HOW THE INTERNATIONAL COMMUNITY CAN HELP ASSURE FINANCING FOR SOCIAL PROTECTION FLOORS

Statement at "Financing Social Protection Floors" Side Event
During the 55th Session of the Commission on Social Development
United Nations, New York, 3 February 2017

Barry Herman[1]
Social Justice in Global Development and The New School

Commissioner Ulaya, Professor Ocampo, Ms. Spiegel, colleagues,

Thank you for the opportunity to share some thoughts on financing social protection floors. What I want to say today draws primarily on the paper I prepared for the Inter-Agency Task Force on Financing for Development, a draft of which the FfD Office has made available to you.[2] Let me say that the paper can still be improved and that comments would be welcomed. I am pretty confident that the message of the paper is right, but points can be sharpened when people give feedback.

Let me emphasize that we are focusing here on provision of a basic set of social protections for different stages of the life cycle, from child grants to unemployment and disability insurance for working age people to social pensions for the elderly. Some of the programmes, in particular, for middle and upper-income households, can be organized as contributory systems (e.g., pensions for those in formal employment). Or they can be organized as insurance (e.g., unemployment insurance with premiums paid by employers). But others need to be tax-financed, especially if the poorest people in the country are to be covered. I want to focus on the tax-financed parts of social protection floors and how to ensure that adequate funds are available. This is essentially a domestic fiscal responsibility, although I will close with three proposals for deepening international cooperation to support countries in this regard.

The essential concept here is a "floor", available in promised amounts to all who qualify. It's a floor, not a whole house, and it's not a "safety net." A safety net can be pulled from underneath the people it is supposed to save and it can have holes through which people can fall. Also, if you live under the safety net, it will not help you. The floor needs to be under you, solid, something on which all people can rely, both the poor and the non-poor who might become poor, for example, during a period of economic difficulty. The budgetary outlays that make up the floor have to be delivered to any and all who qualify. They are *entitlements*. They should not be considered part of discretionary government spending that can be offered in one year and discontinued the next.

My concern here is that it is incumbent upon governments to appropriately plan

---

[1] Contact: herman@socdevjustice.org.
[2] Also available at http://www.un.org/esa/ffd/wp-content/uploads/2017/01/Social-Protection-Floors-in-FFD-Draft-paper-Barry-Herman.pdf.

their social protection floors so they can deliver the promised cash transfers to the low-income elderly, disabled and children, and ensure an appropriately functioning health system, all of which are included in the intergovernmentally agreed ILO definition of social protection floors.[3]

This fiscal planning exercise can be complicated, as it requires projecting future needs as well as current ones. Establishing the social protection floor embodies a promise to people for an indefinitely long time. For example, to plan the social pension for the elderly poor, the government must ask how many people will be covered every year. This requires estimating what part of the elderly population will be in the contributory system and thus covered through a different mechanism and what part will need the separate floor? At what age should people become eligible for the social pension and how large should the payment be? Does the government cover everyone or just those in villages, towns and cities who are more easily identified? All of this must be considered to estimate the annual cost of the program, taking account of how that cost will change over time as the population as a whole ages. Once you have an estimate of how much a proposed programme might cost, you can start asking how to cover the cost out of tax revenues and whether those revenues can be increased if needed.

There is thus a strong political as well as technical dimension to planning social protection programs. There is no such thing as an optimal size of the SPF, only a political one. There will be a bargaining process among a nation's stakeholders, rich and poor. Typically, civil society and labour organizations will argue for instituting or expanding or deepening social protection programmes. If the poor or the population in general are successfully mobilized, they will undoubtedly find champions willing to take up their cause in the government, probably in a social ministry, and in the legislature. A proposal might then be drafted by the champions and presented to the finance ministry. It would be delightful if the finance ministry said OK, this is worth doing and we thus need to raise taxes on the rich or on the multinational firms we are hosting here or on mineral exporters. Bolivia did the latter.[4] Another possibility is the finance ministry will say, sorry, too big; shrink the proposal and come back with a more modest plan. This was the case in recent years in the Philippines, a case worth mentioning here that was featured in a webinar that was held on January 26 on "navigating political space" for expanding social protection.[5]

As part of that webinar, Ms. Aura Sevilla described the steps in her organization's campaign to get a universal old age pension implemented in the Philippines. She is Project Coordinator at the Coalition of Services for the Elderly in the Philippines. Her organization began to learn about social pensions in 2002 and in 2005 joined with others and with support from HelpAge International, an international network of civil society organizations focused on the elderly, to undertake a research project on identifying the people who were not covered by existing contributory pension schemes in the Philippines. In 2007 a

---

[3] Recommendation 202, adopted at the 101st General Conference of the International Labour Organization (2012).

[4] ILO (2016), "Bolivia: Financing social protection through taxation of natural resources," in *Social Protection Floors*, vol. 3 (Governance and financing), pp. 15-22.

[5] For a video recording of the webinar, see http://socialprotection.org/discover/publications/webinar-presentation-constituency-building-and-fiscal-space-social-protection.

coalition of organizations proposed a social pension bill in the Philippine Congress that was at first defeated, but was eventually adopted in 2010 after additional lobbying, including by filling the public galleries of the Senate with elderly people.

The adopted program was very limited and underfunded: it promised monthly cash transfers of 500 Philippine pesos (US$11) for every eligible person over 60 who met certain income and other eligibility criteria. The Congress allocated what was supposed to be enough money to cover all eligible people but it only covered people 77 years old or more, not 60 or more. It appears that the government was unwilling to start a more generous program than it thought it could fund, most likely because it would quickly become politically impossible to reduce the benefit once the programme was underway.

