

Bierbaum, Mira; Schmitt, Valérie

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Investing more in universal social protection: Filling the financing gap through domestic resource mobilization and international support and coordination

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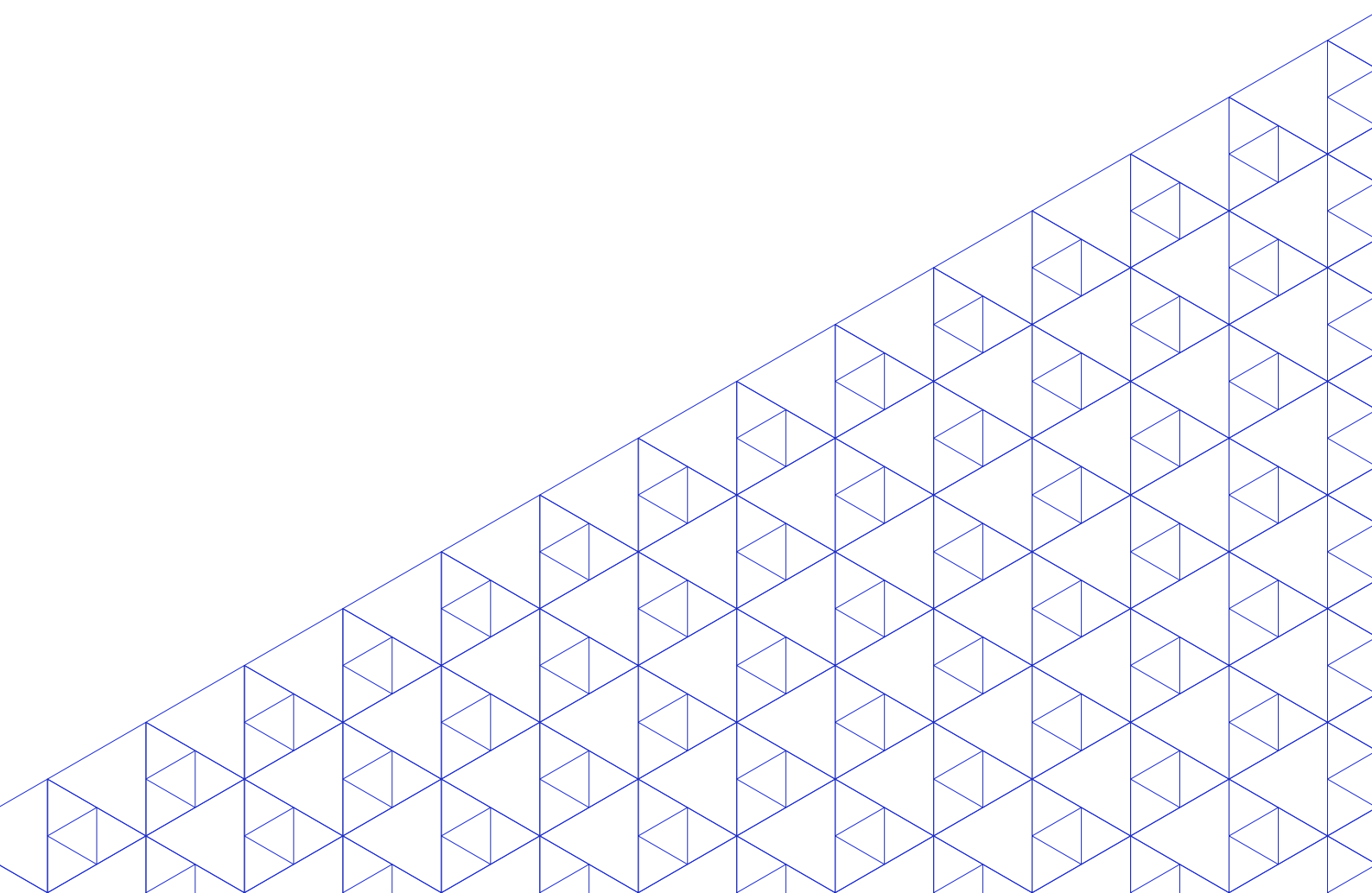
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► Investing more in universal social protection

Filling the financing gap through domestic resource mobilization and international support and coordination

Authors / Mira Bierbaum, Valérie Schmitt





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Abstract

Large and persistent gaps in social protection coverage, comprehensiveness and adequacy are linked to many barriers, including high levels of informality, institutional fragmentation of the social protection system and significant financing gaps for social protection in a context of limited fiscal space. The latter have been further exacerbated by the impact of the COVID-19. Against this background, this paper discusses the magnitude and urgency of the challenge of filling social protection financing gaps and the options for achieving this. Options exist even in low-income countries, including by broadening the tax base; tackling tax evasion and building fair and progressive tax systems together with a sustainable macroeconomic framework; duly collecting social security contributions and tackling non-payment or the avoidance of social security contributions; reprioritizing and reallocating public expenditure; and eliminating corruption and illicit financial flows. National social protection systems should be primarily financed from domestic resources; however, for countries with limited domestic fiscal capacities or countries facing increased needs due to crises, natural disasters or climate change, international financial resources, in combination with technical assistance, could complement and support domestic resource mobilization for social protection. Furthermore, more dialogue and coherence need to be achieved between international financial and development institutions to avoid contradictory policy advice on the level and nature of investment in social protection. Finally, international cooperation, such as on tax matters or debt restructuring, is needed to create an environment that facilitates domestic resource mobilization.

