9 per cent of their GDP.
- The amount required to close the financing gap in social protection has increased by approximately 30 per cent since the onset of the COVID-19 crisis. This is the result of (a) the increased need for health-care services and income security for workers who have lost their jobs because of lockdown and other measures and (b) the reduction of GDP caused by the crisis.
- National and international resource mobilization to mitigate the COVID-19 crisis has provided short-term financial assistance, but this represents only a small proportion of the amount required to close the social protection financing gap in developing countries. To bridge the gap and establish national social protection floors, such efforts need to be further increased and safeguarded against the austerity measures that are already emerging as the crisis recedes.
- Options to increase fiscal space for social protection exist even in low-income countries, including increased taxation; a larger social security contribution base; reduced illicit financial flows; reallocation of public expenditure; or a more accommodating macroeconomic framework.
- In some cases, particularly in low-income countries, domestic resource mobilization efforts should also be complemented by international resources, including by honouring currently unmet official development assistance (ODA) commitments and considering further global and solidarity-based financing mechanisms.
- The global and regional estimates presented in this brief are based on calculating the costs and remaining financing gaps for introducing a set of universal childhood, maternity, disability, old age and health benefits, which could together represent a national social protection floor. Although these estimates provide an important approximation of resource needs, they cannot replace detailed costing studies of national social protection floors, which should be defined through an inclusive national dialogue.

Introduction

Even before the COVID-19 crisis, it was clear that the global community was failing to live up to the legal and policy commitments it had made in the wake of the last global catastrophe — the 2008 financial crisis. Progress towards building national social protection floors, in line with Recommendation No. 202 and SDG targets 1.3 on social protection and 3.8 on universal health coverage, has lagged behind. Large coverage gaps persist that deny people's enjoyment of the right to social security. When the crisis hit, as many as 4 billion people had no access to social protection benefits at all (ILO 2017). More than three quarters of the global population had no access to comprehensive social protection and for even more people, income losses have been only partially mitigated.

These large and persistent gaps in the coverage, comprehensiveness and adequacy of social protection are linked to significant financing gaps that have been further exacerbated by the COVID-19 pandemic, which has both increased the urgent demand for social protection and eroded government resources by diminishing tax and social insurance revenue. A range of government action is under way to cushion the most adverse health and socioeconomic effects of the pandemic, including the introduction of many (though largely temporary) social protection responses (ILO 2020).

However, mere stopgap measures will not be enough to protect people in the current crisis and beyond. There is an urgent need for countries to fulfil their prior commitments and build and maintain national social protection floors as part of their social protection systems (ILO 2019b). This objective is supported by the call to action for Universal Social Protection to Achieve the Sustainable Development Goals, co-led by the ILO and World Bank, to increase the number of countries that provide universal social protection (USP2030 2019). In doing so, countries would guarantee access to essential health care and income security over the life cycle of their populations by creating and safeguarding the necessary fiscal space for social protection.

This brief summarizes the results of the 2020 working paper entitled "Financing Gaps in Social Protection: Global Estimates and Strategies for Developing Countries in Light of COVID-19 and Beyond" (Durán-Valverde et al. 2020). It provides global and regional estimates of social protection financing gaps, which indicate the order of magnitude of the financial challenge that needs to be addressed in order to realize the human right to social security and achieve SDG targets 1.3 and 3.8[1]. In particular, it (a) updates previous figures to take into account the impact of the COVID-19 crisis; and (b) adds estimates of financing gaps relating to health.

Approach

The global and regional estimates presented in this brief are based on calculating the costs and remaining financing gaps for introducing universal childhood, maternity, disability, old-age and health benefits, which would together represent a national social protection floor. Although these estimates provide an important overview of the approximate resource needs, they cannot replace detailed costing studies of social protection floors that are nationally defined through social dialogue.

To calculate the financing gaps in social protection for the 134 countries covered in the study, the following steps were followed:[2]

(a) **A set of benefits that can constitute a social protection floor were defined**. A nationally defined social protection floor should ensure basic income security over the life cycle, and access to essential health care. For the purpose of this study, the costs of providing the following benefits were calculated:

   i. child benefits for all children aged 0-5, set at 25 per cent of the national poverty line;
   ii. maternity benefits set at 100 per cent of the national poverty line during four months around childbirth;
   iii. disability benefits for persons with a severe disability, set at 100 per cent of the national poverty line;
   iv. old-age benefits for all persons aged 65 and above, also set at 100 per cent; and
   v. access to essential health care as estimated by the World Health Organization (WHO) (Stenberg et al. 2017).

