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The Global South's Social Protection Spending Gap

Social protection coverage levels are still far from universal…
Worldwide, less than 30% of vulnerable people have access to cash benefits (Fig. 1). Particularly in low income countries, where the level of coverage falls below 10% of the vulnerable population. In lower middle income countries only 15% is covered. Even in upper middle income countries (countries like Botswana, Egypt, Indonesia), only one-third of the vulnerable population has access to cash benefits.

… and this applies mostly to Africa and Asia and the Pacific
Two regions have been highlighted below (Fig. 2), these are Africa, which hosts most of the world's low income countries, and Asia and the Pacific, hosting the remaining few. These are the two regions with the lowest levels of coverage, worldwide. Children and persons with severe disabilities are among those who tend to be least covered.

Fig. 1: SDG indicator 1.3.1 on effective coverage for protection of vulnerable persons: Percentage of vulnerable persons receiving cash benefits (social assistance), by region, subregion and income level, 2020 or latest available year

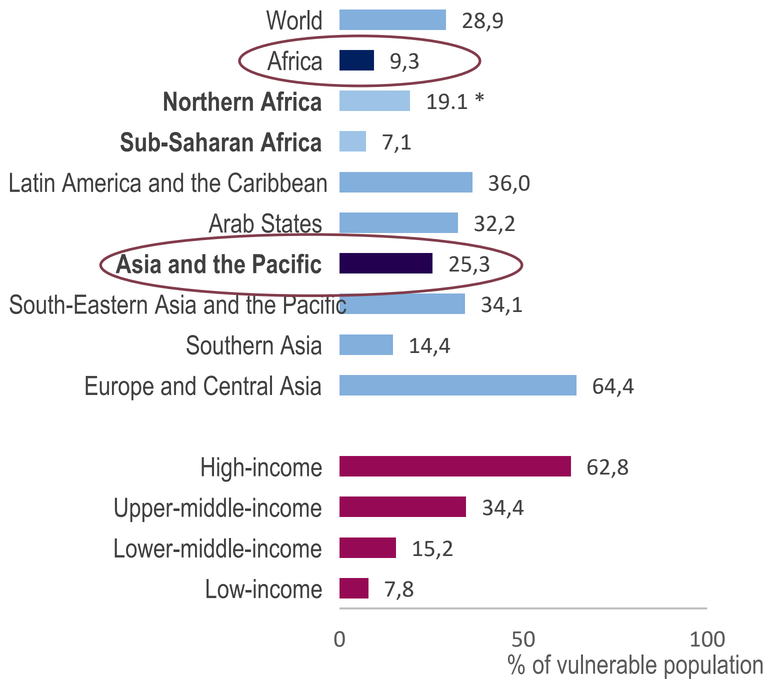
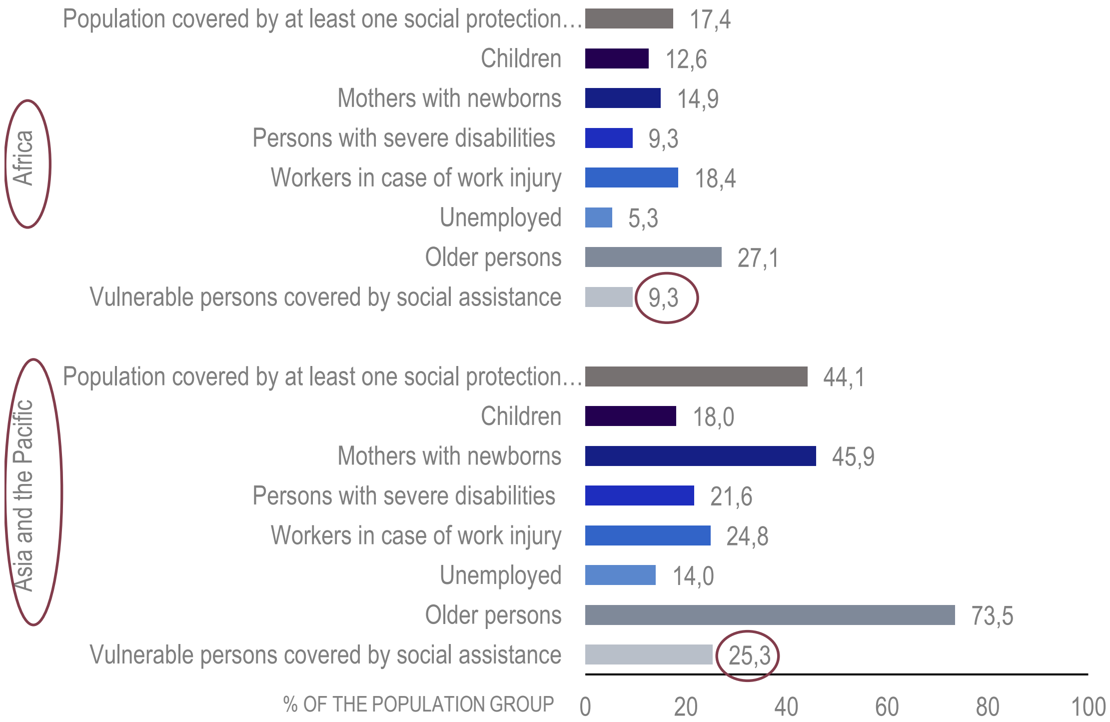