JEL classification: I3, H3, H53, H55

Key words: social protection, social security systems, social protection floors, social security contributions, public expenditure, fiscal space, social protection financing, solidarity, domestic resource mobilization, official development assistance (ODA), developing countries, Sustainable Development Goals (SDGs).

About the authors

Mira Bierbaum is a Technical Officer in the International Labour Organization's (ILO) Social Protection Department. She holds a Master's degree in Public Policy and Human Development with a specialization in Social Policy Design and Financing and a PhD in Economics from Maastricht University. Before joining the ILO, she worked as a consultant for the Friedrich-Ebert-Stiftung, the International Training Centre of the ILO, UN Women, and the World Bank.

Valérie Schmitt is the Deputy Director of the ILO's Social Protection Department. She is also leading the ILO's Flagship programme on building social protection floors for all. She holds a Master of Advanced Studies (first year of doctoral studies programme) in quantitative economics from Paris Sciences Economiques (Laboratoire du Delta) and a Master of Business Administration with honours from HEC Paris. She also holds a bachelor's degree in Philosophy from the University of Paris IV – La Sorbonne. Ms. Schmitt joined the ILO in 2003. She has 25 years of progressively responsible professional experience in the field of social protection, combining both headquarters and field experience in various types of organizations: ILO headquarters, ILO in Africa and Asia, consulting groups in France, and an NGO in West Africa.

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Acronyms

ABND	assessment-based national dialogue
BEPS	base erosion and profit shifting
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
DAC	Development Assistance Committee
DSSI	Debt Service Suspension Initiative
ECLAC	Economic Commission for Latin America and the Caribbean
ENSSB	National Basic Social Security Strategy (Mozambique)
EU	European Union
GDP	gross domestic product
GNI	gross national income
IMF	International Monetary Fund
ILO	International Labour Organization
INAS	National Social Action Institute (Mozambique)
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
PPP	purchasing power parity
RAP	Rapid Assessment Protocol
SDG	Sustainable Development Goals
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNRISD	United Nations Research Institute for Social Development

Key points

- Today more than 4 billion people are still excluded from social protection. Large and persistent gaps in social protection coverage, comprehensiveness and adequacy are linked to many barriers, including high (and sometimes increasing) levels of informality, institutional fragmentation of the social protection system and significant financing gaps for social protection in a context of limited fiscal space. The latter have been further exacerbated by the impact of the COVID-19 pandemic, which has increased the urgent demand for social protection to protect individuals' health and income and at the same time has decreased national resources for social protection by diminishing tax and contributory revenue.
- To realize the right to social security for all by 2030, more investment in social protection is indispensable. Options for sustainably increasing fiscal space for social protection exist even in low-income countries, including by broadening the tax base; tackling tax evasion and building fair and progressive tax systems together with a sustainable macroeconomic framework; duly collecting social security contributions and tackling the avoidance of social security contributions; reprioritizing and reallocating expenditure; and eliminating corruption and illicit financial flows.
- National social protection systems should be primarily financed from domestic resources, which need to be gradually increased in line with the economic and fiscal capacities of the country and based on national priorities. However, for countries with limited domestic fiscal capacities to invest in social protection or countries facing increased needs due to crises, natural disasters or climate change, international financial resources, in combination with technical assistance, could complement and support domestic resource mobilization for social protection.
- In addition to technical and financial assistance at the country level, more dialogue and coherence needs to be achieved between international financial and development institutions to avoid contradictory policy advice on the level and nature of investment in social protection. Moreover, international cooperation, such as on tax matters or debt restructuring, is needed to create an environment that facilitates domestic resource mobilization.

▶ 1 Introduction

Even before the COVID-19 pandemic threw the world into turmoil, it was clear that the global community was failing to live up to the commitments it had made in the wake of the last global catastrophe, namely the 2008 global financial crisis. This commitment took concrete shape in the [Social Protection Floors Recommendation, 2012 \(No. 202\)](#) and was further endorsed by the transformative 2030 Agenda for Sustainable Development. Yet, progress towards building national social protection floors and achieving the Sustainable Development Goals (SDGs) on social protection (SDG target 1.3) and universal health coverage (SDG target 3.8) has lagged. Large coverage gaps persist, which deny people's enjoyment of the right to social security¹ that is firmly enshrined in several human rights instruments. As of 2020, 53.1 per cent of the world's population had no access to social protection benefits at all and 70.4 per cent of the working-age population were not legally covered by comprehensive social security systems (ILO 2021i). At the same time, the COVID-19 pandemic led to a massive loss of jobs, amounting to the equivalent of 255 million full-time jobs in 2020 alone (ILO 2021f).

