

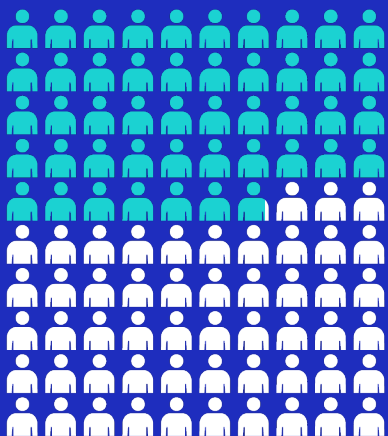
## ▶ Evolving Global and Regional Priorities on Social Protection - A view from ILO

Asian Development Bank, Manila – 28th Sept 2023

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Director, ILO Social Protection Department, Geneva



# The state of social protection worldwide: *Progress made, but not enough and complicated by multiple challenges*



# 46.9%

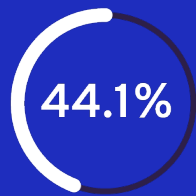
of the global population are effectively covered by at least one social protection benefit (SDG 1.3)



Europe and  
Central Asia



Americas



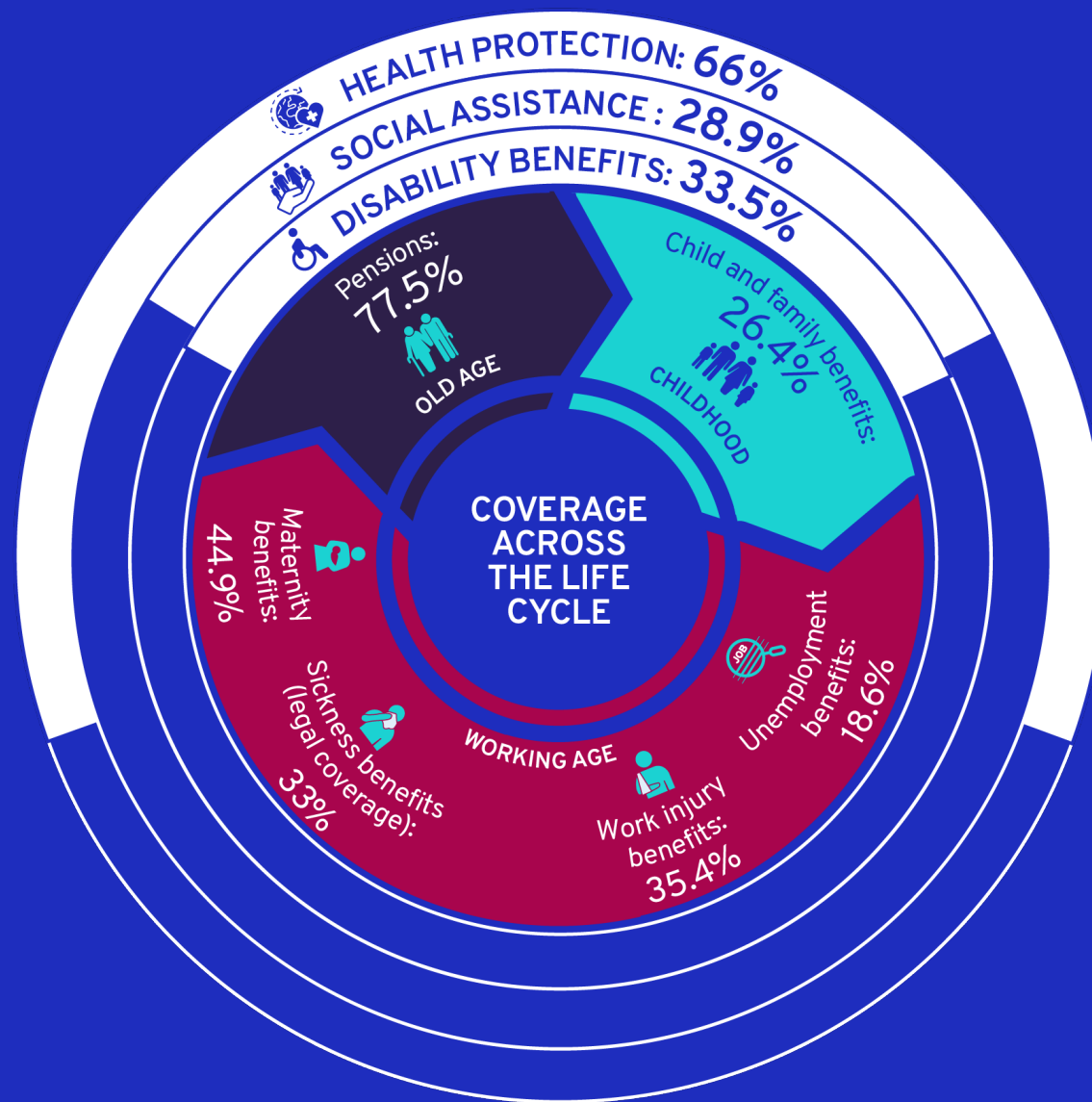
Asia and  
the Pacific



Arab States



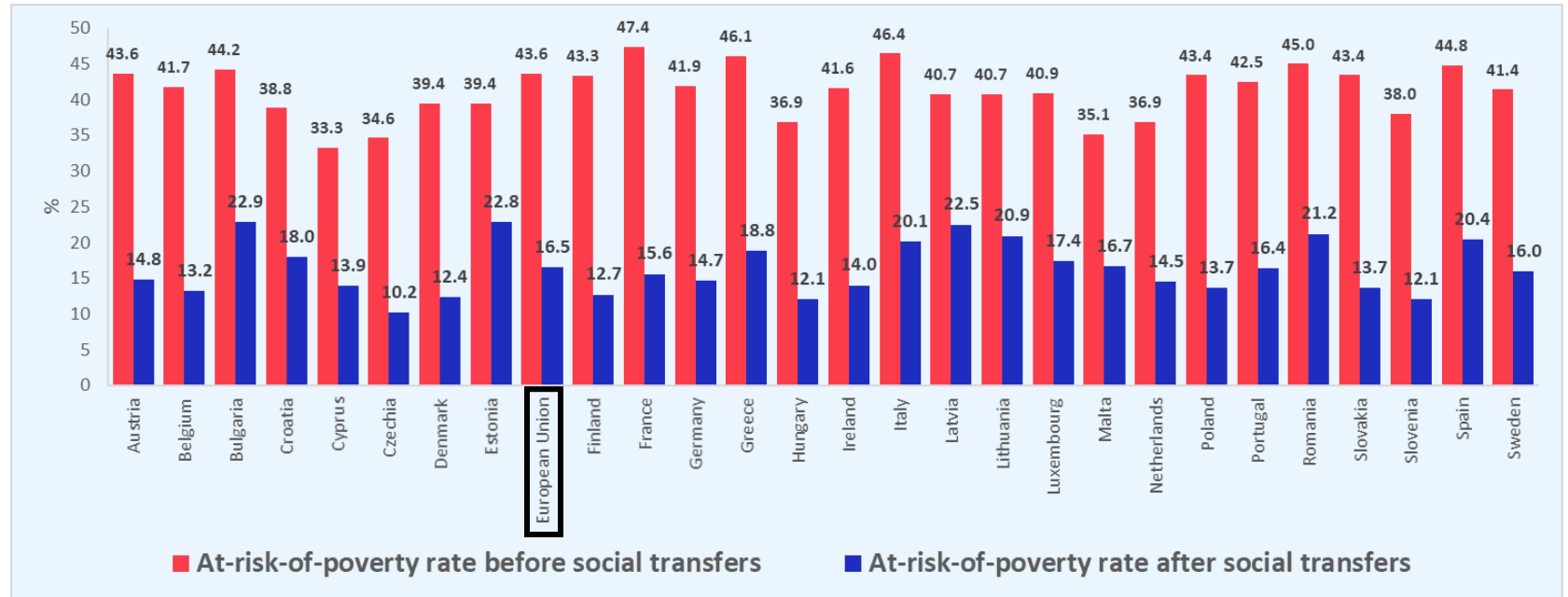
Africa



# Social protection is key for preventing poverty and improving and maintaining living standards

- ▶ Increasing poverty and inequality damages lives, undermines the social contract and social peace.
- ▶ **Higher social protection expenditure** is associated with **lower poverty**
- ▶ In European countries it reduces people's poverty risk of **62.2 per cent**.

