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T7 Task Force Strengthening social cohesion

POLICY BRIEF

POLICY AND FISCAL SPACE FOR UNIVERSAL SOCIAL PROTECTION

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Abstract

The authors suggest a simple, feasible, pragmatic and affordable global strategy to support the attainment of social protection for all as a central means to combat poverty, inequality, insecurity and ill health.¹ It consists of mainly two elements:

- Strengthening the implementation of existing social protection standards and notably establishing a new international standard of universal social protection floors or universal social protection to extend the policy space for social protection on the national level. Such a new convention on social protection could act as a catalyst for the formation of national will and the consequential allocation of national resources to social protection.
- pivotal, targeted financial support for the temporary extension of national fiscal space for social protection in the poorest countries through a Global Fund for Social Protection or a similar financing facility. A Global Fund or financing facility could provide supplementary but reliable and earmarked institutional and financial support for a small group of countries which cannot afford to finance their basic social protection systems alone.

Challenge

The current global health crisis is an opportune moment for the global community to set a new social protection strategy that addresses major systemic social imbalances in the world. Before the COVID-19 pandemic, the large majority of the global population, 55 percent or 4 billion people were without any form of social protection (SP) whatsoever, and 16 percent more—1.2 billion people—enjoyed only partial protection. Only one in three children (35 per cent) benefited from child allowances enabling them to receive childcare, nutrition, and education². Due to the global pandemic, these indicators have been worsening and are continuing to worsen.

Well-functioning, rationally designed and financed SP systems are powerful and fast-acting tools against the social fall-out of four of the main plagues of human societies, namely poverty, inequality, insecurity and avoidable ill health. During the last two years of the pandemic, national emergency programs have sought to stabilize production inter alia through emergency equity injections, loans and debt guarantees and other structural support for specific sectors³. About 93 per cent of all countries have adopted SP measures to cope with the social consequences of the crisis. Many of these were ad hoc measures that had to be adopted because regular SP schemes were not in place⁴. Compared to established systems (that simply need to be expanded in times of crises), the effectiveness and efficiency as well as sustainability of such ad hoc measures has to be considered limited. Introducing SP systems before a crisis hits is thus an important element of national crisis preparedness.

In 2012 all member states of the International Labour Organization (ILO) adopted Recommendation 202, committing themselves to make a basic level of social protection (the social protection floor, SPF) available to all and thus has succeeded to raise the awareness of the role and affordability of SP in most countries. But as a recommendation, it cannot be ratified by countries and outlines ambitions rather than binding obligations. Member states are not obliged to directly include its content and principles into national legislation. A recommendation can easily be shelved and forgotten. What is missing for a concrete move from ambition and advice to action is the translation of global goals into realistic national action under the umbrella of politically powerful international standards for SP. A new convention will create policy space that civil society and other interested parties can use to convince governments and parliaments to act on internationally accepted and recommended levels of SP, and thus provides a political shield for national efforts to create political will.

Most countries can afford to finance a national social protection floor by their own means, i.e. closing their SPF gap.⁵ Only a few, where the resources needed to close the protection gap are realistically out of reach for years to come, will probably need international support. Due to the high relative cost of effective SPF in relation to their current tax revenues, these countries require temporary co-financing by the international community, while they are pursuing all options to expand national fiscal space. What is missing at this stage is a dedicated financing facility that enables the global community of nations to systematically, consistently and sustainably support national efforts in poorer countries to reduce poverty, insecurity and inequality through social protection.

Proposals for global action

While employment policies are covered by a comprehensive and up-to-date umbrella convention and a number of detailed ILO standards⁶, the umbrella social security convention C.102—Social Security (Minimum Standards) Convention, 1952—does not directly demand universal and adequate poverty protection for all and hence does not encompass all elements of SP. There are 10 further ILO instruments on specific aspects of social security that the Organization considers up-to-date. Nine of them were issued between 1944 and 1988.

Hence, as a direct consequence of the last global crisis (i.e. the global financial crisis of 2007–08), the global community of nations decided in June 2012 that all countries should ensure that all people have access to at least a floor of social protection⁷. The members of the International Labour Organization adopted the Recommendation No. 202 on National Floors of Social Protection, to “ensure that all in need have access to essential health care and basic income security which together secure effective access to goods and services defined as necessary at the national level.”⁸ The recommendation also puts the floors of protection into the context of wider social security extension strategies that countries are required to adopt, and thus sets out a comprehensive “quasi-constitutional” framework for national SP systems that aspire to be based on the human right to social protection. With the adoption of the 17 Sustainable Development Goals in 2015, the international community reconfirmed its commitment to universal SP and full employment as a global objective, mainly through the goals 1, 3, 8 and notably the targets 1.3⁹, 3.8¹⁰ and 8.5¹¹.