These large and persistent gaps in social protection coverage, comprehensiveness and adequacy are linked to barriers that require strong political will to be overcome. These include high (and sometimes increasing) levels of informality, institutional fragmentation of the social protection system and significant financing gaps for social protection in a context of limited fiscal space. These gaps have been further exacerbated by the impact of the COVID-19 pandemic, which has increased the urgent demand for social protection to guarantee access to required health services, compensate for the loss of income due to lockdowns, physical distancing measures and job losses, while at the same time decreasing national resources for social protection by diminishing tax and contributory revenue.

Whereas in countries with more developed social protection systems pre-existing statutory schemes automatically fulfilled their protective function for large parts of the population, many countries had to urgently fill protection gaps by introducing new measures or extending the coverage, comprehensiveness and adequacy of existing social protection schemes (ILO 2021h). Furthermore, there has been an inequitable stimulus response to the COVID-19 pandemic (ILO 2020b). Lower-middle-income countries could only muster less than 1 per cent of the fiscal stimulus measures mobilized by high-income countries, being limited due to financial constraints, including in some cases the need to continue servicing foreign currency-denominated debts amid sharply diminished inflows of foreign exchange. Their domestic efforts have been backed by pledges from international financial institutions (IFIs) and development cooperation agencies to tackle the socio-economic fallout of the crisis; yet as of 1 February 2021, only a small share of the pledge US\$1.3 trillion had been effectively approved and allocated.

Evidently, mere stopgap measures are not enough to protect people in the current crisis, to support swift and inclusive recovery and to build resilient systems for the future. Whereas these crisis measures have thrown a lifeline to many vulnerable workers and families throughout the world, there is the risk of a "cliff fall" scenario, whereby emergency social protection support ends prematurely and abruptly before the crisis and its material consequences for people have ended and before the economy has fully recovered, leaving people once again without protection. Rather, countries can use the current political momentum and recognition of the importance of social protection to build on or transform such temporary relief measures

¹ The fundamental right to social security is enshrined in the Universal Declaration on Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966) and other major United Nations human rights instruments. The term "social protection" is currently used to refer to "social security" also and we use both terms interchangeably (ILO 2021j, 226).

into rights-based and robust social protection systems, including floors,² and to ring-fence the resources required to ensure their adequate and sustainable financing. In doing so, they would guarantee access to essential health care and income security over the life cycle – the two main dimensions of social protection – and create and safeguard the necessary fiscal space for social protection (ILO 2020d).

The COVID-19 pandemic has shown once more that social protection is an indispensable tool to protect individuals' health, incomes and jobs, and productive assets in the case of a shock. Social protection is key to preventing and reducing poverty in all its forms, vulnerability and social exclusion (SDG 1). The case for social protection becomes even more compelling when considering that it is an investment in human development; it plays a pivotal role in promoting social and economic development, more inclusive societies and more effective investments in human capital and human capabilities (ILO 2017; UNRISD 2016). Social protection contributes to better health and education outcomes (SDGs 3 and 4), which are essential to allow all individuals to develop and use their capacities and capabilities to the fullest potential. This also fosters a more productive and qualified workforce, which is one of the preconditions for sustainable enterprises, decent work, and inclusive and sustained growth (SDG 8). In addition, social protection is an important element of promoting gender equality and women's empowerment (SDG 5), including through access to paid maternity, paternity and parental leave and quality care services, including child and long-term care.

Furthermore, social protection stabilizes aggregate demand during economic downturns or crises and supports measures to protect jobs and the productive assets of the self-employed and enterprises and to ensure business stability, as we are currently witnessing. It thereby fosters the resilience of societies to bounce back more quickly after a crisis. In close coordination with other policies, such as economic or employment policies, social protection can contribute to facilitating the structural transformation of economies and societies, notably the formalization of the labour market (ILO 2021b), profound transformations in the world of work or the ecological transition (Lambeau and Urban forthcoming). Finally, by reducing poverty and inequality (SDGs 1 and 10), social protection also fosters political stability, social cohesion and peace, as well as state-building (SDG 16). In addition to studies that confirm the direct positive impacts of social protection on outcomes related to poverty, vulnerability, health, education or labour market, an emerging research agenda has started to quantify the returns on investments in social protection (see box 1).

► **Box 1: Making the economic case for social protection: Returns on investment in social protection**

Over the past decades, a solid evidence base has been developed that demonstrates the positive impact of social protection on reducing poverty and inequality and promoting positive outcomes related to nutrition, education, health, labour market participation, enterprise performance and social cohesion (for example Abramo, Cecchini, and Morales 2019; Bastagli et al. 2019; Cantillon 2009; FAO and UNICEF 2017; ILO 2014; ITUC 2021; Lee and Torm 2017; Mathers and Slater 2014; OECD 2015; 2018; UNDP 2019).