At-risk-of poverty rate in the total population before and after all social transfers and taxes in the European countries, 2022

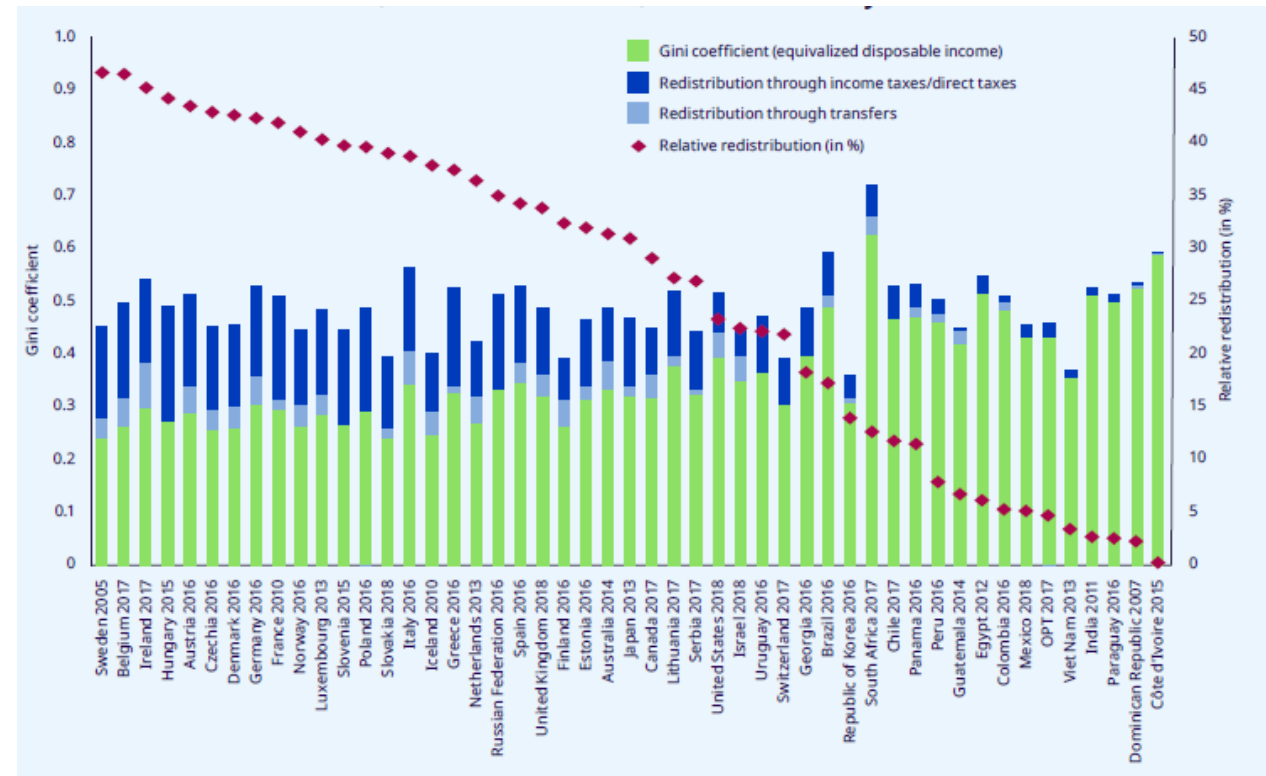


Source: Eurostat, 2023.

## Social protection contains inequality and supports growth

- ▶ Social protection can **significantly reduce inequality** through redistributive effects
- ▶ Many European countries **reduce inequality by more than a third** through the combined effects of taxes and transfers.
- ▶ Countries with less developed social protection systems achieve a much smaller reduction in inequality

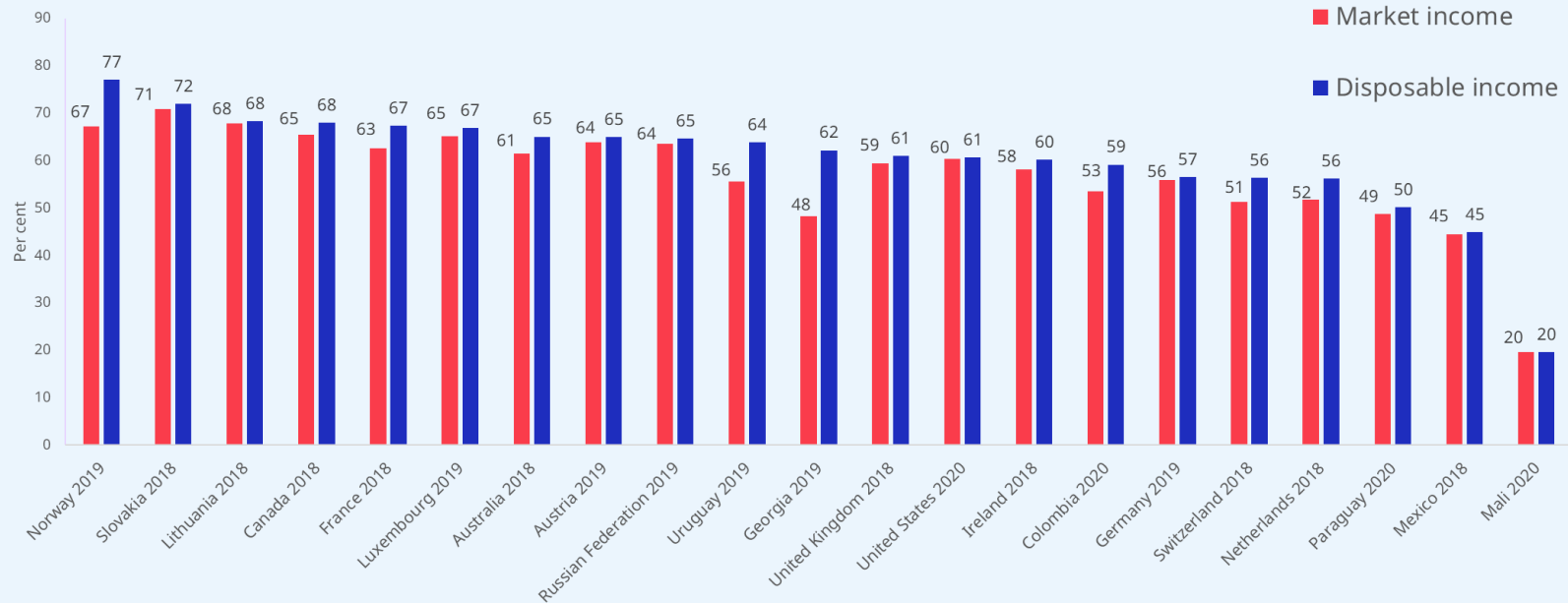
Reduction of inequality (Gini coefficient) through social security transfers and taxes, selected countries, latest available year



Source: ILO World Social Protection Report 2020-2022.

## ► Social protection also makes an important contribution to reducing gender inequality and growth

Average women's personal income as a percentage of average men's before transfers (market income) and after transfers (disposable income), persons aged 25+ years, 2018-2020



- This can also make a contribution to gender equality
- Social protection investment is a **precondition for economic growth**
- Social protection has a **powerful multiplier effect**
- Countries don't invest in social protection once they have developed; **they invest in it in order to develop and grow!**

Source: Razavi and Cattaneo, forthcoming.