Fig. 2: SDG indicator 1.3.1: Effective social protection coverage, regional estimates (two selected regions), by population group, 2020 or latest available year

(Source of both figures: ILO, 2021a)



What do countries actually spend on social protection? …
The figure below (Fig. 3) shows the level of expenditure (measured as a share of GDP) on social protection, with a breakdown in cash benefits and health expenditure. The figure reveals that – on average – particularly, the low and lower middle income countries, currently, spend a very poor share of their GDP on social protection.

… and what do countries 'fail' to spend?
Figure 4, below, shows what countries should spend more than they currently do, to finance a very basic set of cash benefits – which could go for a social protection floor. The set comprises (i) a universal allowance for children, (ii) a maternity benefit, (iii) a universal pension for disabled persons, and (iv) a universal old age allowance. The figure reveals that the financing gap to establish this basic set of provisions is particularly high for low income countries – estimated at nearly 16% of their GDP (that is, 7.4ppts for cash benefits and 8.5ppts for health).

Fig. 3: Public social protection expenditure (excluding health), percentage of GDP, 2020 or latest available year, and **domestic general government health expenditure,** percentage of GDP, 2018, by country income level *(source: ILO, 2021a)*

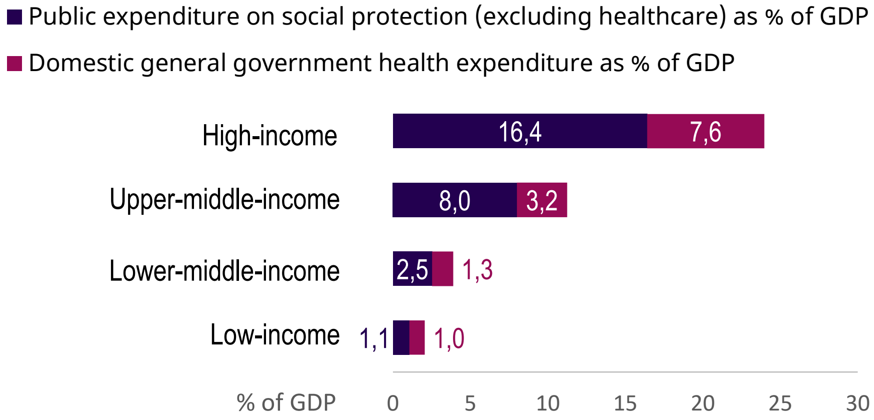
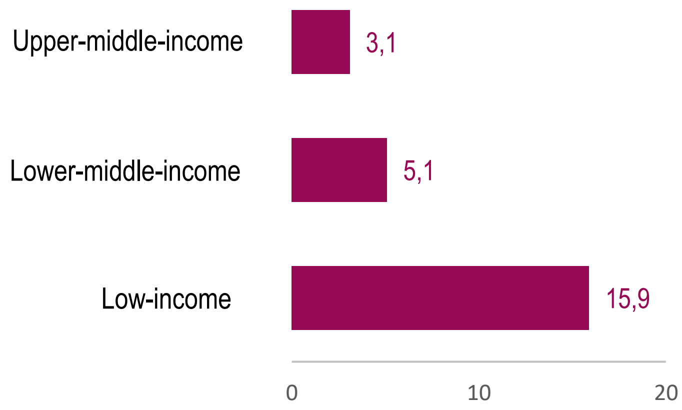


Fig. 4: Annual financing gap to be closed in order to achieve SDG targets 1.3 and 3.8, by country income level, 2020 (percentage of GDP)

(Source: ILO, 2021a; Durán-Valverde et al. 2020)



What can countries afford to spend? …
It has been estimated that low income countries have the potential to collect around 16% of their GDP in taxes or non-tax revenue. For lower middle income countries, this would lie around 26% (Manuel, 2022).