More recently, additional studies have investigated the magnitude of returns on investment and multiplier effects, assessing different types of outcomes and time frames and using different methods. One such example is the local economy-wide impact evaluation model. Model estimates for cash transfer programmes in Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia and Zimbabwe showed that for every currency unit invested, a higher amount was created in the local economy – ranging

² According to the Social Protection Floors Recommendation, 2012 (No. 202), national social protection floors should comprise at least the following basic social security guarantees: (a) access to a nationally defined set of goods and services, constituting essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality; (b) basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services; (c) basic income security, at least at a nationally defined minimum level, 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, at least at a nationally defined minimum level, for older persons.

from 1.34 Kenya shillings (K Sh) for every K Sh1 invested in Kenya to as high as 2.52 Ethiopian birr (Br) for every Br1 invested in Ethiopia (FAO and UNICEF 2017).

Based on dynamic microsimulation models, another strand of the literature investigated the returns on social protection investment in terms of income, child health and education. A study conducted in Cambodia found positive effects on household consumption, health, education and labour market participation. After 12 years, there were positive returns on investment; that is, the difference in total household consumption between policy and baseline scenarios exceeded the investment (Mideros, Gassmann, and Mohnen 2016). Based on a similar approach, positive effects on child health and education were also found in Uganda; again, this needs to be seen as a longer-term investment (Dietrich et al. 2020).

Finally, based on a structural model and simulations, research in Brazil investigated the multiplier effects of different components of federal government expenditure on gross domestic product (GDP). Social benefits and public investments created the largest multiplier effects, with an accumulated effect of social benefits on GDP of 2.9 after 25 months (Sanches and Carvalho 2019). This research on multiplier effects will be continued in the framework of the ILO and EC/INTPA-funded project on increasing the synergies between social protection and public finance management to continue building the economic case for social protection.

Barriers to effectively extending social protection are manifold and depend on specific country contexts. Political economy factors, such as the capture of decision-making by economic elites, are often a major obstacle. But also, even when governments have the political will to achieve SDG 1.3 and SDG 3.8, the lack of resources to design, finance and implement rights-based social protection systems remains a crucial challenge. Nonetheless, many low- and middle-income countries, sometimes with the support of development partners, have come a long way in strengthening their social protection systems, including social protection floors that guarantee at least a basic level of social security to all (Ortiz, Schmitt, and De 2016).

Despite national and international efforts to strengthen and scale up social protection systems and increase domestic resource mobilization, investments in social protection remain insufficient in most cases. In addition, there is a need to protect social security financing against disproportionate austerity measures that constrain public social expenditure, weaken aggregate demand and make crises worse, as happened in many developing countries after the global financial crisis in 2008 (Ortiz et al. 2015; Ortiz and Cummins 2021). Already taking into account the impact of the COVID-19 pandemic, low-income countries would need to invest an additional US\$77.9 billion (or 15.9 per cent of their GDP) to close the annual social protection financing gap in 2020 (Durán Valverde et al. 2020). The absolute figures are substantially larger when including estimates for middle-income countries, yet these gaps are much less daunting when seen in relation to the economic capacity of these countries, namely 3.1 per cent of GDP for upper-middle-income countries and 5.1 per cent of GDP for lower-middle-income countries.

Considering persistent social protection coverage and financing gaps, the international community seems to agree that (see also boxes 2 and 3):

- more investment in social protection is needed to close the financing gap, which should come primarily from innovative and diversified sources of domestic financing; these resources need to be gradually increased in line with the economic and fiscal capacities of the country and based on national priorities;
- for countries with limited fiscal capacities to invest in social protection or facing increased needs due to crises (such as in the context of the COVID-19 pandemic), natural disasters or climate change, additional international financial resources in combination with technical assistance could temporarily complement national resources and support domestic resource mobilization for sustainable financing of social protection; and
- national policymakers, social partners and bilateral and multilateral partners should align and increase synergies towards extending the fiscal space for social protection and explore ways (such as through

an international financing mechanism or intensified cooperation on tax matters or debt restructuring) to create an environment that facilitates domestic resource mobilization.

Against this background, this paper discusses the magnitude and urgency of the challenge in terms of financing social protection and options to fill existing gaps. It first summarizes the coverage and financing challenge faced in particular by low- and middle-income countries, already taking into account the preliminary effects of the COVID-19 pandemic. The second part of the paper discusses options that countries have at their disposal to increase fiscal space for social protection at the national level. It provides an initial review of how the international community could support and complement national efforts following a coordinated, sustainable and country-owned process. This includes the provision of both technical support to increase domestic resource mobilization and additional financial assistance from international sources to fill financing gaps, notably in countries with limited domestic fiscal capacities and other countries that face exceptional challenges.

A complementary paper on investing better in social protection outlines the guidance that international social security standards provide to inform social protection policy and financing decisions; when systematically applied by all actors, such standards could ensure that the mobilization and allocation of resources for social protection are well coordinated at all levels, thereby accelerating progress towards achieving universal social protection by 2030 (Bierbaum and Schmitt 2022).