## Countries must take the high road' towards universal social protection ... how?

- ▶ Building rights-based systems requires overcoming problems: **fragmentation, exclusion, and unsustainability**
- ▶ Countries need to pursue a “high-road” strategy of investments in universal social protection systems
- ▶ And follow the critical principles contained in **international social security standards to:**
  - ▶ **Be universal** and accessible to all
  - ▶ **Provide adequate benefits** to ensure decent living standards
  - ▶ **Be comprehensive;** covering the full range of risks
  - ▶ **Be predictable**
  - ▶ **Be participatory**
  - ▶ **Be sustainable and equitably financed** (solidarity)
  - ▶ **Be rights-based and inclusive, and**
  - ▶ **Support decent work**

Advancing social justice, promoting decent work

### Neglecting social protection systems through:

-  Underinvestment
-  Austerity and undue fiscal consolidation
-  Minimal benefits insufficient to ensure a dignified life
-  Weak coordination with labour market, employment and other relevant policies
-  Persistent large coverage gaps in social protection

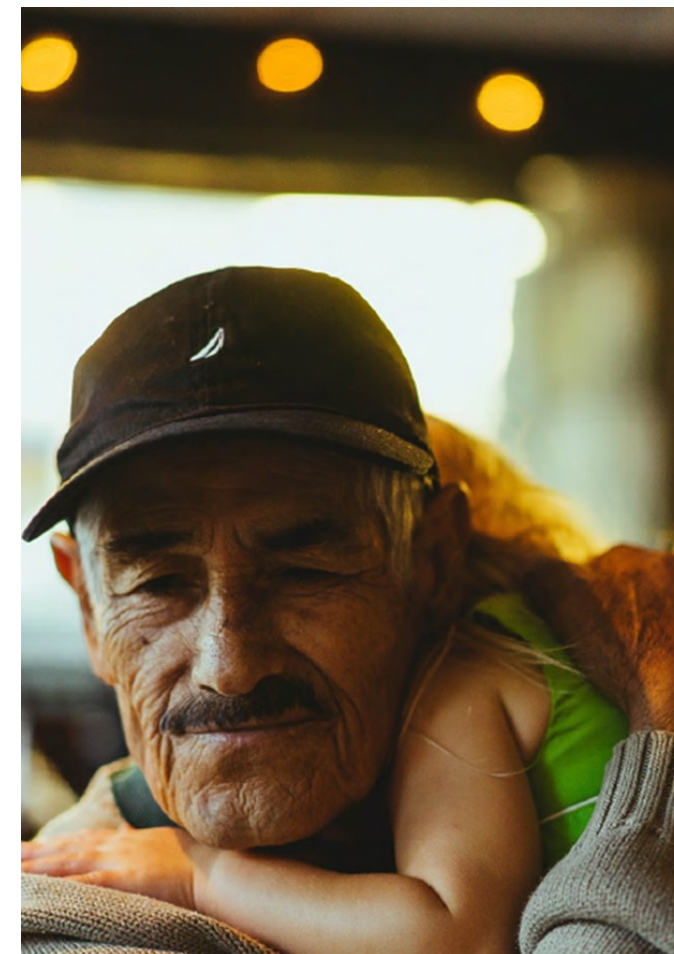
### HIGH ROAD

### Strengthening social protection systems requires:

-  Universal coverage
-  Adequate benefit levels
-  A comprehensive range of benefits
-  Sustainably financed systems
-  Provision that is rights-based and inclusive
-  Adaptation to developments in the world of work

## The need for integrated policies

- ▶ To achieve the SDGs and to close the large gaps in coverage and adequacy, **social protection policies need to be integrated with other policies.** Examples of policies that are integrated with social protection policies:
  - ▶ **Labour market formalization policies**
    - ▶ Prevent misclassification of employment relationships
    - ▶ Simplify the payment of contributions and taxes (Monotax) and ensure the portability of benefits
    - ▶ Strengthen incentives for affiliation through attractive benefit packages and/or temporary subsidies towards social security contributions for those with low incomes
    - ▶ Facilitate coverage of workers in temporary, part-time and self-employment
    - ▶ Facilitate coverage of workers in the platform economy
  - ▶ **Employment policies**
    - ▶ ALMPs
    - ▶ Life-long learning
  - ▶ **Care Policies**
    - ▶ Parental leave
    - ▶ Childcare and long-term care



# The need for integrated policies-country examples

- ▶ Monotax mechanisms are unified payment mechanisms for MSMEs. Introduced in **Argentina** (2004), **Brazil** (1996 and 2007), **Colombia** (2016), **Congo Democratic Republic** (2015), **Ecuador** (2008), **France** (2009), **Honduras** (2003) and **Uruguay** (2001)
- ▶ **Uruguay** made mandatory and simplified the registration of platform workers with tax and social security authorities
- ▶ **Indonesia** unified the health insurance scheme and included the possibility of affiliation for workers in the informal economy. The use of a mobile phone app improved accessibility — coverage increased from 50% to 80%
- ▶ **Mongolia** with the One-Stop-Shop initiative introduced a single delivery point for all social protection schemes. And the possibility to have services at the door step for older persons or herder who cannot leave their livestock
- ▶ **Mexico** reformed its Social Security law to offer the same rights to domestic workers as for any employee, including minimum wages and maternity leave
- ▶ The **Republic of Korea** has steadily expanded its child benefit to all children aged 0-8 to support caregivers with child-raising costs and care costs.
- ▶ **Singapore:**
  - ▶ Created a dedicated regulatory authority to ensure quality standards of early childhood programs, including continuous training and decent working conditions for childcare workers.
  - ▶ **Co-located senior care centres with childcare centres** to provide common spaces for interactions between seniors and children, and developed **Active Ageing Centres** to promote healthy ageing and independent living for as long as possible