Philippine CSOs were not satisfied and decided they had to learn more about how the budget worked, which they did in conjunction with CSO experts on budgeting, in particular in cooperation with Social Watch Philippines. As a result of increasingly effective lobbying, coverage rose from 139,000 people in 2010 to an expected 2.8 million in 2017. Even so, the CSO estimates that 38% of people over 60 still lack any coverage and to address that they are proposing a shift from a targeted programme that is means tested to a universal pension. That is, people in contributory systems would stay with what they have, which is better than the public option; but everyone else over age 60 should be able to draw on the public system. It will be incumbent on the Philippine authorities to figure out how to finance that larger program.

The good news, as the Philippine experience indicates, is that there is already quite an accumulation of experience in planning and lobbying for social protection floors. It also clear that advocates have to learn about the technical and political aspects of government budgeting and taxation. Opportunities for official assistance in this area exist as well. Indeed, international institutions like ILO stand ready to help governments that want to develop or strengthen their SPFs. Support is also provided by the World Bank, the International Monetary Fund, FAO, and more.

Three types of international cooperation for strengthening SPFs

First proposal

And thus we have come to the first type of international cooperation that might help countries that want to improve their SPFs: the technical assistance just noted is not costless to arrange and thus one special need of the international system is for sufficient official development assistance to underwrite such support, most of which should be provided as direct service support or technical assistance grants. With more money, more countries can be assisted in designing and strengthening their SPFs.

But not only money is needed. Sharing ideas and experiences is also necessary. In a meeting I was in a few weeks ago, a Brazilian representative said his government would happily share its *Bolsa Familia* experience with interested other countries, which I understand Brazil already does on a bilateral basis. UN Member States could bring some of that kind of discussion into the Social Commission, but it would be most beneficial to have finance ministry people also in the room and they do not usually participate in the Social

Commission. That is why I think the topic of financing social protection floors should be taken up under the Financing for Development follow-up process, with substantive preparation for the discussion by the agency members of its Inter-Agency Task Force (IATF) who work in this field. There is already some such discussion of social protection floors at regional level, but the regions have experiences to share with each other. This is a global issue par excellence!

Second proposal

I have talked about the importance of adequate planning to insure that public financial resources are available when needed to cover the costs of the SPF. We need now to reflect on economic volatility and the increasing need that countries have to confront natural calamities. Countries that are exporters of a limited range of commodities are especially vulnerable to fluctuations in international commodity prices and small island states seem especially vulnerable to damaging storms. To some degree, countries can self-insure, building up reserve funds during good times to draw down during difficult times. But countries differ in their capacity to accumulate such funds and international support can help them in such circumstances.

This is not anything new. It has been part of the international system since the creation of the Bretton Woods system in 1945. In fact, IMF used to run a Compensatory Financing Facility that could disburse a significant amount of resources within two weeks of a developing country asking the Fund for support owing either to a significant temporary drop in export prices or a sudden rise in cereal import costs. The Facility was changed in the early 1980s to essentially eliminate the automaticity, but the need for mechanisms that can provide quick financial support has been increasingly realized, especially since the global financial crisis. In my paper, I give some details on the facilities recently created in IMF and the World Bank. They are much smaller than the original CFF.

Has the international community done enough in this regard? To carry out an "evidence-based" assessment of policy needs, we at least need an inventory of all such mechanisms and what the shortfall might be. Here is, again, something that the IATF is singularly well equipped to carry out. Member States could ask them to undertake such an inventory as preparation for a discussion of the findings in the FfD Follow-up Forum, where, again, the relevant people could be invited to sit around the table. That is my second proposal.

Third proposal

You may recall that I reserved the term "fiscal space" to discretionary outlays made after the government meets its mandated outlays. When the economic situation becomes difficult, some of those mandated outlays might also have to be curtailed. One category that is typically considered a very high priority is paying interest and principal falling due on the government's sovereign debt. Governments will fully service their debt as long as possible because no new loans will be forthcoming once it stops making payments. It is not likely that civil servants will work for long without pay and few governments would dare not pay their military servicemen and women. That puts the social protection floor at risk during crisis periods, but it does not have to be that way.

In fact, economists, finance specialists and lawyers have been working on new forms of bond and loan contracts that would build in a trigger mechanism that would postpone or even cancel required borrower payments under pre-specified conditions. These instruments have not yet come to market in the private sector, except for certain types of bonds known as "catastrophe bonds", which have been issued, for example, by governments in the Caribbean, as well as by insurance companies fearing an event that would drain their resources to pay claims. "Cat bonds" specify that a hurricane or similar natural disturbance could trigger cancellation or postponement of the debt obligations (the government issuing the bond pays a higher interest rate for this option). Issuing international Islamic *sukuk* instruments might offer another approach to the problem of volatility and uncertainty for some countries. In addition, official creditors have offered unilateral debt relief in the Paris Club in response to certain difficult circumstances and I cite certain examples in the paper.

It is perhaps time to give these instruments renewed consideration in intergovernmental forums. Discussions are already underway in IMF. Should not the results of those discussions be shared with a broader forum on public finance, which is to say, again, the FfD Follow-up Forum? Once again, the IATF could help prepare such a discussion and an airing of views on these instruments and their potential contribution to sustainable and sustained development could perhaps encourage "first movers" to begin to introduce them into standard practice, as Mexico did when it issued the first bond with new "collective action clauses." Sometimes a discussion of finance in a forum in which finance specialists interact with specialists from other parts of government and with other stakeholders can be fruitful. This could be one of those cases.

Thank you.