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**Social Protection Floors
in the Financing for
Development Agenda**

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Social Protection Floors in the Financing for Development Agenda

A paper requested for the
Inter-Agency Task Force on Financing for Development

Barry Herman¹

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Offering a platform to help nations seeking to strengthen their national floors of social protection is an important—indeed, mandated—area of concern for the United Nations-led processes of Financing for Development (FfD), as updated by the Third International Conference on Financing for Development, held in Addis Ababa in July 2015 (United Nations, 2015). That is, social protection is an integral part of the “social compact” agreed to in Addis. The strong international policy salience of social protection arises from the high value that developing and developed countries put on inclusive development and social wellbeing and to their ultimate dependence on the systemic policy foci at the heart of FfD.

International consideration in 2017 of domestic and international aspects of the financing of social protection floors is especially timely in light of the General Assembly decision (United Nations, 2016a) to review implementation in the July High-Level Political Forum, inter alia, of the first sustainable development goal (SDG 1), “ending poverty in all its forms everywhere”, one of whose targets is 1.3 on social protection. With this in view, the FfD Office of the UN Department of Economic and Social Affairs and the Social Protection Department of the International Labour Organization (ILO) organized an expert group meeting of the Inter-Agency Task Force (IATF) on FfD on financing social

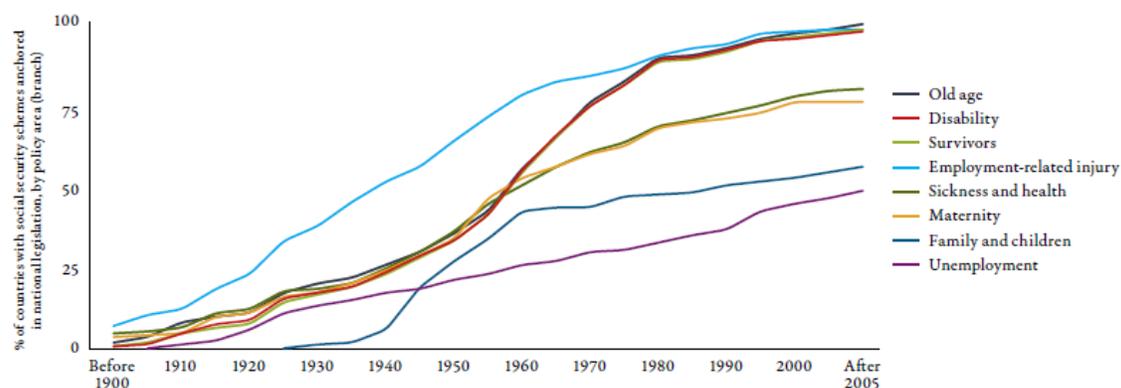
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protection floors on 30 November 2016 (UN/IATF, 2016).² This paper builds on that discussion and other work to elaborate for consideration by the UN community of policy options that may be taken at national and international levels to facilitate national provision of social protection floors.³

Why this, why now?

Even if the support provided is thus far minimal and even if the share of people covered is thus far limited and regardless whether explicitly recognized as such or not, almost every government in the world seeks to provide some level of social protection for its people (figure 1). Indeed, the concept of governments acting to provide a basic floor of social protection on which its beneficiaries can rely is hardly new and can be traced back to German policy innovations adopted in 1889, although it was not until the Great Depression of the 1930s that the concept spread across North and South America, and then spread again in the post-war era following decolonization in Asia and the Pacific, Africa and the Caribbean.

Figure 1. Social protection programmes anchored in national legislation by area (branch), pre-1900 to post-2005



Sources: Based on SSA and ISSA, 2012; SSA and ISSA, 2013a; SSA and ISSA, 2013b; SSA and ISSA, 2014; ILO NATLEX database.

Link: <http://www.social-protection.org/gimi/gess/RessourceDownload.action?ressource.ressourceId=36924>

Source: ILO (2014), p. 4.

It was included as a focus of international policy in the 1941 Atlantic Charter signed by the Heads of Government of the United States and the United Kingdom, Franklin Delano Roosevelt and Winston Churchill, as “freedom from want” and “social security”. These coupled goals were reaffirmed when the Atlantic Charter was subscribed

² IATF was created in response to the Addis Ababa Action Agenda, the outcome document of the Addis conference. IATF is charged to monitor progress in implementing the Addis outcomes and the means of implementation of the subsequently adopted 2030 Agenda on Sustainable Development (United Nations, 2015, para 133).

³ As the expert group meeting was held under the Chatham House rule, this paper relies heavily—but not exclusively—on published work undertaken in member organizations of the IATF. It also draws on a paper prepared for that meeting by my colleague in SocDevJustice, Gemma Adaba.

to in the Declaration of the United Nations signed by the US, UK and 24 other countries in January 1942. Freedom from want was also an explicit objective of the initial drafts of plans for the Bretton Woods institutions (Helleiner, 2014). Even if post-war developments pushed social protection into the background of Bretton Woods policymaking for decades, concern to promote freedom from want and social security never disappeared from global thinking about economic and development policy and from the global goals enunciated by the world's governments, as at the United Nations.

While structural changes in national social protection systems have reflected changes in national norms on social solidarity, the human rights obligation to social protection remains constant.⁴ In fact, in most countries, as national incomes have grown, ambitions also grew for raising the level of social protection above the floor and extending its coverage. Unfortunately, actual coverage of social protection systems remains far from universal. ILO estimates that only 27 per cent of world population benefits from comprehensive social security coverage. The remaining 73 per cent receives only partial coverage or no coverage at all (ILO, 2014). On the other hand, the World Bank recently reported that “more than 23 low and middle-income countries have achieved universal or near-universal social protection schemes,⁵ [while] over 100 others were scaling up social protection and fast-tracking expansion of benefits to new population groups” (World Bank, 2016). In other words, although income inequality has grown in most countries of the world in recent decades, a large number of governments have sought to ease the situation of the people at the bottom of the income distribution and increase their economic opportunities through enhanced social protection (e.g., on Asia and the Pacific, see UN/ESCAP, 2015).