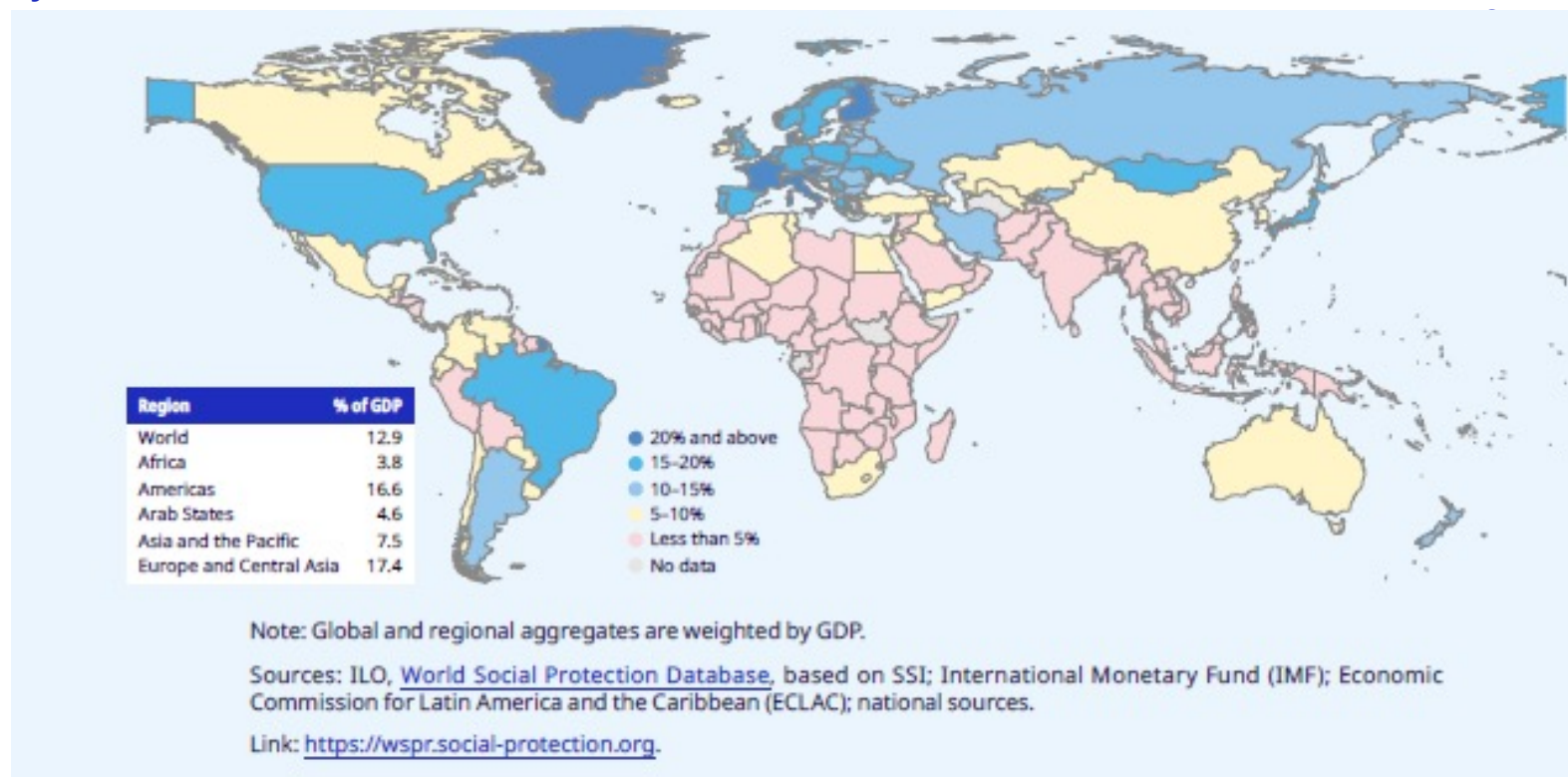


Mongolia, One Stop Shop  
Guide for citizens

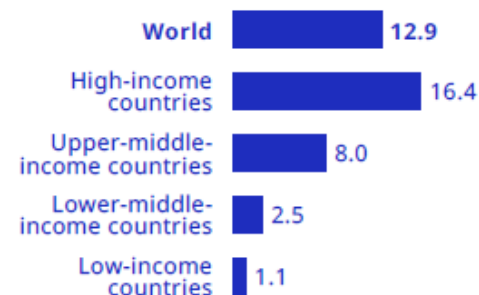


## Underinvestment in social protection

- ▶ Social protection coverage and adequacy gaps are associated with significant **underinvestment**, especially in low-income countries.
- ▶ The COVID-19 pandemic has underscored the stark gaps in social protection coverage and adequacy but also the systemic underinvestment in social protection



Public expenditure on social protection (excluding healthcare) as a % of GDP

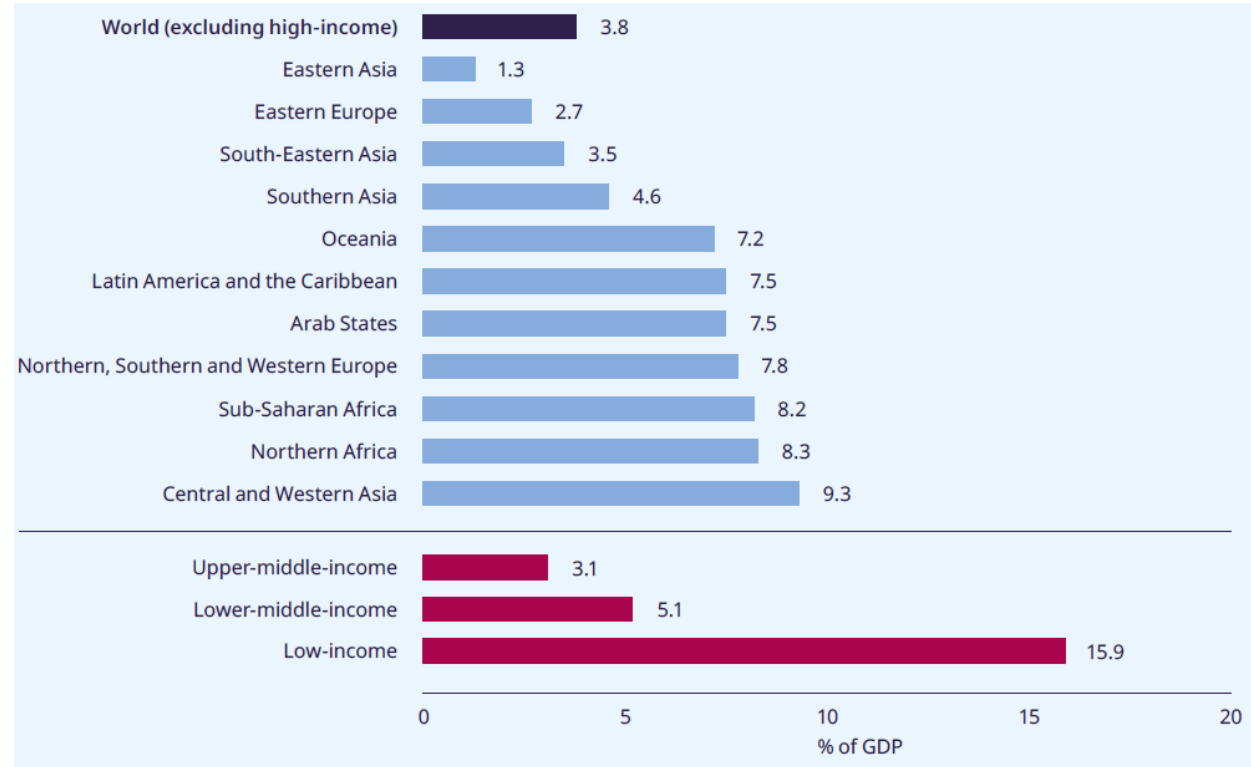


Source: ILO World Social Protection Report 2020-2022.

# Estimates to fill social protection financing gaps (ILO, 2020)

- Considering the impact of the pandemic, the ILO estimated the **fiscal effort needed to close the gap** of 4 billion people without social protection
- A Social Protection Floor composed of essential health and cash transfers for children, persons with disabilities, maternity, and old age was estimated
- Globally**, the effort required for developing countries is US\$ 1.2 trillion, equivalent to **3.8% of GDP** (of additional spending)
- Low-income countries require an additional US\$ 77.9 billion, equivalent to **15.9% of GDP**

Annual financing gap to be closed in order to achieve SDG targets 1.3 and 3.8, 2020



Source: ILO World Social Protection Report 2020-2022.

