

Financing Social Protection: Case studies

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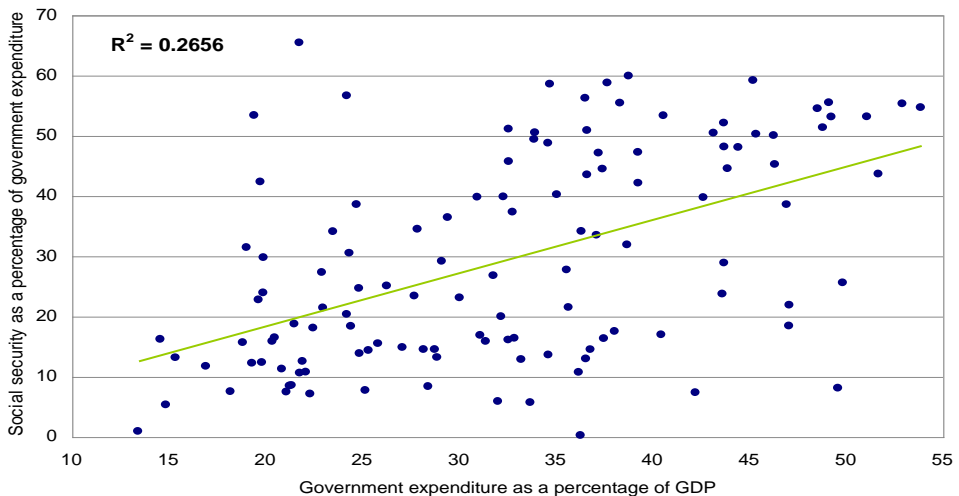
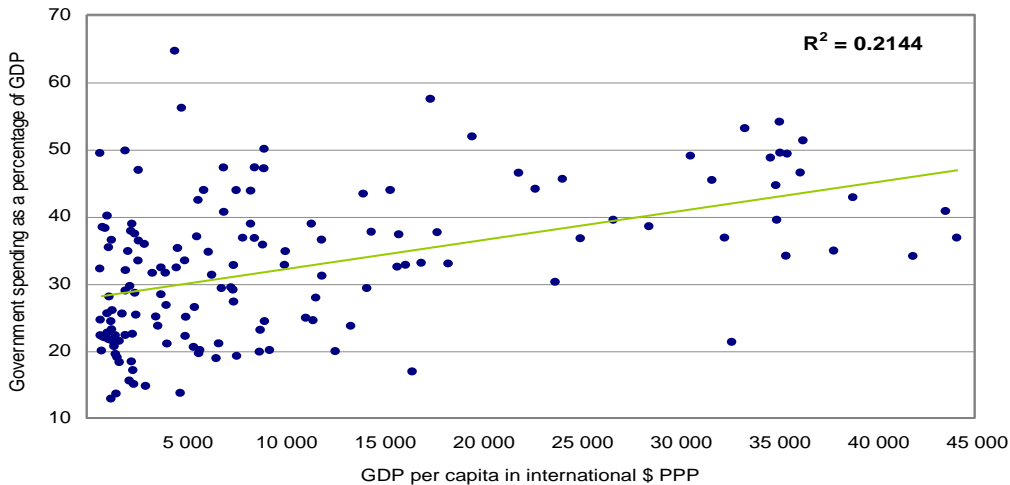
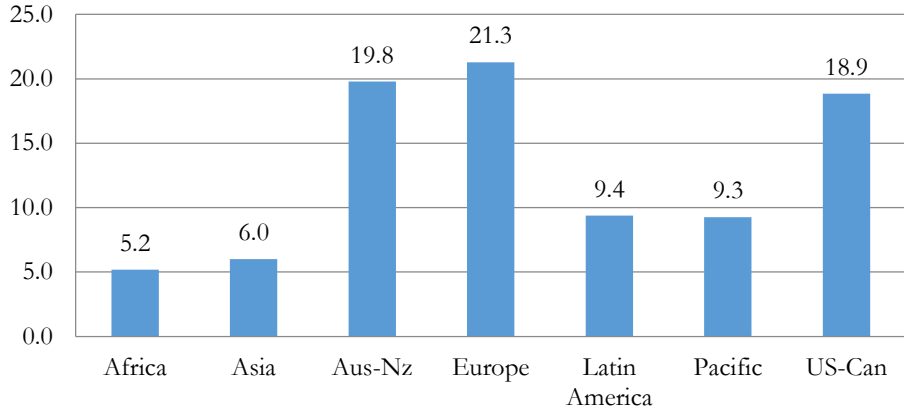
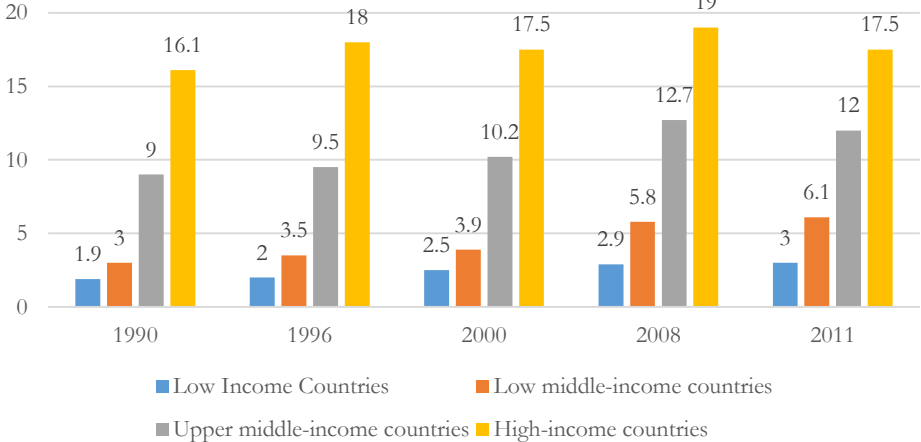
Outline