In addition to the social values that underlie it, the social protection floor also speaks to important economic opportunities. First, it expands the nation's “production possibility frontier” as the social protection floor enlarges the stock of healthy, educated and productive citizens who might otherwise be excluded from the main economy (Mathers and Slater, 2014). Second, the social protection system serves a macroeconomic function as an “automatic stabilizer” that lessens the amplitude of economic cycles. It prevents aggregate consumption falling as low as it would otherwise during a cyclical recession. Thus, both as social policy and as economic policy, support for social protection floors is an attractive idea, even if national and international macroeconomic policies do not always adequately take that into account (Ortiz et al., 2015).

Indeed, the ability of a country to afford a social protection floor depends not only on its political decision to do so but also on the buoyancy of its economy and on the growth of fiscal revenues. It thus depends, especially for developing countries, on being able to enjoy an enabling international economic environment. Ever since the 1980s campaigns of UNICEF for “adjustment with a human face” and the debt-relief campaigns

⁴ “Everyone, as a member of society, has the right to social security...” Universal Declaration of Human Rights (United Nations, 1948, Article 23, para. 1).

⁵ “Universal” apparently means in this context that all people in a named category are eligible for protection, such as all elderly persons.

of the global Jubilee coalition that led to the debt-reduction initiative for the heavily indebted poor countries, it has been clear that the efforts to eradicate poverty, especially in developing countries, could be undermined by adverse international economic developments and policies. This reality underlined the call since that time—indeed, since the earliest days of the UN—for greater coherence of domestic and international economic, financial and trade policies with the economic and social objectives of development.

Since adoption of the Monterrey Consensus in 2002 (United Nations, 2002), the appreciation of the need for effective coherence of domestic and international policy making for sustained and sustainable development has brought national representatives from development, foreign affairs, finance and trade ministries together with representatives of key international institutions, civil society and the private sector for discussions at the UN on FfD. The Addis Ababa Action Agenda made explicit the social imperative of these discussions by committing to a “new social compact” that would 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.” In addition, Member States committed in Addis to “strong international support for these efforts” and exploration of “coherent funding modalities to mobilize additional resources, building on country-led experiences” (United Nations, 2015, para 12). This paper thus seeks to highlight policy considerations that IATF may wish to bring to the attention of Member States in this regard.

What is a social protection floor?

In 2012, the 187 member countries of the ILO adopted recommendation 202 at its 101st General Conference. It specifies that social protection floors (SPFs) should entail nationally defined minimum levels of four essential social security guarantees:

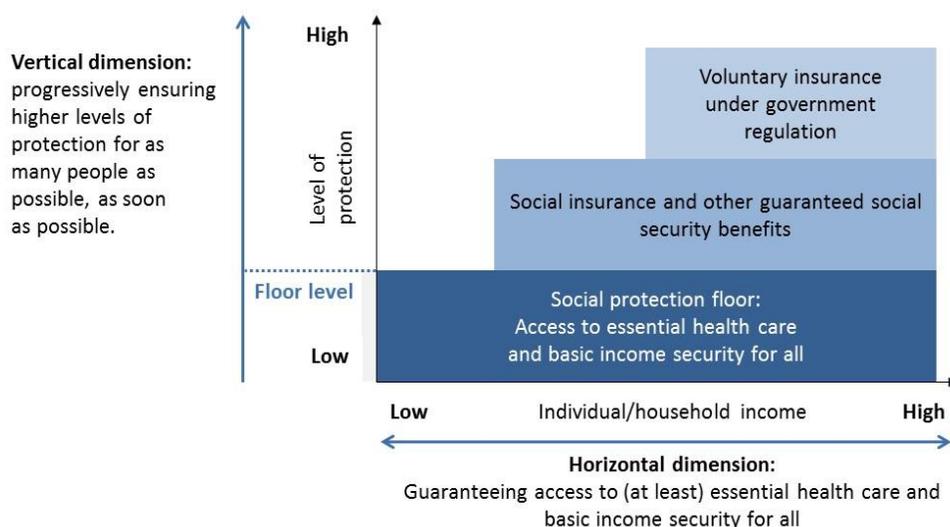
- (a) Access to essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;
- (b) Basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- (c) Basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- (d) Basic income security for older persons (ILO, 2012, para 5).

The ILO Conference recognized “the overall and primary responsibility of the State in giving effect to the recommendation” and stated 19 principles for the organization of national SPFs. Among them was that they should provide adequate and predictable benefits, which should be progressively realized on a universal, inclusive and non-discriminatory basis. The Conference further recognized that a diversity of delivery and financing mechanisms could be selected to implement the recommendation, based on solidarity in financing, while balancing the responsibilities and interests of those who

benefit and finance the benefits, as well as overall financial, fiscal and economic sustainability, paying due regard to social justice and equity (ILO, 2012, para. 3).⁶

Social protection floors are meant to convey at least minimum benefits to all people at every stage in their life cycle (children, elderly, disabled, etc) through whatever combination of nationally designed and selected programmes the government deems appropriate. Middle and upper-income people may participate in programmes that provide both the minimum and additional benefits, which could be financed by mandatory and voluntary contributions, or beneficiaries or their employers could pay insurance premiums. Programmes to cover lower-income people need to be tax-financed, although, the same benefit could also be offered to the whole population (e.g. a tax based universal cash transfer to every child). In other words, there are multiple ways that the SPF can be constituted. The one essential element is that all people are covered at the minimum level (see figure 2). In the context of the new social compact of the Addis Agenda and SDG 1 of the 2030 Agenda, the discussion in this paper focuses on improving the conditions of the poorest people, for whom non-contributory, tax-financed programmes are perform an essential element of the social protection floor.

Figure 2. Steps in social protection



Source: As provided by ILO.

A key requirement of an SPF is that it be available when people need it, meaning that its tax-financed components should not be classified as discretionary government expenditure but as an entitlement that the government is obligated to provide at the

⁶ In fact, recommendation 202 builds on earlier ILO recommendations, in particular No. 67 of 1944, which followed up on the Atlantic Charter of 1941 noted above and recommended a set of guiding principles that began “1. Income security schemes should relieve want and prevent destitution by restoring, up to a reasonable level, income which is lost by reason of inability to work (including old age) or to obtain remunerative work or by reason of the death of a breadwinner...” (ILO, 1944).

promised level to all who require it. If people in an economic recession lose their jobs and health insurance and need to draw on unemployment insurance and the public health insurance system, they must be available for them. The metaphor is of a *floor*, something solid that all people can stand on and on which they can feel secure. But it is only a floor and not a house with a roof, which is to say, it is a minimal set of social protections.