The financing gap has increased by approximately

**30%**

since the onset of the COVID-19 crisis

Lower-middle-income countries require an additional

**US\$362.9 billion**

5.1% of GDP

Upper-middle-income countries require an additional

**US\$750.8 billion**

3.1% of GDP

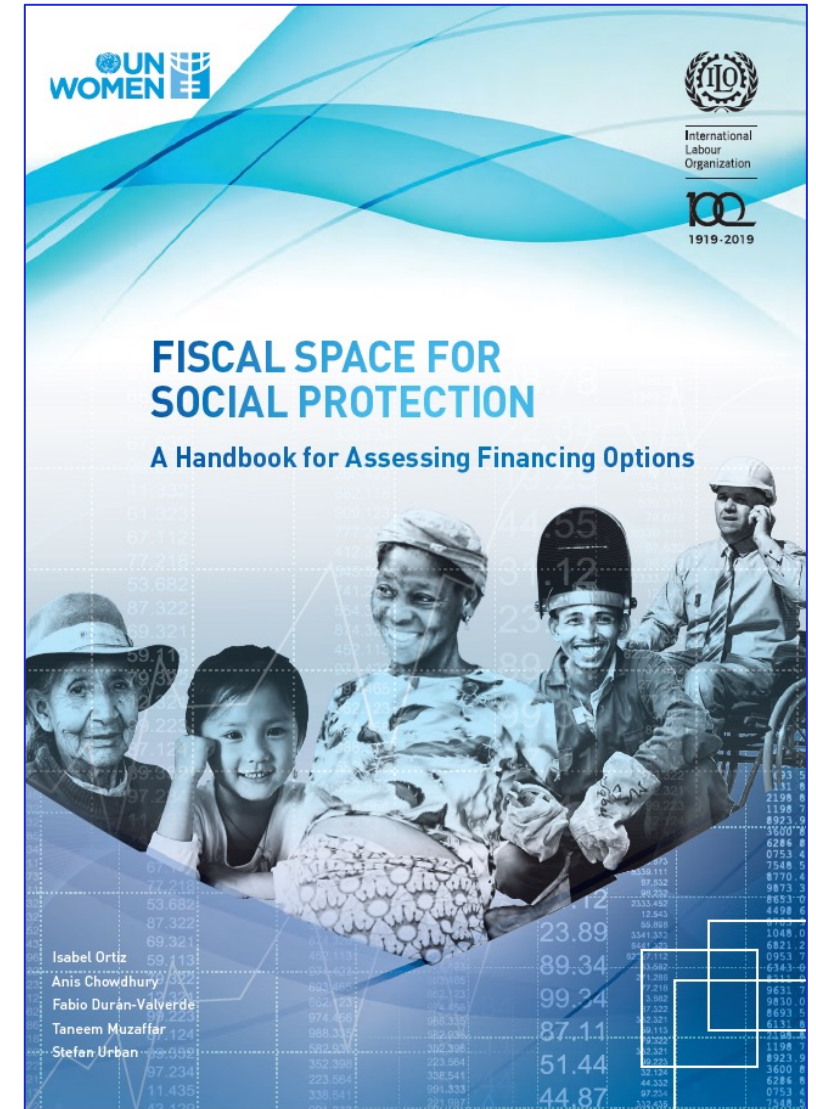
Low-income countries require an additional

**US\$77.9 billion**

15.9% of GDP

## ► Fiscal Space for Social Protection

- ▶▶ Fiscal space is defined as the resources available as a result of the active exploration and utilization of all possible revenue sources by a government. (ILO, UNICEF, UNWWomen, 2020)
- ▶▶ Fiscal space exists if a government can raise spending or lower taxes without endangering market access and putting debt sustainability at risk. (IMF, 2016)
- ▶▶ But concretely what are the main fiscal options for social protection?

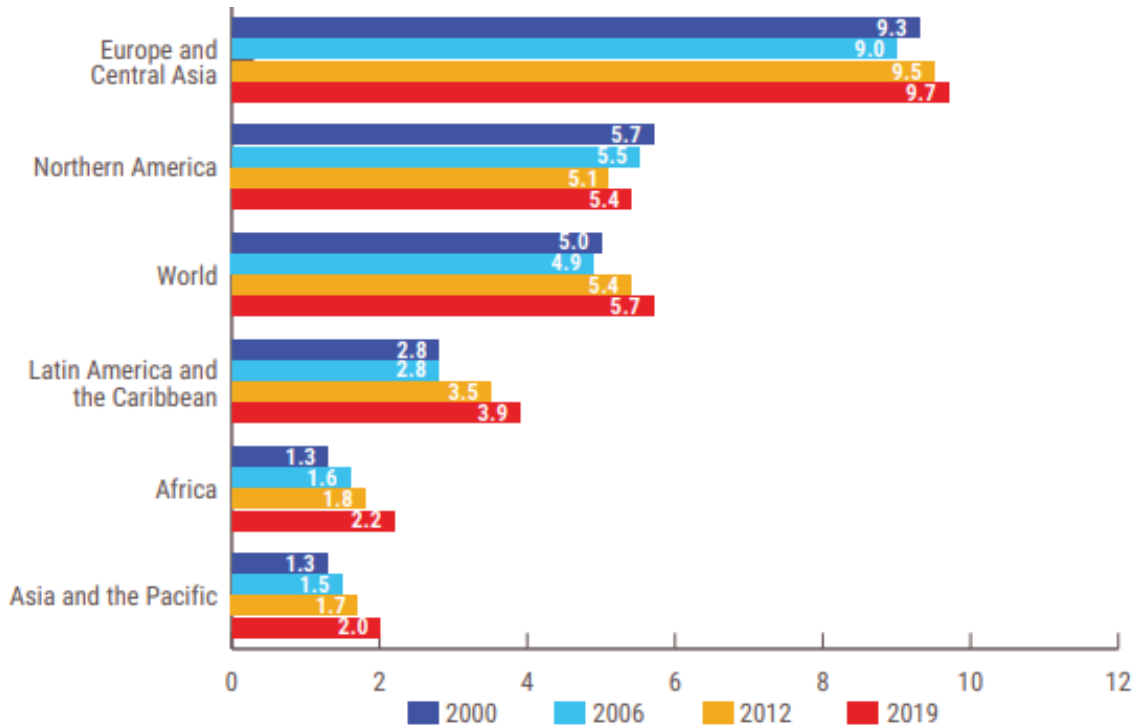


## ▶ Expanding social security coverage and contributory revenues

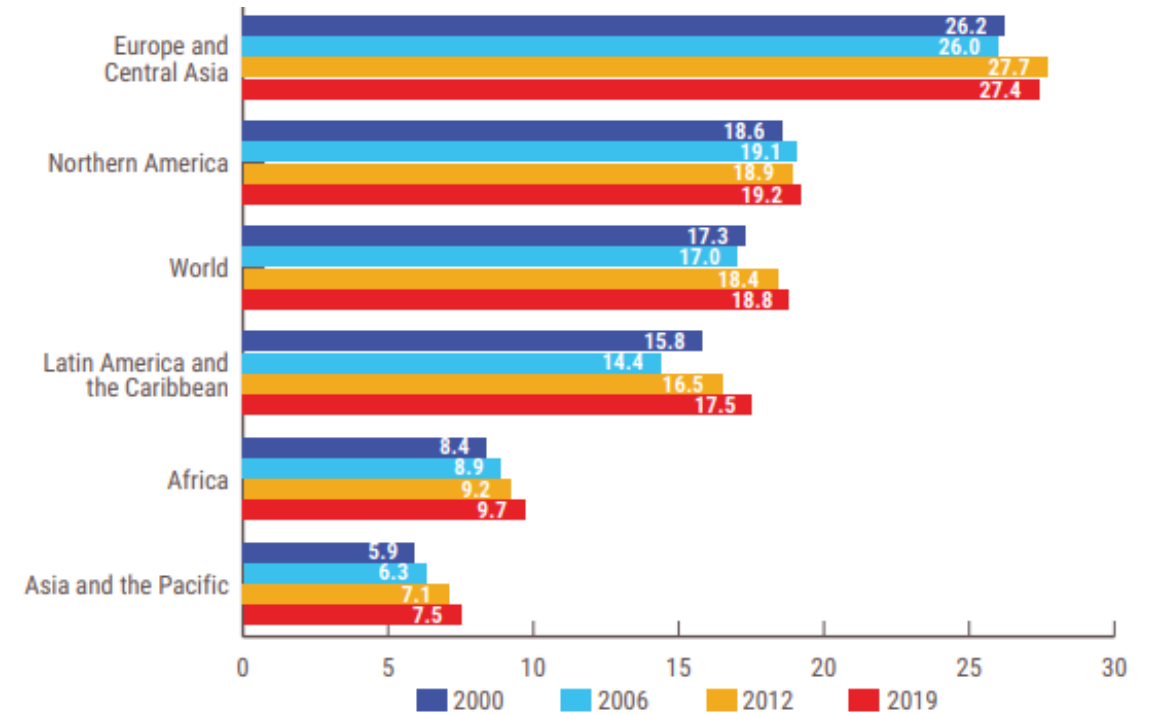
- ▶ **Social contributions** are one of the **main sources of financing for social protection** and it remained a stable source of financing in the 21st century
- ▶ In 2019, social contributions accounted for **18.8% of total tax and contribution revenue** which corresponded to **5.7% of GDP** (global average)
- ▶ Evidence does **NOT** show a **clear pattern between contribution rates and informal employment**
- ▶ Any **reduction in social security** contributions creates an effective loss in revenues in the short term, thereby **limiting the fiscal space for social protection**
- ▶ **Replacing contributions with taxes** (such as value-added tax) could be **regressive** and lead to greater imbalances on the macroeconomic front