(b) **The total costs of providing this set of benefits universally were calculated**, in line with the parameters above. For all benefits, except health care, 5 per cent of the total cost was added to account for administrative expenses.

(c) **The annual financing gap was calculated** by subtracting current baseline spending on social assistance from total costs.[3]

[1] This brief builds on a previous study (Durán-Valverde et al. 2019).

[2] For details on underlying data, methods and assumptions, see Durán-Valverde et al. (2020).

[3] Current health spending does not need to be deducted because the estimates provided by WHO (Stenberg et al. 2017) already refer to the remaining financing gaps in access to essential health care.

(d) **The incremental financing needs were calculated over the 10-year period 2020–2030**, assuming a progressive increase of coverage in a linear fashion that starts from 2020 levels and reaches universal coverage by 2030.

Financing gaps in achieving SDG targets 1.3 and 3.8

Annual financing gap in 2020

Table 1 presents the annual financing gap in developing countries in 2020. To close this gap, an additional US$1.2 trillion would be needed in 2020 to fully finance the total cost of a set of universal benefits that could constitute a social protection floor in developing countries. This represents an additional investment of 3.8 per cent of these countries' GDP. This masks staggering differences in terms of the size of the financing gap with respect to the economic capacity of countries. Regionally, the relative burden is particularly high in Central and Western Asia, Northern Africa and Sub-Saharan Africa (9.3, 8.3 and 8.2 per cent of GDP, respectively). In terms of income classification, the relative size of the financing gap is much larger for the group of low-income countries (15.9 per cent of GDP) than for lower-middle-income countries (5.1 per cent of GDP) and upper-middle-income countries (3.1 per cent of GDP).

Table 1: Annual financing gap in achieving SDG targets 1.3 and 3.8, by subregion and income classification, 2020 (billions of US$ and percentage of GDP)

	Population of selected countries (millions)	Gap in four social protection areas (billions of US$)	Gap in four social protection areas (percentage of GDP)	Gap in health (billions of US$)	Gap in health (percentage of GDP)	Total gap (billions of US$)	Total gap (percentage of GDP)
Subregional groups							
Arab States	110.3	15.1	4.5	10.2	3.0	25.2	7.5
Central and Western Asia	212.6	86.6	7.9	15.2	1.4	101.8	9.3
Eastern Asia	1 427.8	58.1	0.4	132.9	0.9	190.9	1.3
Eastern Europe	227.1	32.8	1.6	21.8	1.1	54.6	2.7
Latin America and the Caribbean	619.1	272.1	6.1	61.1	1.4	333.2	7.5
Northern Africa	245.5	31.5	4.7	24.1	3.6	55.6	8.3
Northern, Southern and Western Europe	19.7	5.0	5.7	1.9	2.1	6.9	7.8
Oceania	11.2	1.5	4.5	0.9	2.7	2.4	7.2
South-East Asia	662.6	48.2	1.8	46.3	1.7	94.5	3.5
Southern Asia	1 897.6	94.8	2.3	94.8	2.3	189.6	4.6
Sub-Saharan Africa	1 089.2	61.8	3.7	75.1	4.5	136.9	8.2
Income groups							
Low-income countries	711.2	36.2	7.4	41.8	8.5	77.9	15.9
Lower-middle-income countries	3 105.3	173.8	2.4	189.1	2.6	362.9	5.1
Upper-middle-income countries	2 706.2	497.4	2.1	253.4	1.1	750.8	3.1
All low-income and middle-income countries	**6 522.7**	**707.4**	**2.2**	**484.2**	**1.5**	**1 191.6**	**3.8**

Incremental financing needs between 2020 and 2030

Acknowledging that universal coverage needs to be progressively achieved, Figure 1 summarizes the incremental financing needs over the period 2020–2030. For the year 2030 alone, the annual financing gap that needs to be bridged to achieve universal coverage would amount to US$1.2 trillion for all developing countries (equivalent to 2.2 per cent of their GDP), including US$686.3 billion for upper-middle-income countries (1.7 per cent of GDP), US$413.4 billion for lower-middle-income countries (3.2 per cent of GDP) and US$100.9 billion for low-income countries (11.5 per cent of GDP).

