



Financing Social Protection

Achieve the Sustainable Development Goals on Universal Social Protection through South-South and Triangular Cooperation

6–8 September 2016 – Beijing

Fiscal space exists even in the poorest countries

It is often argued that social protection is not affordable or that government expenditure cuts are inevitable during adjustment periods. In reality, there are alternatives even in the poorest countries. In fact, there is a wide variety of options to expand fiscal space and generate resources for social investments. The eight financing options described in this brief are supported by policy statements of the United Nations and international financial institutions.

Many governments around the world have been applying them for decades, showing a wide variety of revenue choices and creativity to address vital social investment gaps.

Eight financing options

1. Re-allocating public expenditures

This is the most orthodox approach, which includes assessing ongoing budget allocations through Public Expenditure Reviews (PERs) and other types of thematic budget analyses, replacing high-cost, low-impact investments with those with larger socio-economic impacts, eliminating spending inefficiencies and/or tackling corruption. For example, Egypt created an Economic Justice Unit in the Ministry of Finance to review expenditure priorities, while Costa Rica and Thailand shifted military spending to finance universal health services.

2. Increasing tax revenues

This is clearly the principal channel for generating resources, achieved by altering different types of tax rates—e.g. on consumption, corporate profits, financial activities, property, imports/exports, natural resources—or by strengthening the efficiency of tax collection methods and overall compliance. Many countries are increasing taxes for social investments, not only on consumption, which is generally regressive and counter to social progress and other areas. The Plurinational State of Bolivia, Mongolia and Zambia are financing universal pensions, child benefits and other schemes from mining and gas taxes; Ghana, Liberia and the Maldives have introduced taxes on tourism to support social programmes; and Brazil introduced a tax on financial transactions to expand coverage.

3. Expanding social security coverage and contributory revenues

Increasing coverage and therefore collection of contributions is a reliable way to finance social protection, freeing fiscal space for other social expenditures. Social protection benefits linked to employment-based contributions also encourage formalization of the informal economy. A remarkable example of this strategy can be found in Uruguay's Monotax. Argentina, Brazil, Tunisia and many others have demonstrated the possibility of broadening both coverage and contributions.

Examples of fiscal space strategies in selected countries

	Bolivia	Botswana	Brazil	Costa Rica	Lesotho	Iceland	Namibia	South Africa	Thailand
Re-allocating public expenditures				✓	✓	✓		✓	✓
Increasing tax revenues	✓	✓	✓		✓	✓	✓		✓
Expanding social security coverage and contributory revenues			✓	✓	✓		✓	✓	✓
Borrowing or restructuring debt	✓	✓	✓	✓	✓	✓		✓	✓
Eliminating illicit financial flows						✓			
Lobbying for increased aid and transfers							✓		
Using fiscal and central bank foreign exchange reserves	✓	✓	✓						
More accommodative macro framework	✓		✓						✓

4. Lobbying for increased aid and transfers

This requires either engaging with different donor governments or international organizations in order to ramp up North-South or South-South transfers. Despite being much smaller than traditional volumes of official development assistance (ODA), bilateral and regional South-South transfers can also support social investments and warrant attention.

5. Eliminating illicit financial flows

A large amount of resources – amounting to ten times of ODA – illegally disappears in developing countries each year. To date, little progress has been achieved, but policy-makers should devote greater attention to cracking down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes that are both illegal and deprive governments of revenues needed for social and economic development.

6. Using fiscal and central bank foreign exchange reserves

This includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for domestic and regional development. Chile, Norway and Venezuela, among others, are tapping into fiscal reserves for social investments.

7. Borrowing or restructuring existing debt

This involves active exploration of domestic and foreign borrowing options at a low cost, including concessional, following careful assessment of debt sustainability. South Africa

issued municipal bonds to finance basic services and urban infrastructure. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening deprivations of vulnerable groups is high. In recent years, more than 60 countries have successfully renegotiated debts, and more than 20 have defaulted or repudiated public debt, such as Ecuador, Iceland and Iraq, directing debt servicing savings to social programmes.

8. Adopting a more accommodative macroeconomic framework

This entails allowing for higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability. Many developing countries have used deficit spending and more accommodative macroeconomic frameworks during recessions and times of low growth to support socio-economic recovery.

National dialogue to expand fiscal space

National tripartite dialogue, with government, employers, workers, civil society, academia and development agencies, is fundamental to explore all possible fiscal space options in a country, assess potential risks and trade-offs and adopt the optimal mix of public policies for inclusive growth and social justice.

Learn more:

Fiscal space for social protection: Options to expand social investments in 187 Countries (ILO, 2015)

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