# The evolution of social security contributions

As a percentage of GDP



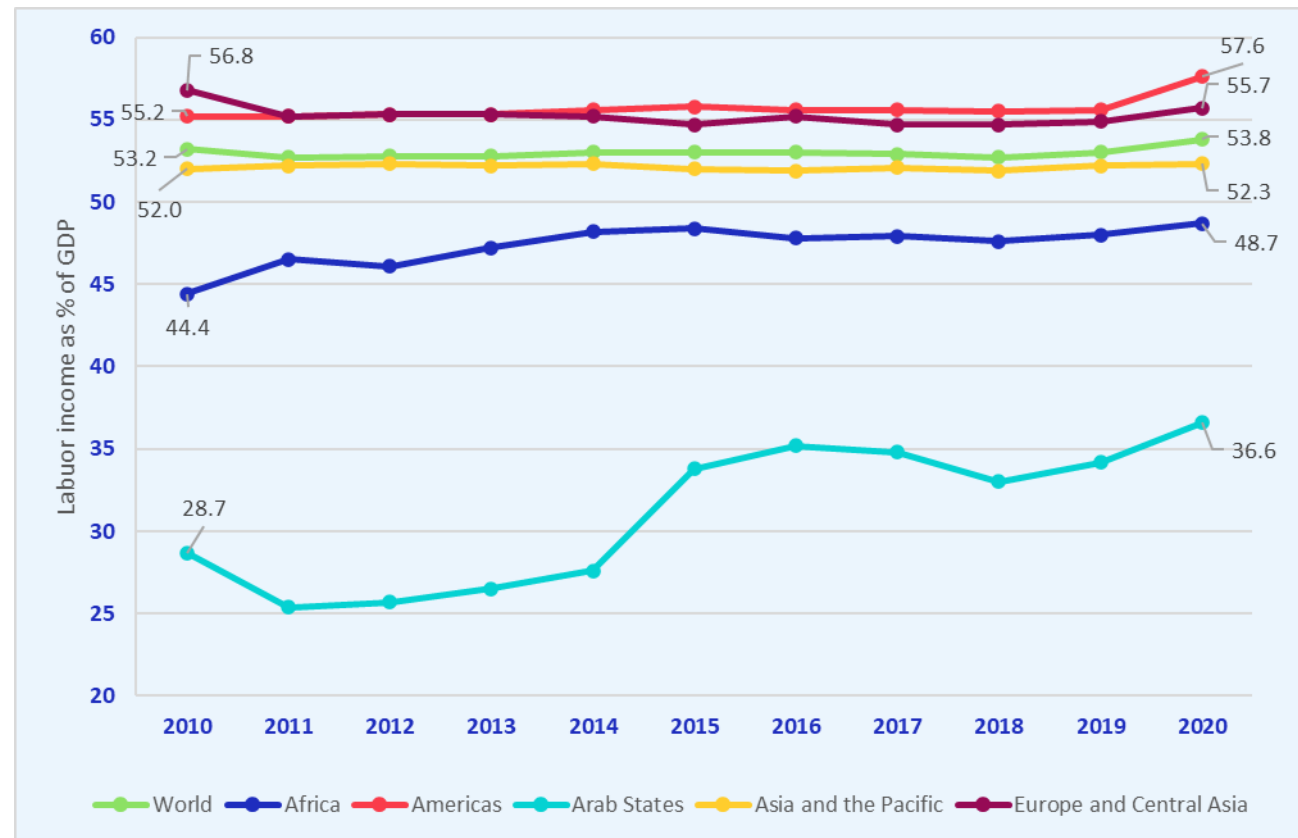
As a percentage of total taxation



Source: ILO-WIEGO 2023.

## Labour income share is stagnating

Total income from wage and salaried work and self employment as a percentage of GDP



Source: ILOSTAT, 2023.

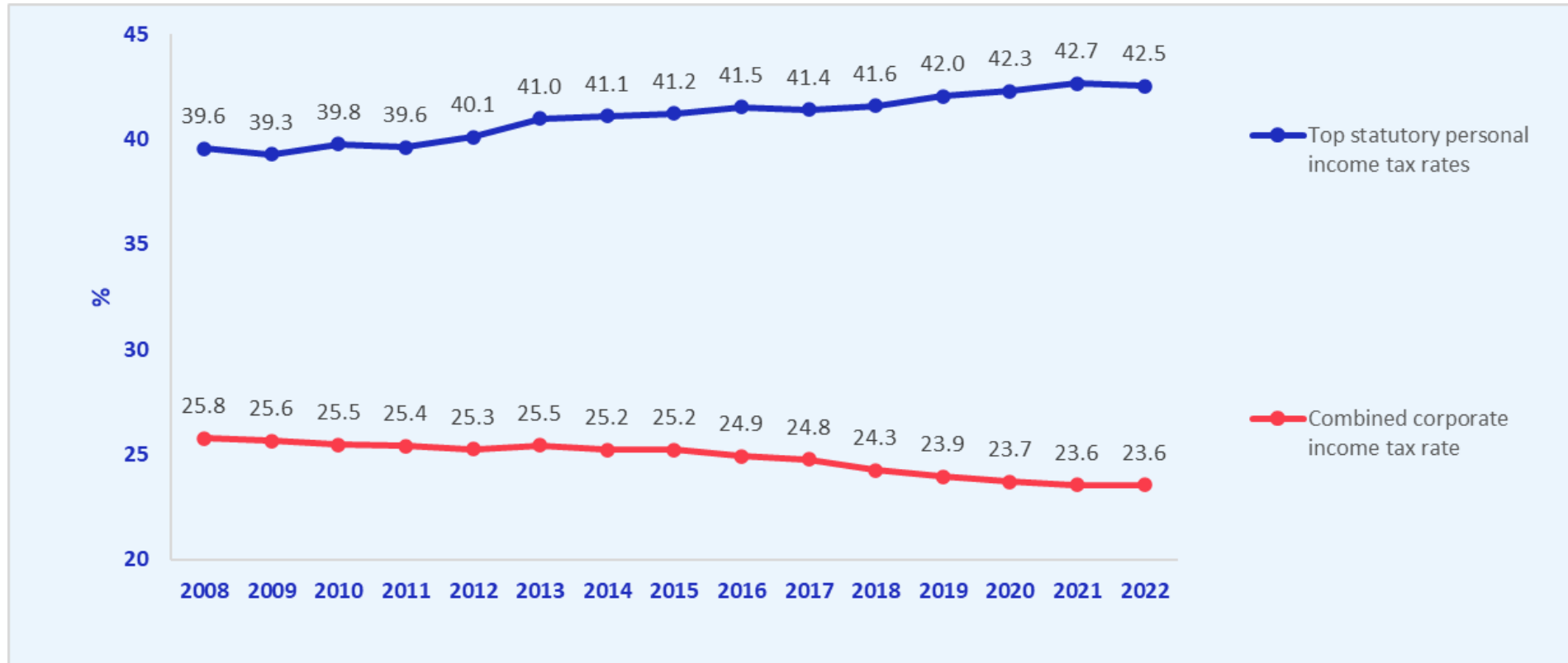
## ► Increasing tax revenues

**Progress in raising tax revenues can be made – given a strong political will to implement reforms.** There are important commonalities in reform strategies for enhancing tax revenues (some IMF recommendations) :

- **Build administrations** that limit incentives and opportunities for rent-seeking and inappropriate behaviour
- **Adopt clear laws** embodying strong taxpayer protection and which **combat tax evasion**
- **Eliminate tax exemptions** that forego revenue to little public purpose and have limited public utility
- **Avoid tax competition** or excessive **fiscal concessions** to multinational corporations
- **Implement coherent regimes for taxing informal enterprises**, linked to formalization policies to extend social security
- **Extend the personal income tax base**, ensuring a coherent treatment of alternative forms of capital income
- **Levy excises/sin taxes** on a few key items that are adequate to revenue needs and wider social concerns (e.g. CO2 emissions, cigarettes, alcohol, sugary products, etc.)

