

SocDevJustice contribution at
“A Global Commitment to Finance Social Protection Floors: Next Steps”
April 19, 2016, UN Headquarters, New York
A “side event” organized by the Permanent Mission of Belgium and ILO
on the occasion of the inaugural Financing for Development Follow-up Forum

Let me begin by thanking ILO and the UN Mission of Belgium, and in particular Ambassador Bénédicte Frankinet, for organizing this “side event” and for inviting Social Justice in Global Development to contribute to it as a founding member of the Global Coalition for Social Protection Floors.

The FfD Follow-up Forum in ECOSOC is meant to monitor and facilitate implementation of the Addis Ababa Action Agenda that was adopted at the third International Conference on Financing for Development last July. One paragraph of the Addis Agenda proclaimed a “social compact” and committed to strengthen social protection, including social protection floors (para 12). In particular, Governments said,

“In this effort, we will provide fiscally sustainable and nationally appropriate social protection systems and measures for all, including floors, with a focus on those furthest below the poverty line and the vulnerable, persons with disabilities, indigenous persons, children, youth and older persons.”

The paragraph concludes,

“We commit to strong international support for these efforts, and will explore coherent funding modalities to mobilize additional resources, building on country-led experiences.”

While these steps are encouraging, they are very general statements. However, progress is being made. For several years, ILO has led the international work on defining social protection—and social protection floors per se—and in helping developing countries to rethink their social protection policies, plans and programs. Thus, flesh was being added to the skeleton even before the Addis endorsement of the concept and this is very valuable.

There has also been a measure of international support to advance the work of ILO and partners, both in terms of bilateral aid and partnership with UNDP and other international organizations, and there is a possibility of a new multi-donor trust fund for social protection under the guidance of the Social Protection Inter-Agency Cooperation Board.

What is less developed at this stage, it seems, is how to assure adequate financing, in particular, of social protection floor programs. Most of this would be in the form of budgeted government expenditure or contributory payments, as into national social

insurance funds. The point I want to focus on here is that social protection floors need adequate financing both in “good times” and “bad times”. On this topic, SocDevJustice has begun to develop some ideas on potential domestic and international policies to *assure* the financing of national social protection floors.

Social protection floors need to be publically financed. In principle, those not arranged through contributory social insurance funds should be funded from general tax revenues that are allocated to social protection floor programs on an ongoing basis by a nation’s legislature. In an ideal world, that might be all you need to say, but in reality, I think you might want to have a dedicated source of tax revenue in order to be independent of annual legislative budget cycles.

Funding could come from a combination of contributory and non-contributory systems, depending on the services, the income level of the country, and the opportunities to collect tax revenues (e.g., taxation of mineral exports, services for state enterprise employees funded through the enterprises themselves). I am not trying to be exhaustive here, only suggestive.

But we need to do more. Economies are cyclical and countries need to accumulate additional revenues in good times to draw down in bad times. How much surplus in good times? Accumulated over what prospective time period? Able to cover shortfalls of what maximum depth and for how extended a period of bad times? All this is part of the planning needed to assure a reliable and adequate revenue stream.

Some countries are too poor now to provide a full set of social protection floor expenditures at minimally acceptable levels. However, they can be expected to cover some of the services and other services could be temporarily provided by donor partners (admittedly, this latter statement is highly controversial). Choosing the ones that should be candidates for external funding and for how long are topics for discussion at country level and with the country’s relevant donor community.

However, this too is not the end of the story. Some sources of difficult times are beyond what a country can be assumed to self-finance. Hurricanes and tsunamis are cases in point. These are unlikely but devastating events, what financial specialists call “tail events”. Here is where international cooperation is essential.

Such cooperation takes place today, but mostly on an ad hoc basis. Voluntary appeals for assistance are made, but are too-often only partly fulfilled. We need something more systematic and assured. Where to establish it? One option might be to create it *de novo* and in the end that may be the way to go, although a substantial number of countries that account for significant volumes of resources would need to join the program for it to be sustainable. If there were a full global consensus to create stronger counter-cyclical protection of social protection floors, IMF would be a potential place to place it.

IMF? Really? Well, in 2010, IMF and ILO met at heads of institution level (Juan Somovía and Dominique Strauss-Kahn) and pledged to work together to develop the concept of social protection floors. Alas, as some research showed, in particular, led by

Isabel Ortiz, it seems that IMF did not protect social protection. Austerity was emphasized above recovery. Indeed, IMF has heard the criticism and the Fund's Independent Evaluation Office has decided this year to investigate IMF's impact on social protection through its surveillance, lending programs and capacity development.

In a way it is too bad that IMF is not a more credible institution in regard to social protection floors, as it has the financial expertise and has even recently improved some of its loan "windows" for low-income countries to draw on in difficult times. I have in mind the Rapid Credit Facility, which disburses funds without additional conditionality, based on balance-of-payments need, repayable in 10 years with 5 years grace period at zero interest. The Fund has also created the Catastrophe Containment and Relief Trust, which makes grants to pay debt servicing that countries in crises such as Ebola owe to IMF.

IMF also has adopted some special loan facilities for middle-income countries, such as the Rapid Financing Instrument, which is like the Rapid Credit Facility except the terms of the loans are less concessional and repayable within 5 years. For countries deemed to have especially strong policies, IMF also offers credit lines to draw upon in case of need (Precautionary and Liquidity Lines).

These facilities could be made friendlier to borrowing countries; e.g., even a zero interest loan adds to the total sovereign debt of LICs and has to be repaid. And they could be scaled up significantly. The point would be to have in place an international mechanism that would provide financial resources on appropriate terms for the receiving countries facing emergencies so as to protect the social protection floor. The floor should be solid.

But, as noted, if IMF is not the right institution to provide that extra measure of support beyond what a country should be capable of on its own, then perhaps another institution could do the job, perhaps on a regional basis (although one needs to be careful that the members of the scheme do not have highly correlated emergencies, such as hurricanes in the Caribbean). In any case, SocDevJustice is proposing to start an international discussion of this issue.

Finally, it follows from this discussion that the priority of protecting a nation's social protection floor should also influence its other financial arrangements and assessments. An early idea on how to figure out how much debt relief to give to poor countries was put forward by Henry Northover, then of CAFOD in the UK, in the late 1990s. The kernel of his idea was to deduct essential social expenditures from estimates of what reasonable national tax revenues should be in calculating how much debt servicing a debt-crisis country could afford. A comparable idea could be built into the debt sustainability exercise that the IMF includes as a standard part of its annual "Article IV" consultations and that the Fund and Bank collaborate on for LICs. That is, perhaps there should be an additional element in the DSF, namely that any danger to full funding of the social protection floor should be flagged in the scenarios and stress tests in the DSF. The DSF now mainly seeks to assure that enough money is available in public coffers to pay creditors; it should equally (or with higher priority) assure that sufficient money is available for the social protection floor.

As I am trying to emphasize, these are all only preliminary ideas. They might be fleshed out and inspire better ideas. The point is that for social protection floors to serve as firm floors (rather than as nets full of holes), they need assured means of financing that can provide adequate resources in bad times as well as good times.

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