- Introduction
- Options for creating social protection fiscal space
- Brazil – Financial transactions tax
- Ecuador – Debt repudiation
- Indonesia – Savings from fuel subsidies

Introduction

- **Fiscal space is important**: higher-income countries have generally a larger fiscal space.
- But, public social protection spending does **not necessarily** depend on either income levels or overall government spending.
- Many countries **with lower GDP** per capita are **spending as much of their GDP** as countries with high levels of GDP.
- The decision to introduce comprehensive and universal social protection programmes is fundamentally a question of **political choice** for each country.

Social protection financing - trends



Creating social protection fiscal space

- **Domestic resource** mobilization: enhanced & innovative tax efforts remains the **most viable option**.
 - Brazil collected nearly \$20 bill. per year from FTT
 - Ecuador freed up over \$7 bill. through debt write-down
 - Indonesia saved money from fuel subsidy
- **Global cooperation** to stem tax evasion, tax avoidance and illicit transfer of funds will yield substantial amount of resources
- **Resource rents** and revenues from the **state owned enterprises** (SOEs)
- **Debt reliefs/ default** and aid

Financial transactions tax (FTT))

- FTT – a **small tax** on various types of **financial instruments** such as shares, bonds, foreign currency transactions, derivatives, and bank debits and credits.
- FTTs are implemented in at **least 40 developed & developing countries**, and 10 EU countries are expected to adopt a FTT in Jan 2017. The existing rates vary from a **maximum of 2% to as low as 0.00001%**.
- One estimate shows that FTTs **can generate \$2.9 - \$14.5 bill.** in all developing countries combined depending on their design (coverage or base and rate) and the size of their financial sector.
- FTTs are **easy to administer** by existing authorities, with no new institutions required.
- **Dual goal** of raising revenues while discouraging the type of short-term financial speculation
- Can **deter tax evasion**

Brazil – Financial Transactions Tax

- Contributed **nearly \$20 bill.** additional government revenues per year.
- Directly **linked allocation of funds to social protection** programmes (health care 42%; social insurance 21%, Bolsa Familia 21%, other social services 16%).
- **Reduced tax evasion;** so overall **revenue collection increased**
- **No evidence of adverse impacts** on the financial market or on remittances
- Yet, **can face resistance from vested interests** – off and on – introduced in 1993, but short-lived; reintroduced in 1997 – Supreme Court ruled earmarking unconstitutional in 2008 – replaced; but repealed in 2013