In addition, an SPF is not well described as a “safety net” that catches people falling from above it in times of stress. If social protection is viewed as a safety net, the unstated assumption is that most people do not need publicly provided social protection in normal circumstances, that they or their families or private charity should be responsible to build and maintain the floor. In this view, it is only at times of “market failure”, owing to social exclusion or cycles of economic activity or natural disasters that a publically provided safety net is justified for the people at large. Moreover, safety nets are without benefit to those who have been living below them. In contrast, the social protection floor should be available to all as a right, which the polity accepts as its responsibility to provide.⁷

The confounding of social protection floors and social safety nets may be the result of how the floor concept came into general international parlance, which is also of relevance to FfD discussions of the topic. The floor concept had been discussed in various forms within ILO for almost a decade as a way to introduce basic elements of social security in lower income countries; however, it emerged into general international policy debates during the global economic and financial crisis through the UN’s Chief Executives Board (CEB) for Coordination (Canonge, 2014). The CEB, chaired by the Secretary-General, brings together the heads of the UN specialized agencies, including the International Monetary Fund and the World Bank, related organizations, including the World Trade Organization, and the UN funds and programmes and is thus a potentially important source of coordination on policy action as well as joint policy advice to the world’s governments.

In April 2009, as the world was struggling to respond to the worst financial crisis since the Great Depression, the CEB issued a communiqué that included 9 joint initiatives its members agreed to undertake to help countries and the international community to overcome the crisis. Number 6 was a “social protection floor” that would ensure “access to basic social services, shelter, and empowerment and protection of the poor and vulnerable” (UN/CEB, 2009). Each of the CEB initiatives embodied a joint work programme that had been fleshed out within the CEB’s High-Level Committee on Programmes, chaired at the time by Ambassador Juan Somavía, then the Director-General of ILO. As regards social protection floors per se, ILO and the World Health Organization agreed to lead a joint

⁷ It is perhaps ironic that the term “safety net” is in practice used more generously than just to catch those falling into difficult circumstances, but also in a more restricted way as applying only to people classified as “poor and vulnerable”. For example, the World Bank defines social safety nets as “non-contributory measures designed to provide regular and predictable support to poor and vulnerable people...”, although in practice the Bank includes unconditional and universal social programmes in its analysis of “social safety nets” as well as conditional and targeted programmes (World Bank, 2015).

work programme of over 20 cooperating agencies, recognizing that the work that the agencies were giving themselves transcended each of their individual mandates (UN/CEB, 2009a). They also recognized that many countries had faced social protection challenges during the crisis for which they were not prepared. There was thus a need both for immediate support and longer term capacity building.

Many countries received timely assistance through various multilateral measures to help them respond to the crisis, at least at first. However, the lasting lesson was how important it was to prepare better for future crises and to offer support to those “left behind” for whatever reason, which entailed building or strengthening social protection floors. Indeed, the Group of 20 (G20) took up the cause of building SPFs in its 2010 summit meeting in adopting the Seoul Development Consensus for Shared Growth, which included a Multi-Year Action Plan on Development; in particular, Action 1 under the heading of Growth with Resilience was “Support developing countries to strengthen and enhance social protection programmes,” the primary motivation being to help “vulnerable communities to deal with external shocks” (G20, 2010, p. 7). Subsequent consideration of the topic in the G20’s Development Working Group called on the G20 to support “the implementation or expansion of national social protection floors” (G20, 2011, para. 53).

Moreover, as ILO and the World Bank (2015) have been advocating, *universal* coverage of SPFs is warranted. A universal SPF prevents starvation and denies imminent death from lack of medical care. It also serves as a kind of insurance. Usually, the poorest people cannot afford to take risks, whether as farmers experimenting with new seeds or as small scale artisans or traders. Many people at the absolute bottom of the income ladder will not be able to tolerate the loss of income that is risked when trying something new. A universal SPF removes the threat of starvation and thus may encourage people to take moderate risks to improve their livelihood. This is only in part about taking entrepreneurial risks, but even more importantly refers to the willingness of a farmer to forgo a daughter’s labour so she can go to school or allow a family to countenance pooling funds, reducing their own reserves, so a member can go to the city to look for a job and send money home. All these actions require some ability to accept risks of loss of income, which households that are less poor sustain in the normal course of events.

A social protection floor that serves this function cannot be adequately organized at the family or community level. It has to be provided by some entity that covers a large and diverse population in order to spread the risks effectively. It cannot be family or community-based because of what economists call “covariate risks”: if your crop fails, there is a good chance that your neighbour’s crop fails too, especially if he lives nearby. You need a bigger insurance pool than poor families can provide in order to put a solid *floor* under people’s consumption. The obvious candidate to guarantee the floor is the government.

The remaining question, then, is how much of a social protection floor a country can afford. Experience tells us the answer depends in part on opportunities and challenges in government budgeting and the nature and extent of international support in good times and bad.

What is financially entailed in a national commitment to a social protection floor?

Commitment to funding an SPF directs attention first of all to the government's finances. Such discussions are sometimes couched in terms of increasing "fiscal space" for the SPF. However, here again, the metaphor misleads. Something more reliable is needed than fiscal space, which ebbs and flows along with macroeconomic cycles of activity.

Fiscal space has been defined as "room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy" (Heller, 2005). It is thus best thought of as resources available for discretionary expenditure in a year, with attention also paid to continuing obligations that could be set in motion by the initial outlay. The usage of the term in early post-war thinking was about the role of investment in development and the need especially for expanded public investment. That is, developing country governments were encouraged to collect sufficient fiscal revenues so that after allowing for current expenditures, there would be sufficient "fiscal space" available to finance a significant public investment programme (Tanzi, 2014). On the other hand, should occasions warrant, outlays for investment could be temporarily postponed (as well as, unfortunately, expenditures for maintenance). This is not acceptable for SPFs.