► **Box 2: Global Accelerator for Jobs and Social Protection**

To accelerate the implementation of the SDGs and build a better world for the future generations, the United Nations Secretary-General's report *Our Common Agenda* (UN 2021b) called for deeper commitment to solidarity at the national level, between generations and in the multilateral system, as well as for renewing the social contract between governments and their people.

The Secretary-General also launched the Global Accelerator for Jobs and Social Protection at a high-level event on Jobs and Social Protection that he convened with the Prime Minister of Jamaica and the Director-General of the ILO on 28 September 2021. The Global Accelerator for Jobs and Social Protection aims to support a recovery from the crisis that is fast, inclusive, sustainable and resilient. It will promote and support additional investments in low- and middle-income countries, through domestic resource mobilization and temporary international financial support to complement national efforts aimed at job creation, social protection system-building, green transition and formalization. It will be backed by more effective and enhanced multilateral cooperation.

The Accelerator is organized around three complementary and mutually supportive pillars for accelerating action:

- *pillar 1*: to bring greater policy coherence at the national level through integrated and costed national policies and strategies by combining job creation, universal social protection and just transition;
- *pillar 2*: to build a comprehensive financial architecture based on domestic resources and international finances, as well as measures to leverage investment from the private sector; and
- *pillar 3*: to enhance multilateral cooperation by strengthening engagement and collaboration among multilateral institutions, bilateral donor agencies, developing country governments, social partners, philanthropic foundations and experts.

A transversal Technical Support Facility will support all three pillars and seek to align financial and technical assistance for a human centred recovery and sustainable development.

Source: UN (2021b; 2021c).

▶ **Box 3: Resolution and conclusions concerning the second recurrent discussion on social protection (social security) adopted by the International Labour Conference at its 109th Session in 2021**

In this Resolution and conclusions, the ILO's 187 Member States, represented by governments and by employers' and workers' organizations, reaffirm the full relevance of the guiding principles contained in Recommendation No. 202 and the [Social Security \(Minimum Standards\) Convention, 1952 \(No. 102\)](#) and the need to implement them in a holistic manner, since neglecting one of them risks jeopardizing the solidity of social protection systems. They request the ILO to take into consideration the principles laid out in relevant social security standards when supporting Member States in ensuring sustainable and adequate financing for social protection policies. They also request the ILO to use and promote the principles established in ILO social security standards when engaging with IFIs (including the World Bank and the International Monetary Fund (IMF)) on options to increase and secure adequate and sustainable financing for social protection.

Source: ILO (2021g).

► 2 Financing gaps to achieve SDG targets 1.3 and 3.8 during COVID-19 and beyond

Social security, an adequate standard of living and health are human rights, but a reality for far too few people. The COVID-19 pandemic has once again demonstrated the dramatic consequences of these unacceptably high coverage gaps, which lead to suffering, destitution and even death, exacerbate economic and social inequalities, and undermine social cohesion in many countries. At the start of the pandemic, only 46.9 per cent of the global population were effectively covered by at least one social protection benefit (such as child or family benefits, maternity benefits, unemployment benefits, employment injury benefits, disability benefits, old-age pensions, survivors' pensions or social assistance), while the remaining population, as many as 4.1 billion people, were completely unprotected when the crisis hit.

These average global coverage rates mask extensive regional disparities, ranging from only 17.4 per cent of people in Africa having access to some form of social protection to 83.9 per cent of people in the Europe and Central Asia region (ILO 2021i; 2021j). Access to social protection benefits varies also systematically across population groups. Worldwide, nearly eight in ten older persons have a pension, while on average only every third child and one in three persons with disabilities are protected by child and disability benefits, respectively. Closing gender gaps and extending coverage to workers in all forms of employment, including in the informal economy, also deserve increased attention. Finally, more than half of the world's population are protected by social health protection schemes, yet this coverage rate also hides stark inequalities across population groups within both regions and countries (ILO 2021j).

These coverage gaps are linked to significant financing gaps that have been further exacerbated by the impact of the COVID-19 pandemic. In order to provide an overview of the additional resources needed in low- and middle-income countries for achieving SDG targets 1.3 and 3.8, Durán Valverde et al. (2020) estimated (1) the costs of a universal package comprising four areas of social protection (children, maternity, disability and old-age benefits), including administrative costs (but not initial start-up costs such as IT systems or capacity-building), as well as access to essential health care; (2) the financing gap, defined as the difference between costs and baseline expenditure on social assistance; and (3) the incremental financing needs, calculated over the 10-year period 2020–2030, assuming a progressive increase of coverage in a linear fashion that starts from 2020 levels and reaches universal coverage by 2030.³ The amount required to close the financing gap in social protection has increased by approximately 30 per cent since the onset of the COVID-19 crisis. This is the result of (a) the increased need for health care services and income security for workers who have lost their jobs because of lockdowns and other measures; and (b) the contraction of GDP caused by the crisis. These estimates provide an important overview of approximate resource needs. Nonetheless, they cannot replace detailed costing studies of social protection floors that are nationally defined through effective tripartite social dialogue (see below).