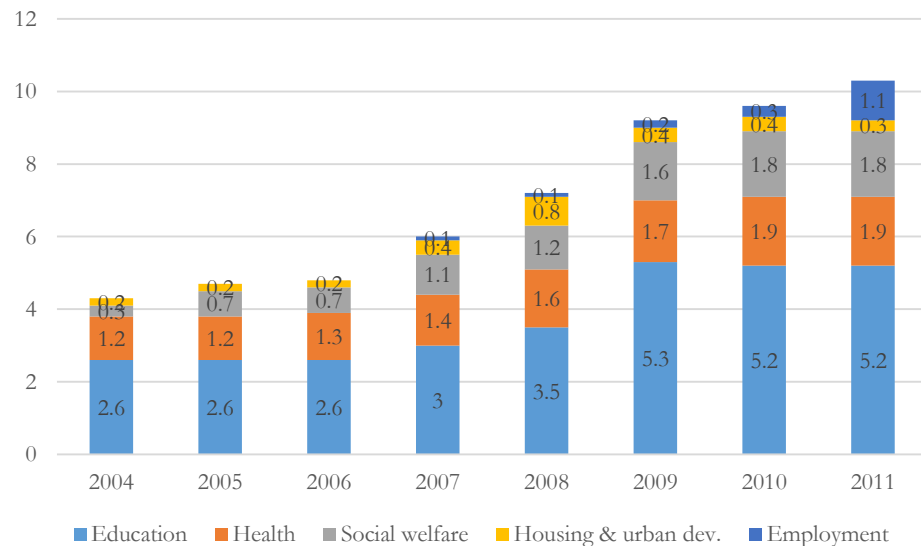
Debt write down

- HIPIC - helped eligible countries **reduce their debt service payment** by about 1.8% of GDP between 2001 and 2014
- Before HIPIC **more spent on debt service** than on health and education combined, now social spending is **about 5 times more than debt servicing**
- Debt audit to determine **odious / illegitimate debts** – that do not contribute to development – Ecuador 2008
- Based on the experience of Ecuador, as well as Norway, a special UN Commission of Experts on Reforms of the International Monetary and Financial System supported **public debt audits as a mechanism for transparent and fair restructuring of debts.**
- Debt audits are ongoing in several other countries, such as Bolivia, Brazil, Greece, Ireland and the Philippines.

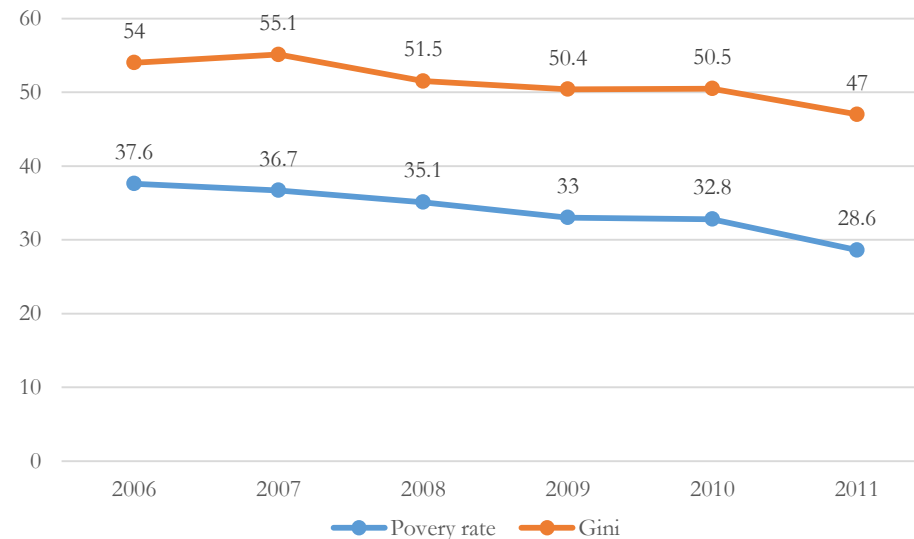
Debt write down – Ecuador experience

- **Wrote down** odious debt to 35 cents to the dollar.
- The **savings** on principal + interest **more than \$7 bill.** over the period 2008-2030
- The freed-up public resources **used for fiscal stimulus** during 2008-2009 GFC, and for **expanding healthcare, education, social assistance** and developing communications infrastructures.