The fiscal resources for SPFs need to be well planned, as they will be required year in and year out, in largely foreseeable amounts although at some unpredictable points in time in larger amounts that will have to be accommodated. In other words, fiscal planning for the SPF needs to be part and parcel of medium and long-term fiscal strategies.

Fiscal planning for SPFs

Governments will want to undertake fiscal planning exercises for each major category of its SPF. To a reasonable degree, a country can foresee its SPF outlays on average over periods of years. For example, the cost of benefits promised to the elderly will be based on the promised benefit levels per person, the number of people of the nationally determined age of eligibility—the retirement age of countries that have such a norm—expected to be alive in each year and related matters. There will also be an interplay between the benefits to be provided through the SPF for older people and the revenues that the government collects by taxing its current working age population, with what degree of progressivity of the tax take, and so on (for a recent illustration, see Jarmuzek and Nakhle, 2016).

As may be imagined, the planning exercises can be very technical, for which reason the international system has devised various aides and guides, in particular, the set of Inter-Agency Social Protection Assessments (ISPA).⁸ The tools, which are in different stages of development, are meant to assist countries in making core diagnoses, assessing the social protection impact of public works programmes, identifying beneficiaries, as well as estimating the cost and assessing the impact of social protection floor programmes. In addition, United Nations organizations provide training materials and courses, such as the

⁸ See the materials on the ISPA web page at <http://ispatools.org/>.

on-line course offered by the Food and Agricultural Organization of the United Nations (FAO) and the World Bank's core course to be offered next in March 2017 in Washington, D.C.⁹ ILO has complemented these efforts, as in its recently published three volumes of country examples, respectively, of provision of universal benefits, innovations to extend coverage, and governance and financing (Ortiz et al., 2016). Indeed, the rapidly accumulating experiences in different countries have created increasingly rich opportunities for peer learning.

In fact, there is much that countries can learn from each other's successes and difficulties encountered in their SPFs. For example, some countries that export minerals have sought to tie some of the revenues from those exports—what economists denote as “economic rents”—to financing SPF programmes. One attraction of the link is the political benefits to the parties in power from expanding SPF access to services or cash transfers without taxpayer pain during periods of commodity boom. However, finance for such a programme will be pro-cyclical and those benefits may become unsustainable during periods of commodity bust. In addition, public confidence in the effectiveness of the programme may be eroded and its political support may wane if leakages of funds by corrupt officials and abuses of the system by intended beneficiaries are not contained. Another lesson learned is that it can be politically helpful to tie savings from discontinuing inefficient fossil-fuel subsidies to increased cash transfers to the poor, which should be seen as fair; i.e., the poor would otherwise be burdened as the higher fuel prices work their way through the economy.¹⁰

Taking advantage of the interaction between tax policy and social protection can also help advance other goals. For example, some countries in Latin America have sought to promote economic inclusion of low-income informal-sector workers into the formal economy by offering them SPF benefits if they register with the government and pay a small “single social tax” (Rossel and Filgueira, 2015, p. 199). In addition, a number of countries in Africa and Latin America that had been caught in a low-income/low-tax/low public service trap have challenged the power of hosted multinational enterprises and other special interest groups and the affluent by raising their taxes and making the politically attractive promise to link the higher revenues to better funding for social protection (Mosley and Abdulai, 2016).

It is useful to keep in mind that fiscal planning for SPFs is intimately bound up in overall fiscal planning and policy making. Even if it accounts for only a modest portion of the overall budget, it is best protected by protecting the soundness of the overall fiscal situation. The Addis Agenda on FfD has enumerated various policies for sound tax and expenditure policies and made various commitments of international support to help developing countries to strengthen their fiscal situations, including with regard to improving the efficiency and effectiveness of national tax administrations, strengthening

⁹ See, respectively, <http://www.fao.org/elearning/#/elc/en/course/FSSN> and <https://www.worldbank.org/en/events/2017/03/06/social-protection-labor-and-jobs-core-courses-2017#2>.

¹⁰ This coincides, moreover, with the commitment in the Addis Agenda (UN, 2015, para. 31) and SDG target 12c.

the progressiveness of national tax systems, increasing international cooperation on tax matters, curbing illicit financial outflows, curtailing corruption and speeding the recovery of stolen assets, among other issues.¹¹ There are also many innovative taxation ideas that can help governments boost their tax take and that some governments have introduced or are considering introducing, including financial transaction taxes and carbon taxes, but they are beyond the scope of the present paper.¹²

Above all, attention must be paid to the political aspect of financing SPFs. As part of overall budgeting and in view of the general fungibility of public financial resources, the ability to effectively isolate funding for SPFs is limited. For example, governments can reduce the volume of funds for a specific purpose by reducing the tax rates on the source of funds earmarked for that purpose. In this regard, financing of SPFs is best thought of as part and parcel of overall budgeting, which warrants transparent and well-informed discussion among the relevant stakeholders, full vetting by the legislature and follow-up monitoring. In other words, both the expenditure and revenue sides of the government's budget, including for SPFs, must be recognized as the outcome of "bargaining and contestation" (UNRISD, 2016, p. 174).

In this context, ILO is guiding a process of national dialogues in Member States, involving governments, trade unions, employers and civil society organizations, with the aim of developing national consensus on priorities and strategies for building social protection systems and floors. As of April 2016, dialogues had been completed or were ongoing in 18 countries, while they were being planned in another 11 countries.¹³

As further follow up, the United Nations system prepared a detailed guide on how to organize stakeholder dialogues on SPFs, based on 14 joint UN assessment-based national dialogues in Africa, Asia and Latin America between 2011 and 2015 (ILO, 2016).¹⁴ When successful, SPF policy making in the context of well-undertaken budgeting should leave taxpayers feeling that their taxes are appropriately used and that it is their social responsibility to contribute, knowing as well that it is a shared obligation without free riders and with abusers of the system effectively tracked and punished.

Financing SPFs through volatile periods

Sound fiscal policy should be measured not only against a criterion of long-run sustainability of public debt obligations, but also against the ability to call upon financial buffers against unplanned and temporary changes in economic activity, whether positive or negative. Volatility in overall fiscal conditions can draw attention to the SPF, whose beneficiaries may often be less able to defend their interests in the political arena than

¹¹ Progress in regard to these and other matters is expected to be covered in the 2017 IATF report.