However, *actual* levels of domestic resource mobilization (tax ad non-tax revenues) currently fall short against this potential. Moreover, even when these countries would manage to increase their domestic revenue base, at least 20 low income countries still would not be able to afford 50% of the cost of a basic set of social protection provisions; few (e.g., Burundi, DRC, Chad, Malawi) would not even manage 20% of the cost of a minimal social protection floor (Manuel, 2022).

How can countries increase their domestic revenue base?
The literature (for example: Ortiz et al, 2019) lists eight areas for governments to mobilize 'fiscal space' for social protection financing, these are: (i) increasing government revenues, (ii) re-prioritizing or curtailing (other) government expenditure, (iii) tapping into foreign aid, (iv) restructuring public debt, (v) using fiscal and/or monetary reserves, (vi) eliminating 'illicit' financial flows, (vii) adopting more conducive macroeconomic policies, and (viii) increasing the share of contributory financing of social protection.

Increasing public revenues is an important avenue that could lead to enlarged fiscal space. There are four options here. The first is increasing tax rates, the second is widening the tax base, the third is enhancing compliance, and the fourth is to step up other (non-tax) revenues (for example, profits from state-owned enterprises or profits from so called sovereign wealth funds (e.g. Norwegian Statoil).

On the expenditure side, governments can either reprioritize existing programmes, or achieve savings when these existing programmes can be implemented in a more cost-effective manner. In other words: existing programmes can be terminated, scaled down or implemented at lower costs.

… and to what extend does current ODA help out?
In 2019, only 1.2% of total official development aid (ODA) went into social protection cash benefits. This is in stark contrast to the 19.4% which went into health and education. Hence there seems to be a clear mismatch: social protection, e.g. in the euro countries, is larger, in terms of budget, than education and health combined (McCord et al. 2021). Moreover, most of ODA resources are not channelled to the least income countries. In fact, (upper) middle income countries (the so called 'donor darlings') are receiving the lion's share of total ODA.
It has been estimated that around $30 billion would be needed to pay for a social protection floor for all low income countries. This is equivalent to 0.7% of Germany's GDP; 0.05% of GDP in the OECD.

What are examples of domestic financing of social protection?

- Brasil has implemented a financial transactions tax (1997-2007), out of which 42% was used to establish universal health insurance, and 21% for the Bolsa Familia cash benefit programme. In 2007, the total revenue of this tax was 1.4% of GDP – sufficient to finance social assistance.
- Bolivia, in 2006, was successful in re-negotiating the terms of its oil and gas contracts which allowed government to fully finance universal cash allowance programmes for children and elderly.
- Ghana, invests 20% of the receipts from VAT (2.5ppts out of 12.5% VAT) in a *ringfenced* fund financing health insurance.
- Philippines, have introduced a Sin Tax Law in 2015, with a 1% of GDP revenue which allows for financing access to health insurance for the 40% poorest families and social insurance for senior citizens.
- Jordan, Egypt and Pakistan are among countries who have recently successfully switched from subsidizing utilities (energy) to social safety net programmes.

Footnote: this is not an exhaustive listing of successful examples.
Source: World Bank (2020)

Which lessons can we learn from the Covid-19 crisis? …

During the second half of 2020 and first half of 2021, 222 countries implemented 3,333 measures to shield their citizens from the financial consequences of the pandemic. Coverage of social assistance programmes has significantly increased during the pandemic. Often, existing national programmes were adjusted or expanded. Over 1.3 billion people, or 17% of the global population, had received at least one COVID-related cash transfer by May 2021 (ILO, 2021b). However, most measures were of short duration. Less than 10% of cash transfer measures were extended after their initial period despite the protracted nature of the crisis (ILO, 2021b).

As ILO, OECD and World Bank argue in their joint paper: “The Covid-19 pandemic has underlined, once again, the fundamental importance of social protection as a social, economic and political stabiliser” (ILO, 2021b). At the same time, the crisis has shown that countries with established social protection infrastructures have been able to use these to rapidly and effectively roll out measures to large populations.

Informal workers and their families are extremely exposed

Generally, workers in the informal sector are ‘not poor enough’, and therefore risk to be excluded both from social insurance and social assistance (ILO, 2021b). At the same time, inclusion of informal sector workers within social insurance schemes will help to mobilize fiscal space (both as a *numerator* and *denominator* effect) and is therefore crucial as a component for financing social protection.

Solving this is not just a matter of reaching out to informal workers (see next paragraph), but also of re-thinking the design of social protection schemes to respond more to the needs of an increasingly large proportion of workers engaged in irregular, unstable, forms of labour (Cunha and Knox, 2022). This could also include the strengthening of linkages between (passive) benefit schemes and active labour market measures (training programmes, workfare etc).