Notwithstanding a global understanding and the general conviction that access to social security services prevent or alleviate poverty, vulnerability and social exclusion, ten years after the unanimous adoption of ILO Recommendation 202, the world still has not made enough progress for more than half of its population. It is therefore high time to take the Recommendation to the next level: a Convention. A globally adopted convention is a powerful orientation for the formulation of national policies. If a convention on SP existed, its ratification could be negotiated in national policy dialogue processes on SP in all countries with (coverage and/or financial) gaps in basic SP. The processes of negotiating national ratifications could be slow. It can take years of concrete analytical and legal work, as SP needs and gaps have to be identified, solutions to be developed and costed, laws need to be reviewed and necessary changes to be negotiated during that process. Regardless of their legislative outcomes these awareness-raising processes keep SP in the “front burner” of national policy debates and hence embody a value in themselves. Most champions of SP at the national and international level have very few instruments at their disposal to trigger positive developments in SP.

Standards of good, globally accepted and negotiated practice – and that is what ILO Conventions are in effect – are one such instrument. After the adoption of a convention all national SP policies would also be subject to the ILO supervisory mechanism, which would require all ILO member states to report at regular intervals on why they either cannot ratify the convention or in which way they comply with the convention. This would ascertain that universal SP would remain on the national policy agendas and hence that it would not easily drop of the development agenda completely during the years and decades to come.

Besides lack of political will, the other major impediment to a huge rollout of SPF around the globe is lack of fiscal space in many countries. As several studies have shown, most countries - especially lower and higher middle-income countries - can or will be able to afford to finance a national SPF by their own means, i.e. closing their Social Protection Floor gap.¹² The situation in low-income countries (LIC) though looks seriously different: in an ILO sample of 134 developing countries, LICs would have to increase their SP spending by a prohibitive additional 18.2 per cent of GDP on average to close their SPF gaps.¹³

Through an international financing mechanism, countries in need would be able to increase levels of funding devoted to SP over time. One such mechanism can be found in the concept of a solidarity-based Global Fund for Social Protection to support countries to design, implement and, in specific cases, finance national floors of SP. According to preliminary estimates¹⁴, there are presently only about 10–12 low-income countries which would have to spend more than ten per cent of their GDP to close their SPF gap. If such a Fund were to help on a transitional basis to close the gap in these countries by covering 50 per cent of the costs to complete a SPF, then the estimated global annual cost would be in the order of US\$10–15 billion. Supporting only the poorest five countries with 50 per cent of the cost of the SPF would amount to roughly US\$2–3 billion. Once the first generation of supported countries graduates out of financial assistance, the next generation of countries in need could be brought in.

The Fund could be financed from a combination of different sources. Some options are additional or reallocated development aid from industrialized countries, new earmarked global¹⁵, international or national sources, domestic economic development¹⁶, other transfers from charitable organizations, enterprises or regular solidarity contributions from individuals. Additionally or complementarily, countries could seek financial support from development banks and the IMF (e.g. by new Special Drawing Rights). The core challenge for the support of national SPF initiatives in recipient countries—which distinguishes it from most other development projects—is that it must rely on a very substantial level of stable and reliable resources for a number of years that may exceed the capacity of a single donor. Financial commitments for a country support during—say—ten years cannot be subjected to variations in ODA that has shown considerable variation over the years¹⁷.

The core mandate of the Fund should not only include the provision of temporary and tapering-off co-financing of SPF benefits¹⁸, but also provide technical support to introduce or complete SPF and to further develop countries' ability to operate national SP systems effectively and efficiently.¹⁹

Regarding the governance structure for a said Fund, the principle of country ownership must be strictly adhered to. The decision as to what kind of SP programs are to be implemented must remain the responsibility of the parliaments and governments of the recipient countries, and - wherever possible - existing structures in the country should be used for the administrative implementation of these programmes. The Fund could be governed by an independent Board. Since 2012, international agencies (including UNDP, the World Bank, ILO and WHO) and major national donors are cooperating under the umbrella of the Social Protection Inter-Agency Cooperation Board (SPIAC-B). The SPIAC-B also includes civil society representatives. After some fine-tuning with respect to fair stakeholder participation and legitimation, this interagency body could be used as a board or governing body for the fund. The administration should be carried out by a technical secretariat which could for example be hosted by the ILO.

Implementations

As group of the seven leading democratic economic powers, the G7 has the opportunity to send out the necessary strong signals to the rest of the world in view of the existing crises. Under the German presidency, the G7 is expected to present connectable concepts and solutions in order to comply with its major goal to achieve “Progress towards an equitable world.” The pandemic has illustrated in its most painful way that we still are far from being “One World.” Despite alleged progress over recent decades, most development indicators point to a simple fact. The world remains a pretty miserable place for at least half of its population.