¹² Although often discussed as potential sources of revenue for international development cooperation, such taxes have been used—and could be further used—as sources of revenue in individual countries (United Nations, 2012, pp. 36-48).

¹³ Presentation by Isabel Ortiz, Director, Social Protection Department, ILO, at a side event held during the first Financing for Development Follow-up Forum, United Nations, New York, 19 April 2016.

¹⁴ Civil society organizations and trade unions have also sought to prepare themselves to engage in such discussions (see Friedrich Ebert Stiftung, 2015).

other beneficiaries of public expenditure. It will thus help protect financing of SPFs if they are treated as entitlements, although legislatures can not only give but also take away that status absent political mobilization by the beneficiaries to protect it.

In other words, whether funded through general revenues or earmarked taxes, when periods of economic contraction ensue it can be expected that policymakers will be challenged to maintain their outlays for social protection floors, especially after the initial crisis period is passed and policymakers begin to think about recovery and especially if the government added to its sovereign debt burden during the depths of the crisis in order to maintain aggregate demand. Best for the SPF is that overall pressures for a turn to fiscal austerity can be contained; this involves the government preparing to make countercyclical expenditures well before they are needed.

Some countries—in particular, commodity exporting countries—have approached this problem by building up fiscal reserves during boom times with the intention to draw them down during times of economic bust.¹⁵ Chile has been a leader in this, having adopted a rule by which it commits to balance its budget but allow a deficit to emerge whenever national output or the international prices of copper, a major export, fall below a specified trend and equivalently achieve a surplus during a boom.¹⁶ Although the formal policy was introduced in 2000, Chile had earlier created a place to accumulate such surpluses, as its Copper Stabilization Fund had been created in the 1980s to smooth its fiscal take from copper exports.

However, the International Monetary Fund (IMF) reports mixed results when resource-rich low and middle-income developing countries have sought to provide a fiscal buffer through a reserve fund and fiscal rules. In some cases, the governments breached their rules or enforced them weakly or abandoned them for other priorities (IMF, 2015, p. 8 and annex 1.2). Governments looking to emulate Chile's experience should thus consider a variety of factors in the design of such a policy to ensure political commitment to its effectiveness. They are more likely to adapt rather than adopt Chile's model in full. Indeed, Chile went beyond its own policy guidance with a greater countercyclical expenditure increase during the depths of the 2009 recession than otherwise indicated by the rule. Also, in its earlier incarnations the budget target had been set to a small surplus in order to pay down some of its sovereign debt. Lower-income countries with access to domestic private savings through local-currency bond issues or external loans and/or grant resources might well set the target to a modest fiscal deficit.

In a parallel way, governments or their central banks need to target how much foreign exchange inflows to remove from circulation and put into precautionary reserves.

¹⁵ It goes without saying that the fiscal reserve needs to be appropriately invested so as to available for use when needed. As a budget reserve, it will need to be in liquid local currency assets or assets readily converted into local currency.

¹⁶ The rule is actually somewhat more complicated, as the “structural” budget is targeted and independent committees determine the country's position vis-à-vis the trend line for output and copper prices (Frankel, 2013). Not only has the policy worked in practice, it has also been shown to work in theory to improve national wellbeing (Engel et al, 2013).

The only thing certain is that the standard rule of thumb to hold enough reserves to cover three months of imports is no longer an adequate guide. The appropriate target will depend on the volatility of the exchange rate, the degree to which the central bank manages the exchange rate, whether and what types of capital controls are maintained, the volatility of export earnings and import costs, the opportunity cost of holding reserves in major currencies that pay virtually zero return, and the availability and cost of foreign credit as an alternative to self-insurance through reserves. Foreign exchange reserves, like fiscal reserves, provide a service, but they have a cost and need to be managed.

What is entailed in the international commitment to support SPFs?

As may be seen, there is much that governments can do—and that they are doing—to assure financing for their national social protection floors in good times and bad. Nevertheless, there are times and circumstances when it will be difficult for countries to fully meet the demands on their SPFs out of their own resources. However, the Addis Agenda contains an international commitment to “strong international support” for their efforts” (United Nations, 2015, para. 12). What should that entail?

There are three categories of international cooperation that may be identified in this regard, which may be denoted capacity building in developing countries, financial support for countries in times of need, and encouragement of international financial innovation to lessen fiscal stress in difficult times. Each in its way can support countries to extend and protect their social protection floors.

Technical cooperation and capacity building

As noted earlier, United Nations agencies have worked collaboratively to assist the relevant ministries of developing country governments that seek to devise or improve their social protection programmes, including child, maternity, elderly, unemployment and disability benefit programmes and further build their operational and management capacities. In part, this reflects action on the CEB commitments noted above. Indeed, Helen Clark, as head of the UN Development Group, a subsidiary body of the CEB that brings together the UN agencies working in developing countries, and Guy Ryder, Director-General of ILO, wrote a joint letter to the UN family of institutions on 2 March 2014 encouraging them to “maintain momentum” on social protection floors in various ways, including strengthening “One UN” national social protection floor teams, supporting national dialogues, assisting in preparation of national analyses, and so on. This spirit of UN system cooperation was later reflected as well in the broader Addis theme of cooperation for stronger capacity building, inter alia, in public finance and administration (United Nations, 2015, para. 115).

Other international organizations and bilateral donors have also increased their support for social protection floors. A noteworthy example is the European Union Social Protection Systems Programme (EU-SPS), which had been set up to support low and middle-income countries in building their social protection systems. The Programme, which will run from 2015 to 2018, is funded by the European Union, the Organization for Economic Cooperation and Development (OECD) and the Government of Finland. The initiative will focus on reforms to social protection in each of 10 selected countries in

Africa and Asia. It will provide technical assessments, develop analytical tools and strengthen capacities of policymakers, implementation planners and service providers. The kick-off meeting for the project took place at OECD in Paris on 16 September 2015.¹⁷

Furthermore, the aforementioned G20 Development Working Group asked the ILO and the World Bank Group to organize a new donor coordination mechanism, the Social Protection Inter-Agency Cooperation Board (SPIAC-B). It brings together relevant global, regional and bilateral development institutions that work at the country level on social protection advocacy, financing and/or technical advice, and includes as observers major civil society organizations working in the field.¹⁸ Among its activities, SPIAC-B has been overseeing development of the set of ISPA evaluation tools mentioned above.