2.1 Global estimates of financing gaps to achieve SDG targets 1.3 and 3.8 in 2020

Table 1 presents the annual financing gap to achieve SDG targets 1.3 and 3.8 in 2020 in low-, lower-middle- and upper-middle-income countries, as well as for different regional groupings. In total, an additional US\$77.9 billion would have been needed in 2020 to close the social protection financing gap in low-income

³ The costs of providing access to essential health care are calculated based on World Health Organization (WHO) estimates (Stenberg et al. 2017). A summary of the results is provided in an accompanying policy brief (ILO 2020), while further details can be found in the working paper (Durán Valverde et al. 2020).

countries, representing 15.9 per cent of these countries' GDP. The absolute gap is much larger when including lower-middle-income and upper-middle-income countries in these estimates (US\$362.9 billion and US\$750.8 billion respectively), yet these gaps are nonetheless less daunting when seen in relation to the economic capacity of these countries (5.1 and 3.1 per cent of GDP respectively). Regionally, the relative burden is particularly high in Central and Western Asia, Northern Africa and sub-Saharan Africa (9.3, 8.3 and 8.2 per cent of GDP, respectively).

► **Table 1: Annual financing gap in achieving SDG targets 1.3 and 3.8, by subregion and income classification, 2020 (billions of US\$ and percentage of GDP)**

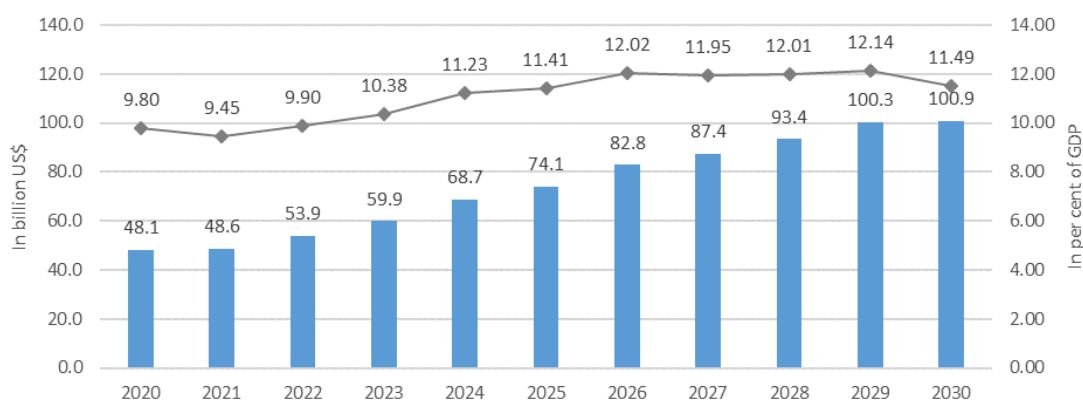
	Population (millions)	Gap in achieving SDG target 1.3 (billions of US\$)	Gap in achieving SDG target 1.3 (percentage of GDP)	Gap in achieving SDG target 3.8 (billions of US\$)	Gap in achieving SDG target 3.8 (percentage of GDP)	Total gap (billions of US\$)	Total gap (percentage of GDP)
Income groups							
All low- and middle-income countries	6 522.7	707.4	2.2	484.2	1.5	1 191.6	3.8
Low-income countries	711.2	36.2	7.4	41.8	8.5	77.9	15.9
Lower-middle-income countries	3 105.3	173.8	2.4	189.1	2.6	362.9	5.1
Upper-middle-income countries	2 706.2	497.4	2.1	253.4	1.1	750.8	3.1
Regions							
Arab States	110.3	15.1	4.5	10.2	3.0	25.2	7.5
Central and Western Asia	212.6	86.6	7.9	15.2	1.4	101.8	9.3
Eastern Asia	1 427.8	58.1	0.4	132.9	0.9	190.9	1.3
Eastern Europe	227.1	32.8	1.6	21.8	1.1	54.6	2.7
Latin America and the Caribbean	619.1	272.1	6.1	61.1	1.4	333.2	7.5
Northern Africa	245.5	31.5	4.7	24.1	3.6	55.6	8.3
Northern, Southern and Western Europe	19.7	5.0	5.7	1.9	2.1	6.9	7.8
Oceania	11.2	1.5	4.5	0.9	2.7	2.4	7.2
South-East Asia	662.6	48.2	1.8	46.3	1.7	94.5	3.5
Southern Asia	1 897.6	94.8	2.3	94.8	2.3	189.6	4.6
Sub-Saharan Africa	1 089.2	61.8	3.7	75.1	4.5	136.9	8.2

Source: Durán Valverde et al. (2020, p. 31).