The take-away from the COVID-19 pandemic, which caught countries off-guard without exception, is clear. For far too long we had not acknowledged that SP is much more an investment than a cost. And that far too little had been invested in SP over the last decades. It is estimated that 100 million more people are living on less than US\$1.90 a day because of the pandemic, increasing the global poverty rate from 7.8 to 9.1 percent²⁰.

The G7 is the appropriate forum to initiate new models of cooperation to address global challenges, and to follow up with further engagement on G20 and UN level. In view of the ongoing pandemic, the major systemic social imbalances in the world have to be addressed and efforts to fight poverty, inequality, insecurity and avoidable ill health need to be stepped up. In this sense, it is especially the developed part of our world that is challenged to take the lead and provide the necessary impetus.

The G7 should support and facilitate all national and international collaborative efforts **to enhance investments in establishing floors of social protection** and capacity building in countries whose economic and financial situation renders a minimum level of SP unachievable by their own means in the foreseeable future. To that extent the G7 could declare to set up a global financing facility – such as a Global Fund - which will co-finance national SPF. A Fund that will be governed by the principles of participation, accountability, transparency and country ownership. If only channeled to the ten neediest countries that would need more than 10 per cent of their GDP to guarantee basic SP to all²¹, a said Fund would help to directly lift about 130 million people out of abject poverty and social insecurity.

In combination with technical assistance and effective employment policies – as proposed by the newly presented **UN Accelerator for Jobs and Social Protection** – this will provide a pathway to tackle poverty, vulnerability and inequality, and can lead to the establishment of nationally financed SP systems (not just its floors) within a medium-term timeframe. *“The Accelerator will aim to create at least 400 million jobs [...] and extend social protection floors to the people currently not covered by any social protection measure (about 4 billion men, women and children) by 2030, with a focus on [...] developing states, and countries in fragile situations.”*²² It will therefore be of special importance for the G7 to strategically support the ILO and UNDP in their endeavor to implement the Accelerator, as well as to make sure it includes financing mechanisms – such as the proposed Global Fund - that pool the international financial resources made available for the extension of SP systems in low-income countries.

Last but not least, the G7 should take a concrete and decisive step forward and support all international solidarity efforts **to set effective international standards** and goals for the achievement of universal social protection, such as the presented, new ILO or UN Convention on Social Protection Floors.

Endnotes

¹ This brief for discussion is largely based on a number of recent briefing notes edited by the Global Coalition for Social Protections Floors (GCSPF, <http://www.socialprotectionfloorscoalition.org/>) and papers, such as Cichon and Lanz (2022).

² See ILO (2017)

³ See OECD (2021).

⁴ See ILO and World Social Protection Data Dashboard: <https://www.social-protection.org/gimi/ShowWiki.action?id=3417>

⁵ See e.g. Durán-Valverde et al. (2020); Bierbaum et al. (2020); Sri Wening Handayani (2018).

⁶ The ILO has adopted 14 standards on employment policy and promotion. Among them the umbrella convention C.122—Employment Policy Convention, 1964 (No. 122) —that was later detailed out by the Recommendation R.169—Employment Policy (Supplementary Provisions) Recommendation, 1984 (No. 169).

⁷ National social protection floors should comprise at least the following four social security guarantees, as defined at the national level: 1) access to essential health care, including maternity care; 2) basic income security for children, providing access to nutrition, education, care and any other necessary goods and services; 3) basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; 4) basic income security for older persons

⁸ See ILO (2012).

⁹ Target 1.3: “implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable”.

¹⁰ Target 3.8: “achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all”.

¹¹ Target 8.5: “achieve full and productive employment and decent work for all women and men”.

¹² See e.g. Durán-Valverde et al. (2020); Bierbaum et al. (2020); Sri Wening Handayani (2018).

¹³ According to Durán-Valverde et al. (2020) it would require US\$ 2.5 trillion annually (global financial gap) to provide a floor of social protection in low- and middle-income countries. However, only about 3.7 per cent of that amount is allocated to low-income countries, i.e. about US\$ 90 billion annually (LIC financial gap).

¹⁴ Own calculations based on Bierbaum et al. (2020).

¹⁵ Gianluca Grimalda (2022) suggests half of “the recently agreed upon global minimum corporate tax” to be dedicated to the establishment of a similar Fund.

¹⁶ See ITUC (2021).

¹⁷ See Ahmad (2020).

¹⁸ In cases where low-income countries would require a prohibitively high share of their current total tax revenue to introduce such benefits or where these countries face sudden spikes in demand for social protection due to economic, fiscal, political or climate related crises.

¹⁹ This includes supporting governments in devising options for domestic resource mobilisation, and mechanisms to identify, protect and enhance national fiscal space for social spending.

²⁰ See Mahler et al. (2021)

²¹ According to Bierbaum, M. et al. (2020) these are: Benin, Togo, Niger, Guinea-Bissau, Malawi, Mozambique, Madagascar, Congo (Dem. Rep.), Burundi, Central African Republic.

²² See UN (2021).

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