… and can we apply these in the short to medium term?

The challenge is now to keep the momentum. This is a challenge in particular in a time when governments, particularly in the Global South, face extremely narrow fiscal windows and have far less space to resort to deficit financing than, for example, the advanced industrialized countries, as the much smaller increases in average fiscal deficits in the aforementioned countries illustrate (fiscal deficits increased from 4.0% of GDP to 5.7% of GDP from 2019 to 2020, for example – vis-à-vis from 3.3% to 13.3% in advanced countries; ILO, 2021b).

And the challenge is exacerbated by the fact that the Covid-19 crisis has almost seamlessly been succeeded by the global inflation crisis following the Russian assault on Ukraine. The hike in prices for basic necessities (essentially, food and utilities) on a worldwide scale calls upon governments to again implement measures to protect the poor and vulnerable, and the ‘missing middle’ group as well. Eruptions of social discontent, like in Suriname last month, expose the extremely narrow margins for many governments in the Global South to act.

Countries apply innovative tools to reach informal workers

The Covid-19 crisis has demonstrated that some countries have been extremely creative in leveraging identification mechanisms to reach vast populations including informal sector workers. Namibia, for example, managed to disburse cash transfers to almost its entire population within one month after the onset of the crisis (ILO, 2021b). Combining registrations, using on-line applications, e-wallets, and validating with other databases are among the tools that were successfully applied in a large set of countries (incl. Brazil, Indonesia, Equador, Guatemala, Thailand, South Africa, Morocco) to cater for informal sector workers and their families (ILO, 2021b).

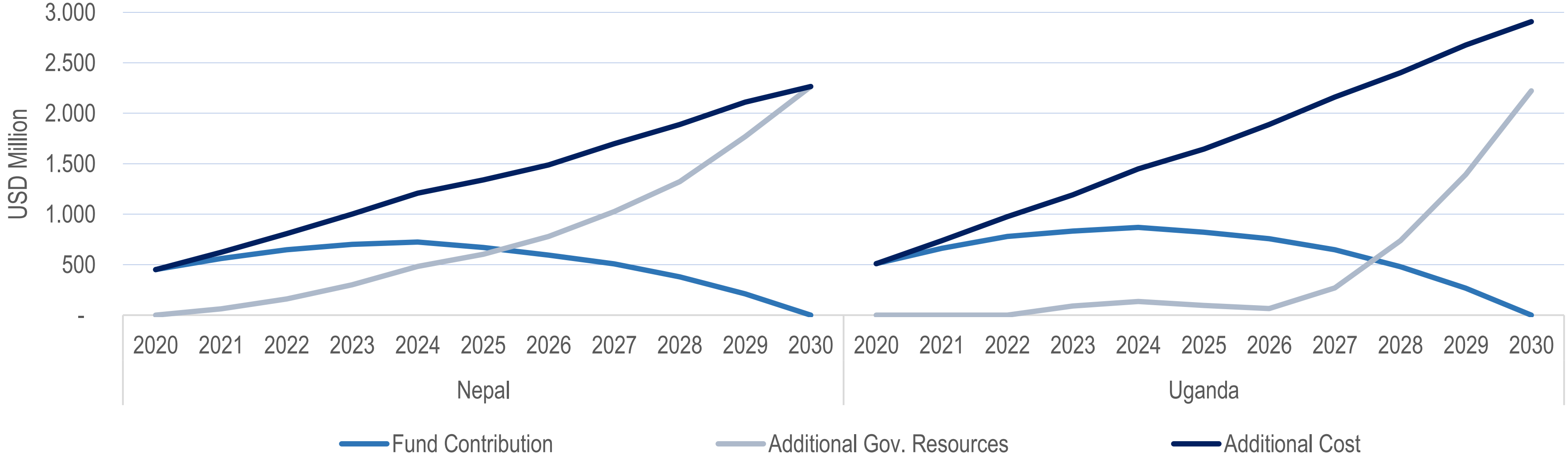
Overcoming the Gap: a Global Fund for Social Protection?

Since the turning of the century the need and feasibility of a Global Fund for Social Protection or a similar global financing mechanism has been discussed in the international arena. Important questions in this respect are: what would such a fund cost, and should it be there forever?

The Friedrich-Ebert-Stiftung commissioned a study, entitled 'Global Solidarity Funding for Social Protection – Two Country Case Studies' (Nimeh et al. 2022), exploring (i) the cost of the Global Fund, (ii) its potential redistributive impact, (iii) its potential for countries to achieve SDGs 1.3 and 3.8, and (iv) its effect on the resilience of countries for future crises.