The ILO and the World Bank Group launched a second joint initiative on 30 June 2015, just before the Addis FfD conference, when the heads of the two institutions, Guy Ryder and Jim Yong Kim, announced a programme to increase the number of countries adopting universal social protection systems (ILO and World Bank, 2015). This initiative combines applied field support on social protection systems with high-level advocacy, as reflected in the announcement by these two leaders of the new Global Partnership for Universal Social Protection during the UN General Assembly on 21 September 2016.¹⁹

In all, there has been considerable interest among a number of donor countries in supporting the efforts of developing countries to introduce or expand their systems of social protection. Bilateral support to low and middle-income countries is primarily funded through official development assistance (ODA), while programme loans by the World Bank and regional development banks would be largely on ODA terms for low-income countries and more commercial terms for middle-income countries. Although the programmes of support of individual providers reflect their own programme and country assistance foci, there are various coordinating efforts, as we have seen, such as SPIAC-B. To deepen cooperation among providers of assistance, it has been proposed that a portion of donor financing be pooled in a common trust fund. SPIAC-B has agreed as a “suggested action point” to “explore the possibility of establishing a multi-donor trust fund to support start-up funds to expand social protection systems”, albeit also specifying that such a trust fund would not fund benefits per se (SPIAC-B, 2015). It does not appear that action has yet been taken on that initiative.

The above notwithstanding, measured against the potential global improvement in social protection and the contribution that could make to global wellbeing, much more can be done. For example, additional donor governments and other providers might offer to

¹⁷ The programme is described at <http://www.oecd.org/dev/inclusivesocietiesanddevelopment/social-protection.htm>.

¹⁸ See its web page for an introduction to its work at <http://www.ilo.org/newyork/issues-at-work/social-protection/social-protection-inter-agency-cooperation-board/lang--en/index.htm>.

¹⁹ The leaders were joined by representatives of the African Union, FAO, the European Commission, Helpege, OECD, Save the Children, International Policy Centre for Inclusive Growth (a partnership with the United Nations Development Programme), and UNICEF, along with representatives of Belgian, Finnish, French and German technical cooperation programmes (World Bank, 2016a).

collaborate with developing country experts to share their experiences in building social protection floors in third countries. Indeed, there is a precedent in the ongoing joint work of ILO and the United Nations' Special Unit for South-South Cooperation in just this area.²⁰

Official flows of international financial support

While countries generally expect to cover the costs of their SPFs, there are occasions when international assistance in support of the fiscal positions of countries is warranted, which will, ipso facto, help assure uninterrupted funding of the SPF. In a small number of cases, perhaps roughly a dozen, it has been estimated that the gap is so large between what the government would need to spend on an SPF and what revenues an effectively reformed domestic tax system would provide that international financial transfers would be required to help fund the SPF on an ongoing basis (Bierbaum et al., 2016).²¹

While it is hard to find donor country support for international funding of SPFs per se, donor countries have supported the more general concept of unrestricted ODA-financed budget support, conditional on there being sufficient mutual confidence in donor/recipient relations (Koberle et al., 2006). General or sector-specific budget support could thus in principle provide the resources or free up other domestic resources to financially support SPFs for those countries that have extraordinary fiscal needs. The challenge would seem to lie in developing sufficient confidence in mutual accountability where it does not already exist, which is a main focus of the international aid effectiveness agenda. The UN's Development Cooperation Forum could pioneer such discussions as they would apply specifically to supplementing domestic resources for SPFs.

In any event, most low and middle-income countries only need external budget support during temporary periods. Although many countries might seek such external funding from financial markets, the markets are most accommodating when their funds are least needed. Official international financial support thus remains crucial for addressing temporary financing needs, especially for the lower income countries.

One category of need for special and separate international assistance is in humanitarian emergencies, which is provided through voluntary donations by governments and charities, based on official and private assessments of need. The funds assist refugees, respond to the harm from earthquakes and help replace food lost due to drought, nurture civilians in conflict situations, and so on. Increasingly, donors are working with the governments of crisis countries to provide some of their support in the form of cash transfers. Indeed, the World Humanitarian Summit in 2016 "saw several concrete commitments for scaling up the use of cash transfers in conjunction with national social

²⁰ In particular, the South-South Cooperation Initiative is bringing social protection experts from the South to assist Benin, Burkina Faso, Cambodia, Lao Peoples Democratic Republic and Togo (information at http://ssc.undp.org/content/ssc/un_entities_space/ILO/programmes.html). See also UNDP (2011).

²¹ The call for international financial transfers to deliver social protection floors in the poorest countries of the world over the medium term was earlier made by the United Nations Special Rapporteurs on the Right to Food and on Extreme Poverty and Human Rights, Olivier de Schutter and Magdalena Sepúlveda (2012).

protection schemes” (United Nations, 2016).

While humanitarian and economic assistance have long been counted as separate categories of international cooperation, planning for the two concepts of international assistance share some characteristics. For example, policymakers increasingly appreciate that the decisions facing governments to financially prepare to address emergencies involve similar options to those facing policymaking on financing SPFs during times of economic crisis, namely deciding what combinations to employ of self-insurance through reserve funds, accessing international lines of credit (as will be discussed below) or seeking ways to reallocate expenditures toward addressing the emergency (see section below on reducing debt servicing).²²

The main category of broadly appreciated need for international assistance is in times of temporary economic distress. The International Monetary Fund is the mandated lead agency in this regard. Typically, IMF loans to governments are not earmarked for specific uses, although borrowing governments have to agree to sets of policy measures to obtain the loans (“conditionality”).²³ A process of negotiation between the Fund and the borrowing government is thus required before any disbursement, making IMF funding the second line of response to a crisis after use of a country’s own reserves. On the other hand, Fund programmes can be large.