Even if low- and middle-income countries were able to mobilize the necessary resources to cover the financing gap, SDG targets 1.3 and 3.8 could not be achieved immediately. Building social protection systems takes time, as it encompasses the development and adoption of national social protection strategies, the design of social protection schemes, the preparation and adoption of legal frameworks, the implementation of the schemes and monitoring progress, all based on tripartite social dialogue. It may also require the creation of institutions at the national and subnational levels. The study therefore assumes that financing gaps will be progressively filled over the 11-year period from 2020 to 2030, which is in line with the objectives of the 2030 Agenda for Sustainable Development to achieve SDG targets 1.3 and 3.8 by 2030. The financing needs to progressively achieve SDGs 1.3 and 3.8 by 2030 in low-income countries are illustrated in figure 1 (table A.1 in the Annex shows the estimates for low-, lower-middle- and upper-middle-income countries). Starting from an additional investment of US\$48.1 billion in 2020 (9.8 per cent of GDP) that would increase the social protection coverage of children, mothers with newborns, persons with disability and older persons by

13.3 percentage points to 36.9 per cent, financing needs would incrementally increase to reach US\$100.9 billion in 2030 (equivalent to 11.5 per cent of GDP) to provide full coverage.

► **Figure 1: Incremental financing needs for progressively achieving SDG targets 1.3 and 3.8 in low-income countries, 2020–2030 (billions of US\$ and percentage of GDP)**



Source: Based on Durán Valverde et al. (2020, p.33).

Several other studies have assessed the (additional) costs of achieving the SDGs or different sets of goals, as well as the costs of closing social protection gaps, taking different approaches and perspectives. A detailed comparison of commonalities and differences is beyond the scope of this paper. Nonetheless, what has become clear is that all these studies show that achieving the SDGs is affordable from a global point of view, yet exceeds the present economic capacities of low-income countries. For instance, based on IMF and World Bank research and International Centre for Tax and Development data, Manuel et al. (2020) estimate that the current capacity to generate revenues for public policies in low-income countries is 16 per cent of GDP.

The Social Protection Floor Index, conceptually based on Recommendation No. 202, provides an indication of the minimum resources that a country would need to invest or reallocate to close existing income and/or health protection gaps. Using the international poverty line of \$1.9 in 2011 purchasing power parity (PPP) as the minimum level of income, the 25 low-income countries included in the study would have to invest on average additional 13.0 per cent of their GDP to close social protection gaps in 2018 (Bierbaum, Schildberg, and Cichon 2017; Friedrich-Ebert-Stiftung 2020). In a study of 16 Asian (mainly middle-income) countries, Cichon (2018) estimated that these countries would have to invest between 3.5 and 8.5 per cent of GDP per year to meet SDG-related social protection requirements by 2030.

Taking a broader perspective and including the achievement of more SDGs, Manuel et al. (2020) estimated that low-income countries would need to invest US\$ 183.3 billion in 2019 to cover the costs for education, health, social protection, and water, sanitation and hygiene, of which US\$ 59.2 billion would need to be allocated to social protection (excluding health). Significantly, they noted that although all sectors were significantly underfunded, the relative funding gap for social protection was the largest. Finally, the Sustainable Development Solutions Network estimated that the average SDG financing gap per year for all 59 low-income developing countries was approximately US\$ 400 billion over the 2019–2030 period, of which 10 per cent would have to be allocated to social protection (excluding health) (SDSN 2019).

2.2 Developing and costing a shared national vision of social protection

The global and regional ILO estimates presented above are based on calculating the costs and remaining gaps of introducing a set of universal benefits that cover childhood, maternity, disability, old age and health – that is, all the components of social protection floors except for unemployment and sickness benefits.

This benefit package was used to ensure comparability across countries and provides an overview of the approximate resource needs to achieve SDG targets 1.3 and 3.8. However, countries may choose other ways of achieving their nationally defined social protection floor. In response to the COVID-19 pandemic, for example, many countries have indeed prioritized access to health care (182 measures were reported in 84 countries as of 10 May 2021; see ILO (2021f)) or scaled up cash transfers for families with children (120 measures in 70 countries). Others have introduced measures to protect jobs, such as wage subsidies or part-time employment (more than 253 measures in 110 countries) or have adapted, established or plan to establish unemployment benefit schemes to mitigate income losses of workers (188 measures in 95 countries) in cases of full- or part-time unemployment. For instance, to mitigate the socio-economic impacts of the COVID-19 crisis, the State of Mexico introduced an unemployment benefit that is planned to be sustained after the crisis. Ecuador plans to extend the unemployment protection scheme to workers in the informal economy.

Hence, these global and regional estimates cannot replace detailed costing studies of national social protection floors that are in line with a shared national vision of social protection, based on an in-depth assessment of the current state in a country and defined through effective tripartite social dialogue. This can be achieved through a so-called assessment-based national dialogue (ABND) (see box 4). Between 2012 and 2020, ABNDs have been carried out in 26 countries,⁴ leading in many cases to the development and adoption of national social protection strategies. Some of the recommendations of ABNDs have led to policy reforms in several countries, such as the establishment of an unemployment insurance scheme in Indonesia and a universal child benefit in Thailand.