# The great divergence: corporate tax rates are declining while top personal income tax rates are increasing

Top statutory personal income tax rate and combined corporate income tax rate



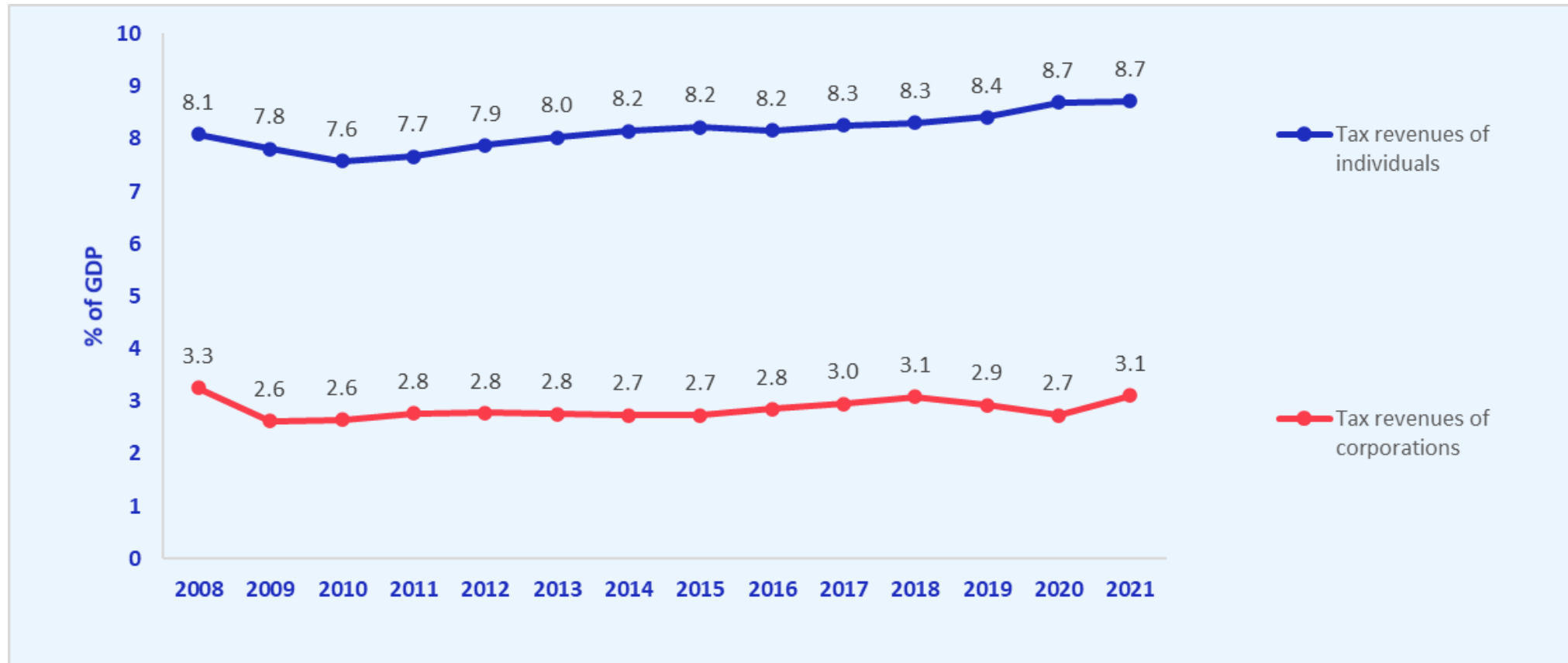
Note: Average for 38 OECD countries.

Source: OECD Mainstream and OECD Tax Statistics. Shared outside ADB with appropriate permission.



# Lower tax rates for corporations did not yield higher tax revenues

Tax revenues of individuals and tax revenues of corporations



Note: Average for 36 OECD countries.

INTERNAL. This information is accessible to ADB Management and staff. It may be shared outside ADB with appropriate permission.

Source: ILO calculations based on OECD Tax Statistics.

## ► Alternatives ways of increasing tax revenues

- Voluntary tax compliance programmes
- The emerging role of environmental taxes for financing social protection
- Increasing the price of carbon emissions to EUR 30 per tonne of CO2 emissions

**5% of GDP**

India

**1% of GDP**

Argentina  
Australia  
Brazil  
Canada  
Mexico  
Turkey  
United States

**0.5-1 %of GDP**

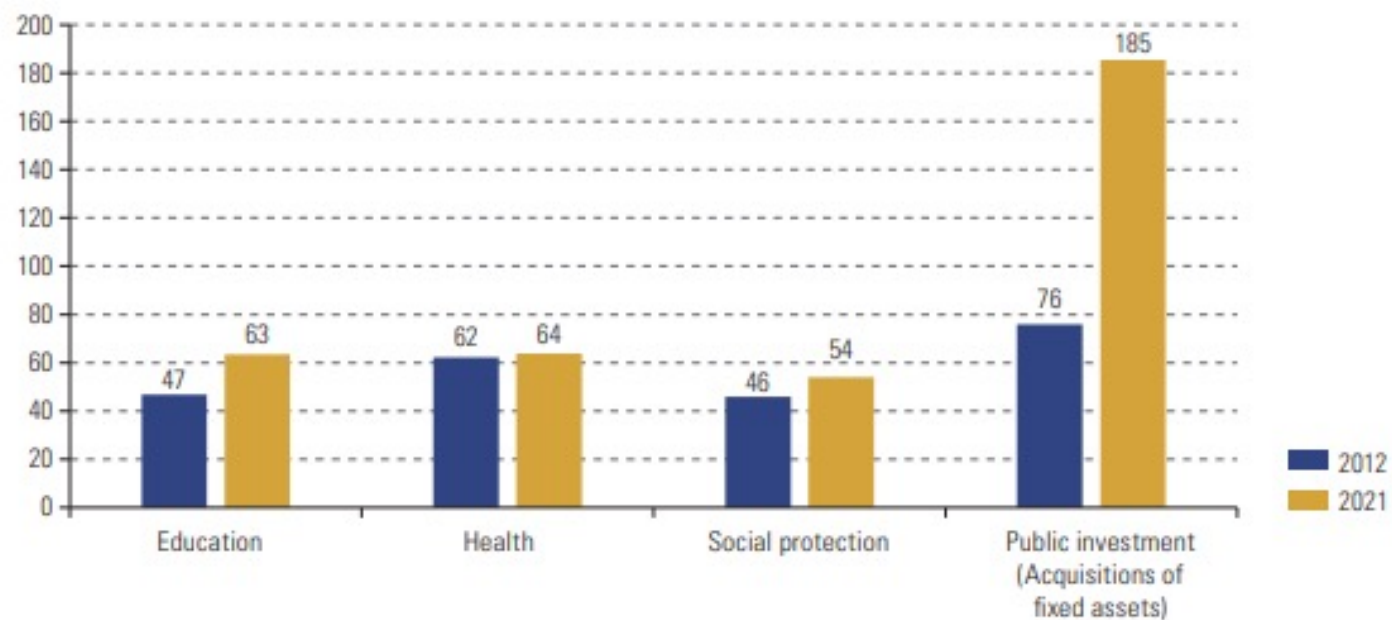
France  
Germany  
Italy  
Japan  
Netherlands  
Republic of Korea  
Spain  
United Kingdom

**Additional tax  
revenues**



## ► Managing sovereign debt: Borrowing and debt restructuring. Why it is urgent?

**Latin America and the Caribbean:** ratio of central government interest payments to expenditure on education, health care, social protection and public investment, 2012 and 2021 (percentages)



**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

**Note:** Figures for Brazil, Colombia, Costa Rica, Guatemala, Paraguay and Peru correspond to the general government. Figures for Argentina, El Salvador, and Mexico correspond to the non-financial public sector. Public investment as measured by acquisitions of fixed assets. Figures for acquisitions of fixed assets as a share of interest payments correspond to the central government in all cases.