In addition, in recent years the Fund has adopted a number of measures to disburse some of its funds more rapidly. In particular, IMF created two special loan “windows”, the Rapid Credit Facility (RCF) for low-income countries and the Rapid Financing Instrument (RFI) for middle and upper-income countries, which, as their names imply, can distribute funds quickly to countries in need without formal adjustment programmes. RFI loans incur standard interest charges and should be repaid in 3.5 to 5 years. RCF loans incur no interest obligations and are to be repaid over 5.5 to 10 years. (IMF, 2016a).

These facilities recognize the principle that counter-cyclical support should be delivered quickly and on appropriate terms. The amounts available, however, are limited. They do not have the ambition of the original Compensatory Financing Facility (Goreux, 1980) that fell out of favour in the 1980s,²⁴ nor of the disappointing STABEX system that

²² For a proposed framework within which to make such a selection, see Clarke et al. (2016).

²³ Although since 1995 IMF has increasingly included measures to increase or protect social expenditures in its conditional programmes of support (Kentikelenis et al., 2016, figure 3), implementation has been disappointing; e.g., from 1995 to 2014 African countries implemented only half of the social spending floor conditions in the programmes for which implementation data are available (ibid., table 3). It would appear that from the perspective of the borrowing countries and the IMF, the consequences of not meeting these targets has been less compelling than the fiscal and monetary conditions.

²⁴ IMF typically sets borrowing limits in relation to a country’s “quota” in the Fund, which is essentially the amount it contributes as per a formula for membership. One quarter is usually in foreign currency and is viewed as the member’s asset, which it can draw at any time. Drawings above that are borrowings from the fund, with various ceilings. In particular, countries can borrow from the RFI up to 37.5 per cent of their IMF quota in a year and accumulate borrowings from this facility of up to 75 per cent of quota. Borrowing limits for the RCF are 18.75 per cent of quota in one year, except for borrowing in response to predefined “shocks” when the annual limit is 37.5 per cent; there is no separate limit for total RCF borrowings outstanding,

the European Union devised to compensate the African, Caribbean and Pacific countries with which it was affiliated through the Lomé Conventions for fluctuations in individual commodity exports (Collier et al., 1998). Those facilities aimed to substantially moderate the impact of trade price volatility, which were well-known sources of damage to economic and social conditions in developing countries.

It has also been argued that the multilateral development banks could play a larger role in countercyclical financing for developing countries, building on the sharp increase in such funding they provided in the wake of the 2008-9 global crisis, albeit recognizing that to do so requires a shift away from their main focus on long-run projects (Griffith-Jones, 2016, pp. 12-13). In fact, the World Bank has sought to prepare more systematically for assisting poor countries in future crises. That is, in 2011 it created two additional financing mechanisms for the low-income countries that are eligible to draw from its International Development Association (IDA). One is the Crisis Response Window, which provides low-interest loans or grants to supplement UN and other emergency assistance so as to maintain the pre-existing path of spending on education, health, the operation and maintenance of infrastructure, and to maintain or potentially increase spending on social protection. The other is the Immediate Response Mechanism, which allows countries to draw down undisbursed balances from ongoing investment projects as part of their responses to specified emergencies. Support under both mechanisms is viewed as complementing other efforts of the international community and is thus quite constrained in overall amount and in country eligibility (World Bank, 2016b).²⁵ More recently, the Bank has cooperated with the World Health Organization in creating a standing Pandemic Emergency Financing Facility using IDA resources and the proceeds of “catastrophe bonds” issued by the Bank for making resources available rapidly to fight a potential pandemic disease (World Bank, 2016).

In all, the principle seems well accepted that developing countries face an uncertain and volatile world and that the international community should help them respond to it. The assumption seems to remain, however, that if the needs are large, then conventional conditional loans are warranted rather than quick-disbursing semi-automatic funding based on evident need.²⁶

although they are counted toward the overall limit through all IMF facilities used (IMF, 2016a). In contrast, under the 1960s-1970s Compensatory Financing Facility, maximum drawings were determined in terms of a formula that measured the shortfall in export earnings (or excess in grain import costs) up to 100 per cent of quota (Goreux, 1980).

²⁵ The World Bank has also supported efforts to help countries prepare for emergency surges in needed financial resources, such as by helping countries launch “catastrophe bonds” in international financial markets, in which the investor foregoes the principal and unpaid interest in the event a named catastrophe occurs, freeing up funds for the crisis-hit country (the borrowing government pays a higher interest rate for inclusion of this option).

²⁶ At the same time, IMF Executive Directors have requested IMF staff to advise eligible countries to draw from the quick-disbursing concessional windows up to their access limits as needed. Further review of the Fund’s lending programmes is scheduled for 2018 (IMF, 2016c).

Financial innovation for better risk sharing

A third option to lessening the risk to SPFs from international volatility is to better share the risk of financial distress with a country's creditors. Creditors share risk with their borrowers in a particular way: they are either fully paid or not paid at all in a debt crisis until it is resolved in which case they may receive less than the full repayment. The one exception, which is not actually an exception, is Sharia-compliant *sukuk*.²⁷ It is an increasingly available source of international funds for some types of public funding that many countries have begun to tap. But it is not a loan. A loan instrument specifies the interest and principal repayment schedule that the borrower must meet and the creditor may take the borrower to court if the obligations are not met. It follows that in government budgeting, servicing sovereign debt is considered one of the highest priority uses of public revenues, not only because of the legal obligation but also to maintain access to further loans.

In this context, many analysts have questioned whether more flexibility might be put into debt contracts. Considerable financial and legal work has thus been done in recent years on designing sovereign bond contracts that would require creditors to share the risk of difficult times with their sovereign borrowers without going through a restructuring exercise. One approach, centred on the Bank of England and the Bank of Canada (Brooke et al., 2013), has been called "sovereign cocos", which would build on an instrument that is already an option that banks and corporate borrowers can offer their lenders, called a "contingent convertible" (coco). In those bonds some pre-specified event triggers the conversion of the bond into some form of equity security that has lower priority for repayment and no longer obligates the borrower to pay interest. As private investors cannot own governments, the "sovereign coco" would maintain a bond's structure but delay principal repayments according to a prearranged schedule. It could also specify triggers for further delay (a quid pro quo in some presentations is that the country should also receive a loan from IMF, putting it under the usual IMF conditionality). A further option has been proposed for low-income countries to cancel debt servicing rather than delay it when the contingent event has occurred (Panizza, 2015).