Domestic and international financing efforts in response to the COVID-19 crisis

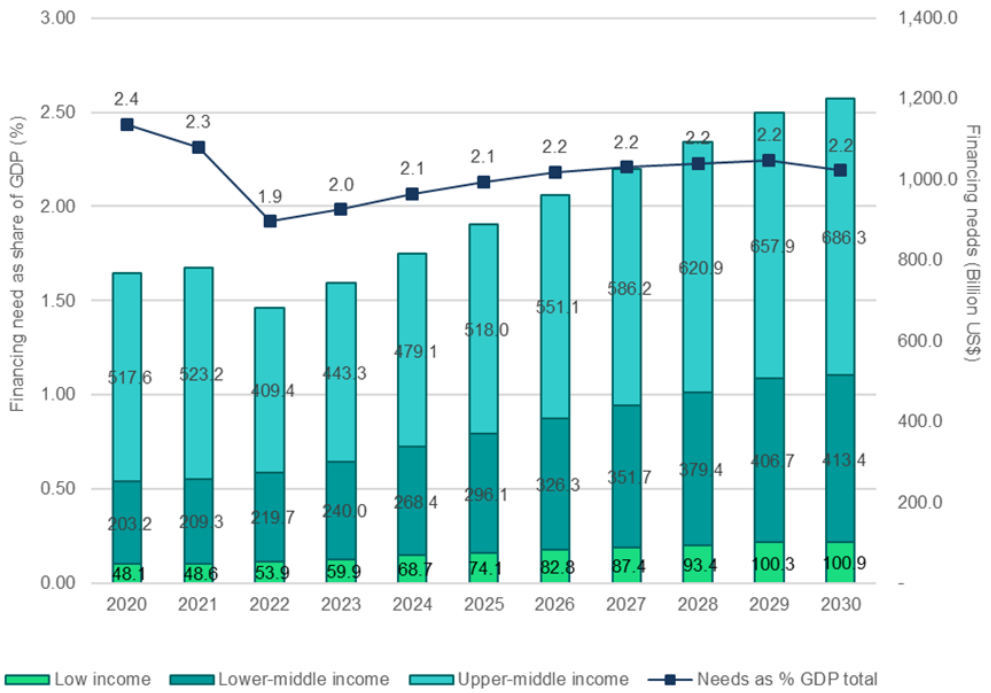
As a response to the COVID-19 crisis, 196 countries have introduced domestic fiscal measures, amounting to US$10.6 trillion (as of 3 September 2020). However, only 0.06 per cent of this amount has been mobilized in low-income countries.

Those domestic efforts have been complemented by international resource mobilization. International financial institutions and development cooperation agencies have announced several financial packages to help governments tackle the various effects of the crisis.

As of 3 September 2020, these institutions have pledged about US$1.3 trillion, including US$1 trillion pledged by the International Monetary Fund and about US$160 billion by the World Bank; up to US$126.6 billion has been effectively approved and allocated to support countries in the areas of social protection and health. The types of financial assistance vary and include emergency assistance packages, credit lines, debt service relief and grants. Most funds, however, are committed in the form of concessional loans (69 per cent) or regular loans (28 per cent).

Although this national and international resource mobilization provides important short-term financial assistance in the context of the COVID-19 crisis, it represents only a small proportion of what is needed to close the social protection financing gap in developing countries. For developing countries to be able to bridge these gaps and establish national social protection floors, resource mobilization efforts should be both increased and safeguarded against the austerity measures that are already emerging as the COVID-19 crisis recedes. Countries should invest more to guarantee adequate and comprehensive social protection for all. They should also invest better by ensuring that resource mobilization is sustainable, efficient and equitable.

Figure 1: Incremental financing needs for progressively closing the social protection coverage gap, 2020–2030 (billions of US$ and percentage of GDP)



Note: The higher levels of incremental financing needs in 2020 and 2021 reflect the impact of the COVID-19 crisis on the level of spending on social protection and lower GDP growth rates in those years.