Public social spending (Central Govt. % GDP) increased



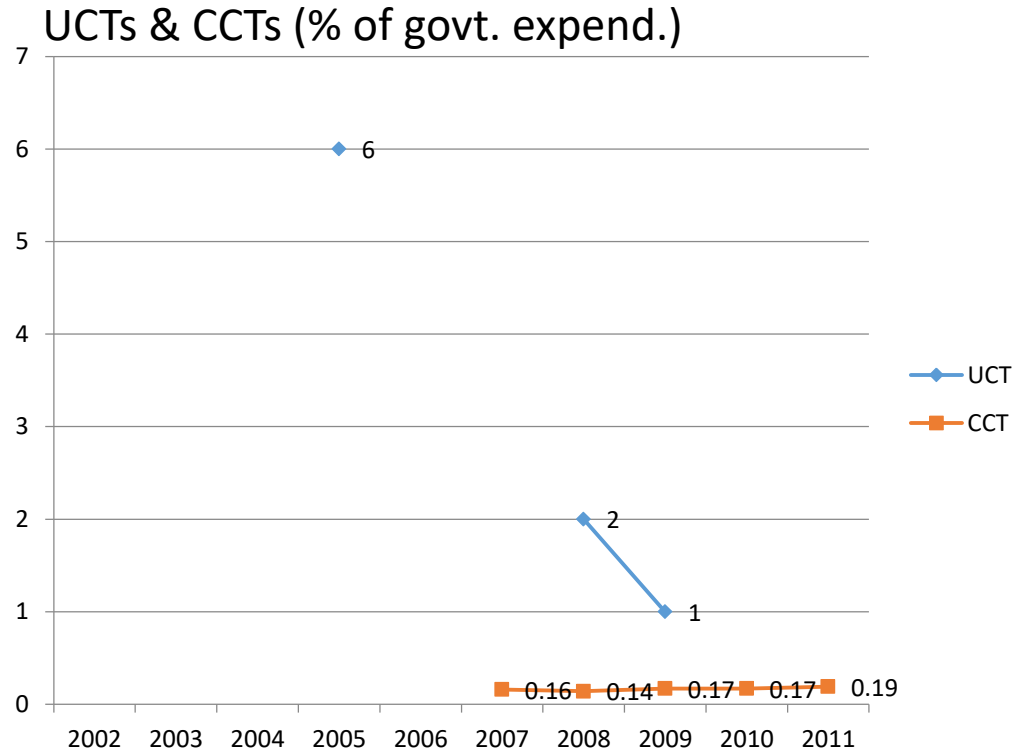
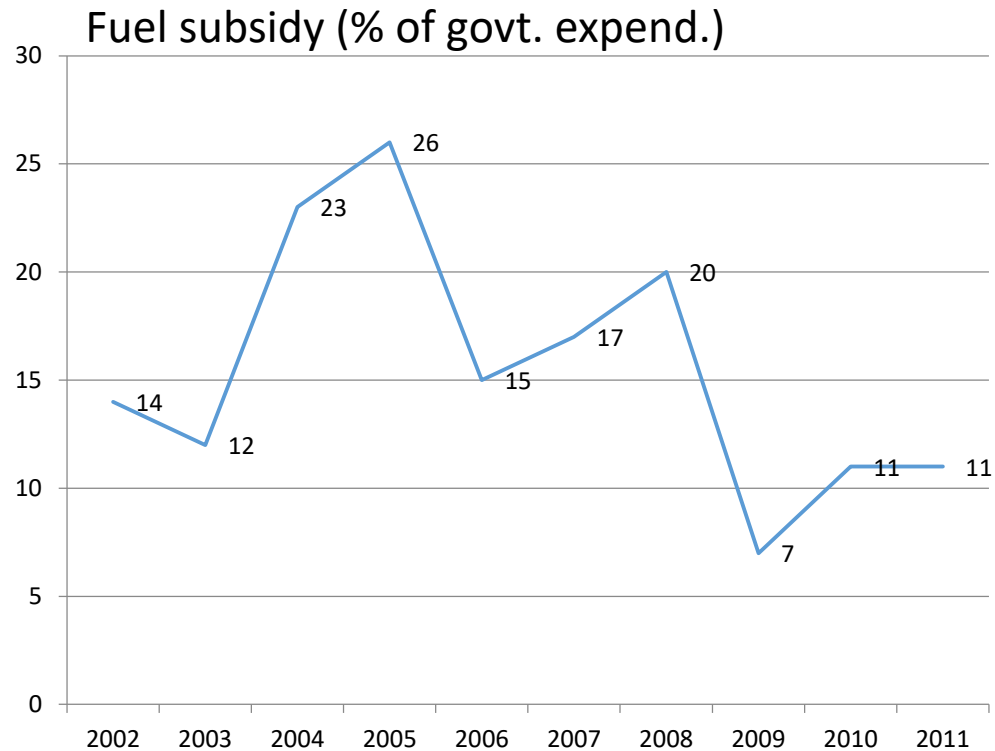
Poverty & inequality declined



Indonesia – removal of fuel subsidy

- Government started **gradually slashing its fuel subsidy** in 2005.
- An average of **30 & 114% increase in fuel prices** in March and October 2005,
- When **rioting broke out in 2005**, the government introduced a **compensation programme** for the poor consisting of educational assistance, healthcare and **unconditional** cash transfers (UCTs).
- The UTCs consisted of **cash benefit of IDR100,000** (roughly \$10.50) per month to each target household, **covering 15.5 mill** households or **nearly a quarter of the population**.
- In 2006, the government switched to **conditional** cash transfers (CCTs) through a project, the Hopeful Family Programme.

Social Protection helps difficult restructuring



- **Income support** for the poor was only a **secondary objective**.
- The **primary** concern for the govt. was **fiscal consolidation**

Thank-you