Fig. 5 (below) shows the findings of a macro-micro modelling exercise for two low income countries (LICs): **Nepal** and **Uganda**. The (dark) line in top expresses the increasing costs of rolling out a package of social protection measures that would effectively close the poverty gap – that is, to bring all individuals and families to a level of income equivalent to the poverty line. The (light) line, starting from the bottom-left, shows the amount of resources which the government of Nepal, resp. Uganda, could potentially mobilize themselves. Obviously, this will take time, as increasing fiscal space is a gradual process. The line in the middle, therefore, shows the contribution ('frontloading') from the Global Fund – peaking in the, say, fourth year – which would allow the two countries to get started with their reforms and prepare to meet SDG 1.3 and 3.8 by 2030.

Fig. 5: Closing the Financing Gap with a Social Fund, 2020-2030 – a simulation of costs and financing for Nepal and Uganda.
The graph shows the Fund's contribution (Light Blue Line) In relation with newly mobilized domestic resources (Grey Line) and total cost (Dark Blue Line)
Source: Nimeh et al., UNU-MERIT and Friedrich Ebert Stiftung (2022).



One main finding from the above study is that the Global Fund could facilitate a gradual transitioning, from international support to domestic financing of social protection, while at the same time setting LICs on a firm track towards achieving the SDGs by 2030.

What are the conditions for such an initiative to succeed?

'Poor governance makes poor people.'
Social protection systems in many low and middle income countries (and to some extent in high income countries too) are hampered by administrative and implementational flaws, including: fragmentation, overlaps in target groups, coordination failures between various administrations, 'programme orphanage', inefficiencies in delivery, etc.

Therefore, it is important for international financial aid to set stringent conditions, to ensure that the aid is used effectively and efficiently.
The list of conditions, below, is by no means exhaustive, but it may be a start of a dialogue between the North and South on the principles of good governance to go hand-in-hand with social protection financing:

- eliminate fragmentation and administrative inefficiencies ("we can afford social protection but we cannot afford waste")[#];
- improve policy, system and programmatic coordination within government (ministries and social protection administrations);
- enhance domestic tax and contribution collection capacities;
- vest social protection programmes firmly in legislation, so that people can claim their rightful share without being dependent on ever-changing political sentiments;
- institutionalize independent oversight ('checks and balances');
- invest in social dialogue – historic examples (including in advanced countries) have taught that social protection reform measures risks less to be rolled back if the direction of reform is shared broadly among stakeholders within the country;
- the financing strategy should meet national ownership; explore *Integrated National Financing Frameworks* as potential option;
- establish a roadmap towards achieving financial sustainability, with milestones that are formulated in a SMART way; define the right KPIs and make sure to monitor them periodically;
- make financing available in tranches (similar to what IMF does): each subsequent tranche shall be released conditional upon the country showing progress upon the agreed roadmap.

To what extent is there a 'One size fits all' financing mix?

Simple: there is no one-size fits all; no blueprint lying on the shelve!

Contributory financing (social insurance) is more suitable for countries with a large formal sector. Countries with large informal sectors cannot really rely on social insurance – maybe as a long-term financing strategy, but not for the short to medium term.
The same applies for financing social protection out of direct taxes. This is less suitable for countries with a large informal sector, which often corresponds to a weak tax collection capacity.
Therefore, low- and middle-income countries tend to rely more on indirect taxes and non-tax revenues, such as proceeds (profits) from public enterprises and natural resources.

There is a large degree of *path dependency*. Historic institutions and practices to a large extent shape possible future directions. Countries with well-established and efficiently operating social insurance infrastructures (for example, Egypt, Mongolia, Indonesia) may do well to use these as carriers for further expansion of social protection to currently non-covered categories of the population – e.g. informal sector workers and their dependants (Van de Meerendonk, 2021).

For countries where this condition of a well-established social insurance framework is not met, a non-contributory financing strategy may be more suitable. Many low-income countries find that indirect taxes, including 'sin taxes', and non-tax revenues (e.g. proceeds from the exploitation of natural resources) are relatively efficient and easily accessible options for financing their social protection needs (Van de Meerendonk, 2021).

[#]: *paraphrasing Michael Cichon†.*

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Note: this paper has addressed several of the questions raised in the Outline document if the Committee, with a focus on the questions under A4, B1, B2 and B5. Other questions, of course, may be addressed at the Hearing.

Arthur van de Meerendonk, Heerewaarden, Netherlands, 22 March 2023