Fiscal space options

A range of options exist for countries at all levels of development to increase fiscal space for social protection. Box 1 provides an overview of eight different strategies. In principle, national social protection systems, including floors, should be financed from national sources, a process which is usually referred to as domestic resource mobilization. However, countries whose economic and fiscal capacities are insufficient may need to seek international support, at least in the short-to-medium term. Two of these options at the national and international levels, as well as some other innovative financing sources, are discussed below.

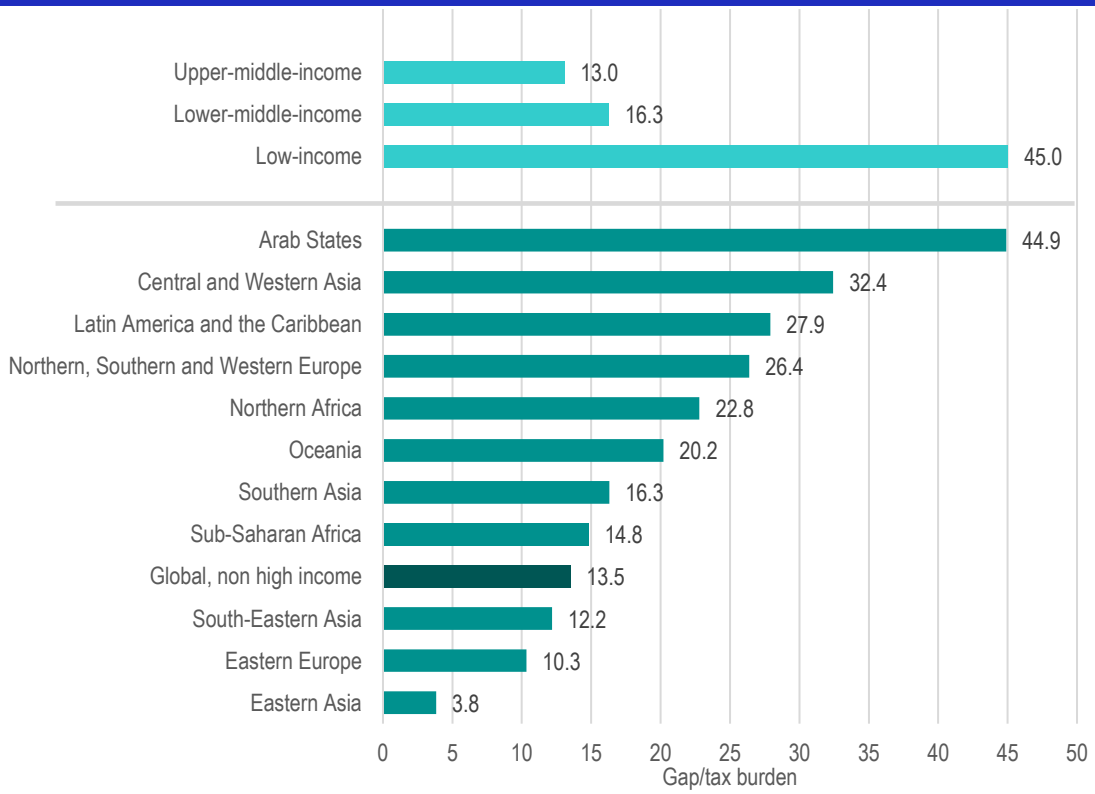
The magnitude of domestic efforts required to finance social protection floor financing gaps may be significant. On average, such gaps represent about 13.5 per cent of total tax revenues (see Figure 2), but in low-income-countries the ratio is much higher, at 45 per cent of total tax revenues. Governments may not be in a position to spend 45 per cent of their tax revenues on social protection, because they have many other priorities to finance. Financing the social protection floor from taxes is therefore unlikely in low-income countries. In countries with limited capacity to generate domestic resources, external assistance will therefore be required to complement national efforts to create fiscal space.

Box 1: Fiscal space for social protection

Options to increase fiscal space exist in all countries, even the poorest ones. An important prerequisite is the political will to harness all possible options and find the optimal mix in the national context. National dialogue, including representatives of governments, employers' and workers' organizations, and civil society and other concerned actors, is essential to this process. Broadly, eight different strategies can be considered (cf. Ortiz et al. 2019):

- expanding social security coverage and contributory revenues;
- increasing tax revenues;
- eliminating illicit financial flows;
- reallocating public expenditures;
- using fiscal and central bank foreign exchange reserves;
- managing debt: borrowing or restructuring sovereign debt;
- adopting a more accommodating macroeconomic framework;
- increasing ODA and transfers.