A related proposed innovation is a bond whose interest payment would be linked to the country's gross domestic product (GDP), wherein the borrower agrees to pay the lender a base interest rate plus an addition (or minus a subtraction) according to the performance of the borrower's GDP (Bank of England, 2016). Until now, bond payments linked to gross domestic product have only been issued as part of sovereign debt workouts, notably by Argentina, Greece and Ukraine. Interest payments were earlier linked to the price of a major export, usually oil, as in the debt restructurings of Mexico and Venezuela at the end of the 1980s. No GDP-linked bonds have been sold to financial investors under normal market conditions. However, financial market professionals have drafted "term sheets" (financial terms of a model contract) for both sovereign cocos and GDP linked bonds,

²⁷ Sukuk is a share in the ownership of real assets, even government-owned assets; sukuk do not pay interest, which is prohibited, but allow the investor to share in income resulting from the investment. It is a growing market for sovereigns as well as private "borrowers". For monitoring of current issues and related materials see, <https://www.sukuk.com/>.

which could lead a country to experiment with these instruments as a “first mover” to test market interest in the innovation.

While these innovations would serve as a way to “bail in” private creditors during a sovereign’s period of financial distress, the French aid agency, Agence Française de Développement, introduced a *prêt contracyclique* for its own loans extended to a number of African countries (Commonwealth Secretariat, 2016). The French loan takes the latter five years of its standard ten-year grace period and allows the borrower to use it at any time, including postponing its final maturity date by five years. This option, like the sovereign *coco*, is a contemporary form of the “*bisque*” clause that apparently originated in United States loans to the United Kingdom in 1946 that gave the UK options to postpone repayments under specified conditions (Cosío-Pascal, 2010). A *bisque* clause was included in Indonesia’s 1960s debt restructuring and it has been proposed to make such a clause a standard part of restructurings of debt owed to sovereign creditors.

It may be noted, moreover, that special options are available to public creditors during workouts from sovereign debt crises that are not usually acceptable to private creditors and that may open further possibilities for relieving debt servicing pressures in times of stress. That is, public creditors by their nature as governments or international institutions may accept to receive less than full repayment for policy reasons other than insolvency, the ineluctable reason that private creditors agree to accept less than full repayment of sovereign obligations. For example, the expressed motivation for the relief accorded to heavily indebted poor countries by IMF, the World Bank and certain regional development banks under the Multilateral Debt Relief Initiative of 2005 was to better enable the debtor countries to achieve the Millennium Development Goals and in particular to “fight poverty” (IMF, 2016). Other creditors were not expected to join the multilateral institutions in offering additional relief. In addition, the Paris Club of major official government creditors has agreed on various occasions to unilaterally offer to postpone debt repayments falling due from crisis-affected countries so as to free up national resources to fight their crises.²⁸ Finally, the IMF created a facility called the Catastrophe Containment and Relief Trust to provide funds with which to pay interest and principle obligations falling due to IMF—or possibly cancel the debt outright—of poor countries experiencing natural or public health disasters (IMF, 2016a, pp. 55-57).²⁹ In short, the principle seems to have been accepted with respect to a variety of public creditor claims on developing countries. It remains only to turn it into standard practice.

While the initiatives detailed here may serve to help prevent a country slipping into an outright insolvency crisis, such crises seem inevitable. A mechanism is thus needed—one may say, is still needed—to resolve sovereign debt crisis in an effective, fair and timely manner. The international community has tried and failed to close this gap in the

²⁸ Cases include a three-year deferral of payments falling due by Honduras and Nicaragua owing to hurricane damage in 1998 and a three-year deferral for Liberia in 2008 owing to the impact of its long-standing internal political conflict (for a full listing, see <http://www.clubdeparis.org/en/communications/page/exceptional-treatments-in-case-of-crisis>).

²⁹ Guinea, Haiti, Liberia and Sierra Leone have thus far drawn on this facility.

international financial architecture for over a century, beginning with the Second Hague Peace Conference in 1907 at which participating States at least agreed to settle sovereign debt disputes through arbitration instead of force, through the 1933 Pan American Conference in Montevideo, and the early planning for the Bretton Woods institutions (Helleiner, 2008). Neither these early efforts nor more recent ones have led to a consensus within the international community, although work continues in international forums on debt crisis resolution and prevention (United Nations, 2016b).

Conclusion: possible guidance for discussing the financing of SPFs

The preceding exposition suggests at least to this author that it might be possible to identify a number of questions on financing social protection floors that could serve as foci for international discussion. The following might thus be proposed.

1. The spread of SPFs around the world is an encouraging development, especially in light of the SDG commitment to end poverty in all its forms everywhere. It may therefore be useful to seek to further build up that momentum. How might the United Nations Financing for Development Follow-up Forum encourage initiatives to this effect at national, regional and global level?
2. The 2030 Agenda and the Addis Agenda on Financing for Development embody a commitment to assist countries in developing their social protection systems, including floors. To this end, additional official development assistance earmarked for helping to build, operate and manage social protection floors is warranted. In addition, developing countries have much to gain from peer-to-peer learning. How might increases in these forms of cooperation be stimulated?
3. Governments are responsible for preparing for contingencies, but some contingencies are beyond the capacity of many countries to cover on their own. The international community regularly assists countries experiencing unusual fiscal stresses, providing loans on appropriate conditions and terms (including grants as warranted), depending on the severity of the situation. As the number of quick-disbursing—if small—facilities has grown in recent years, might an inventory of available facilities help determine if existing mechanisms of appropriate pre-arranged lines of credit and semi-automatic borrowing facilities need to be further expanded to meet the potential need on a timely basis?
4. In this spirit, a substantial portion of sovereign borrowing instruments might embody contingent repayment clauses to reduce fiscal pressure during difficult times (e.g., sovereign “cocos”, GDP-linked bonds, “bisque” clauses in inter-official loans). Islamic finance (*sukuk*) may also contribute to more effective risk sharing in sovereign debt management. How might work on spreading or further developing these instruments be encouraged?

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