## The Global Accelerator on Jobs and Social Protection for a Just Transition will finance USP in lower-income countries

- ▶ Urgent need to strengthen policy frameworks to address pre-existing and new challenges, including:
  - ▶ Massive loss of jobs and livelihoods
  - ▶ Growing income insecurity
  - ▶ Triple planetary crisis of climate change, biodiversity loss and pollution
  - ▶ Multiple & intersecting inequalities, mistrust and a frayed social contract
  - ▶ A two-speed recovery

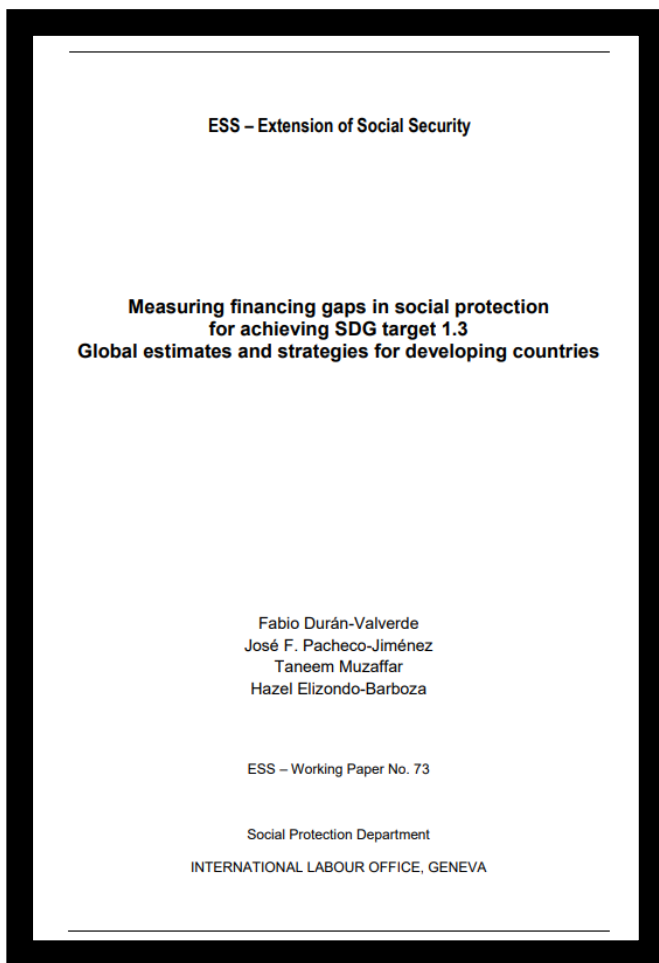
- ▶ **UN SG Initiative on a Global Accelerator on Jobs and Social Protection** (launched Sep 2021) to:
  - ▶ support developing countries in building their social protection systems, including floors,
  - ▶ promote decent employment, and
  - ▶ a just transition to environmentally sustainable economies and societies.
  - ▶ invites cooperative actions and commitments

ILO-IMF  
pilot  
project

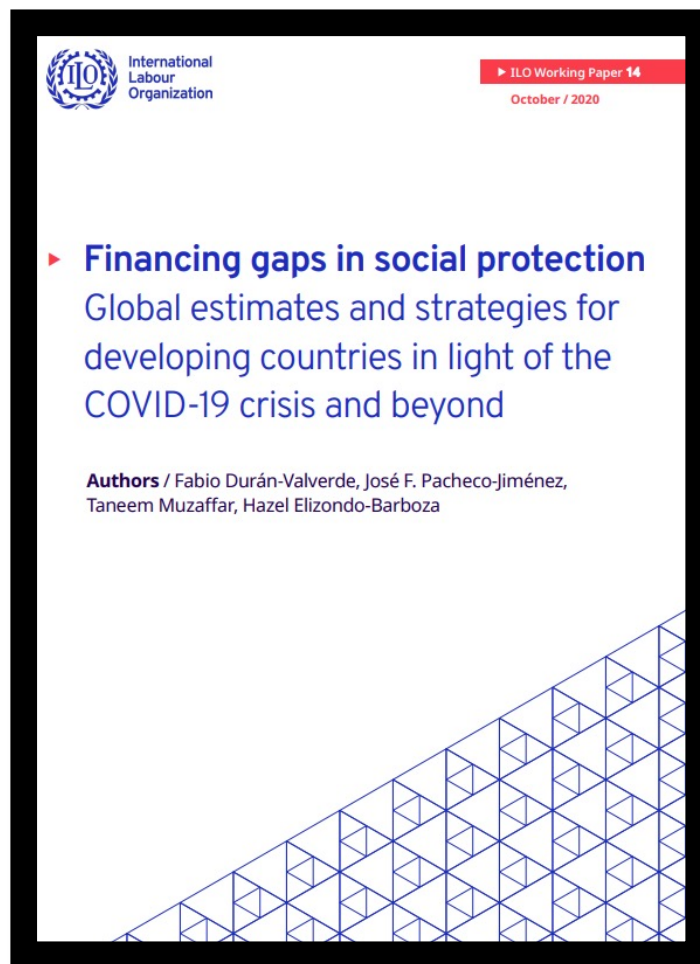
SPIAC-B

The Global  
Fund for  
Social  
Protection

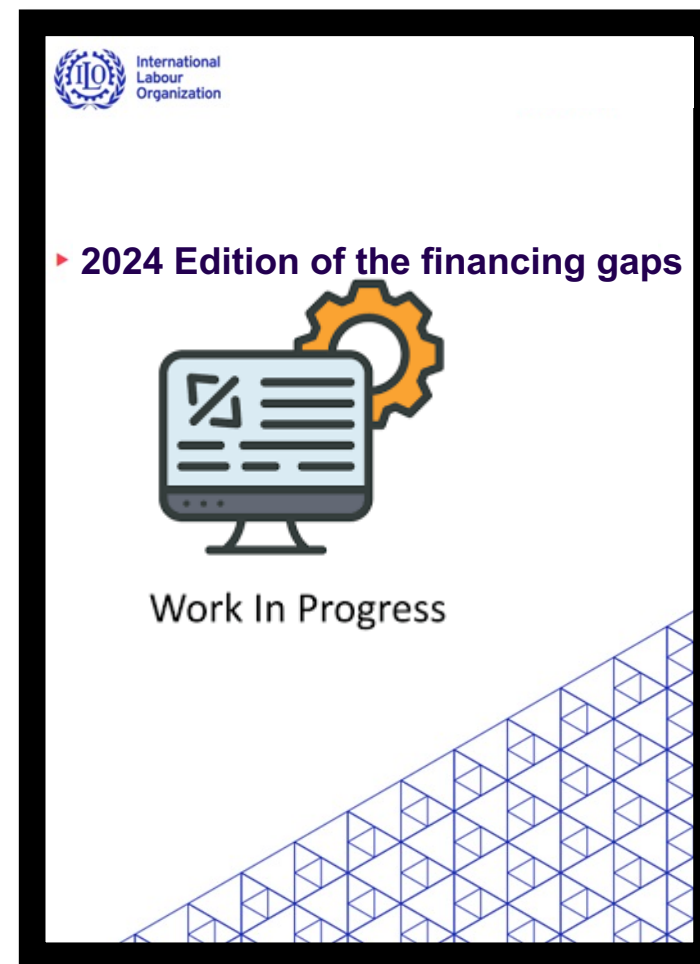
# Editions of the estimations on Financing Gaps in Social Protection (ILO 2019, 2020, **2024 forthcoming**)



First edition (2019). Link: <https://www.social-protection.org/gimi/gess/RessourcePDF.action?id=55711>



Second edition (2020). Link: <https://www.social-protection.org/gimi/gess/RessourcePDF.action?id=56957>



▶ **Thank you for your attention!**

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