Figure 2 : Social protection floor financing gap as a percentage of total tax revenues in 2019, by region (low-income and middle-income countries)



Source: ILO estimates based on World Social Protection Database 2019.

Expanding social security coverage and contributory revenues. Social protection systems are typically designed through a combination of tax-financed non-contributory schemes and social insurance schemes that are usually funded by workers' and employers' contributions. Increasing the contribution base by increasing the effective coverage and/or revenue from social security contributions is an important strategy to finance social protection and ensure higher levels of protection. Additional revenue may be obtained by increasing contribution rates or else through improved administrative efficiency, better compliance in terms of contribution collection or by extending contributory schemes to previously uncovered groups (such as informal economy workers, including the self-employed).

Social security contributions currently amount to 0.4 per cent of GDP in low-income countries, 2.5 per cent of GDP in lower-middle-income countries and 5.8 per cent of GDP in upper-middle-income countries. Simulation results suggest that there is still some untapped capacity of contribution systems. Low-income countries could potentially double their contribution levels to 0.8 per cent of GDP over the next decade. Across all developing countries, social security contributions as a percentage of GDP could potentially be increased by 1.2 per cent to reach 6.3 per cent of GDP.

Increasing ODA and transfers. Despite the Addis Ababa Action Agenda's call for enhanced ODA to support financing for sustainable development (United Nations 2015), many countries still fall short of their commitments. At current levels, ODA would be insufficient to close social protection financing gaps even if all of it were allocated to that single priority. In reality, the share of disbursed ODA allocated to social protection represented a mere 0.0047 per cent of the gross national income of donor countries in 2017.

Innovative sources of financing. To complement regular sources of financing and fill remaining gaps, a range of innovative sources of financing could be considered and some have already been implemented. These include taxes on the trade of large tech companies, the unified taxation of multinational companies, taxes on financial transactions or airline tickets, or a billionaires tax. Combating corporate tax avoidance and evasion, including the "base erosion and profit shifting" strategies employed by companies to shift operations from high to low tax regimes, would also increase tax revenue significantly. Debt-based borrowing mechanisms could include debt conversions or social impact bonds.

Finally, voluntary donations, including those derived from philanthropic organizations or suitably inclined high-net-worth individuals and the corporate social responsibility commitments of the private sector, may complement other sources of funding. Overall, these sources vary in terms of a number of criteria that should be taken into account for policy considerations, including the objectives of the financing sources, their time frame, whether they are earmarked, the level at which they would be raised, their overall sustainability and the political will to implement them.

Conclusion and action points

Several action points should be discussed by governments, social partners and other actors at national and international levels, including:

1. Increase domestic fiscal space, including by increasing revenue from taxes and social security contributions, with due respect to the links between tax, labour market, employment and enterprise formalization policies, in particular by fostering transitions from the informal to formal economy in the longer term.
2. Strengthen ODA by meeting previous commitments and using ODA to support national capacities to design and implement national social protection floors.
3. Hold international financial institutions (IFIs) accountable to their commitments to play a more significant role in securing the necessary fiscal space for social expenditure (IMF 2019), including by creating greater policy space for more accommodating macroeconomic frameworks.
4. Work at national, regional and global levels with all relevant actors, including IFIs, to increase financing for social protection through national and global solidarity. Policy decisions on financing should be informed by human rights obligations and international social security standards in order to ensure the adequacy of social protection and its sustainable, efficient and equitable financing (ILO 2017, 2019a).

The fourth action could include the temporary and partial financing of social protection benefits in developing countries through international financing mechanisms, prioritizing low-income countries. Consideration should also be given to how countries could be protected against future shocks, such as those emanating from climate change, humanitarian crises or health emergencies. The estimates presented in this brief provide a sound basis for initiating discussions on how to design such mechanisms.

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This issue brief has been prepared by Mira Bierbaum and Ian Orton and has benefitted from comments from the Social Protection Department Team.

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