Such a dialogue is not only essential to identify policy gaps, reach agreement on priority policy options and cost them, but is also essential to devise and discuss possible financing options (see next section). Furthermore, it is essential that the results of national dialogues on social protection (and, if applicable, national social protection policies and strategies) are reflected in countries' national development plans, integrated national financing frameworks (UN and EU 2021) and medium-term fiscal frameworks. This allows for a better alignment between financing strategies and policy priorities, exploring synergies and managing possible trade-offs across different development objectives.

► **Box 4: The steps of an assessment-based national dialogue: Defining priorities and identifying financial needs in Timor-Leste**

Based on the experience of conducting ABNDs in 14 countries in Africa and Asia, the ILO prepared a global guide (ILO 2016d) that has informed ABND exercises in many more countries in the framework of the [ILO Global Flagship Programme on Building Social Protection Floors for All](#) (ILO 2021k).

An ABND provides a sound basis for identifying and costing policy scenarios based on national dialogue, as well as for discussing the creation of fiscal space by bringing all stakeholders to the table. Its success hinges on the participation of all stakeholders from the outset, including line ministries (finance and planning, health, labour, social affairs and so on), social security institutions and social protection programmes, local government bodies, employers' and workers' organizations, civil society organizations, academics, development partners or IFIs.

Timor-Leste, for instance, conducted such an ABND between 2016 and 2018. Its explicit goal was to inform its national social protection strategy. Throughout the process, representatives of the institutions listed above and many more were involved. Such an ABND comprises three steps, as described below.

⁴ Albania, Cambodia, Cameroon, Egypt, Georgia, Ghana, Indonesia, Kyrgyzstan, the Lao People's Democratic Republic, Liberia, Malawi, Mongolia, Mozambique, Myanmar, the Niger, Pakistan, the Philippines, Senegal, Solomon Islands, Tajikistan, Thailand, Timor-Leste, Togo, Vanuatu, Viet Nam and Zambia. In Senegal and Togo, the methodology used was that of the Social Protection Policy Options Tool, which was devised as part of the Inter-Agency Social Protection Assessments process.

(1) Building the assessment matrix and developing policy options. The assessment matrix lists and describes the existing social security schemes and programmes that guarantee access to essential health care and income security over the life cycle. It identifies policy gaps and implementation issues and provides policy recommendations to further design and implement social protection provisions with the aim of guaranteeing, at a minimum, a social protection floor for all residents and children. In Timor-Leste, one of the results of the assessment matrix was that the broad range of existing programmes and policies lacked coordination, leading to inefficiencies as well as coverage and adequacy gaps. Furthermore, many programmes were not anchored in national law. This assessment provided the basis for formulating five objectives and related recommendations for the national social protection strategy.

(2) Costing policy options, assessing their potential impact, and exploring financing options. Based on social dialogue, policy recommendations are then translated into concrete policy options. For each guarantee, several less and more ambitious scenarios in terms of population coverage and benefit levels should be identified, costed and projected over a ten-year period, for instance using the ILO Rapid Assessment Protocol (RAP) model. The costing serves as a basis for discussions on the fiscal space and government budget reallocations and can help prioritize among different policy options. Importantly, this also requires a detailed understanding of the size and composition of the current social protection budget. Timor-Leste also used the ILO RAP model to cost a set of policies that could build a national social protection floor. Depending on whether a low- or high-cost scenario is chosen, the costs of a national social protection floor ranged between approximately 4 and 12 per cent of GDP in 2018. The costing was complemented by a microsimulation exercise to assess the potential impact of the different scenarios on poverty reduction. Finally, the ABND discussed ways to create fiscal space for social protection in Timor-Leste, for instance through the reprioritization of budget allocations.

(3) Finalization and endorsement. The final recommendations must be technically validated and politically endorsed. Usually, an ABND leads to the recommendation and ideally the adoption of a new national social protection policy or the evaluation of an existing one. In Timor-Leste, the recommendations were validated and the report was published. On 11 November 2021, the national social protection strategy was approved by the Council of Ministers.

Sources: ILO (2016); United Nations, ILO, and Ministry of Social Solidarity of Timor-Leste (2018).

Finally, it is necessary to follow up the implementation of the national social protection strategy and progress made in domestic resource mobilization for social protection. Mozambique, for instance, has been monitoring fiscal space for social protection for several years now and has demonstrated steady progress (see box 5). Such monitoring also provides evidence and supports dialogue and advocacy work with, for example, representatives of ministries of finance, parliamentarians, representatives of employers' and workers' organizations or representatives of the media.

► **Box 5: Monitoring fiscal space in Mozambique**

The Social Action Budget Brief in Mozambique is a joint initiative by the United Nations Children's Fund (UNICEF) and ILO that aims to promote national debate around domestic fiscal space dedicated to basic (non-contributory) social protection in Mozambique. Since its first edition in 2013, it has been launched every year at a dedicated event during a Social Protection Week attended by representatives of the Ministries of Gender, Children and Social Action, Health, Education and Human Development, Economy and Finance, as well as by representatives of the Parliament, workers' organizations, political parties, academia, journalists and international development partners. It is disseminated nationwide with the support of civil society organizations.

The Social Action Budget Brief monitors the budget allocation to social protection and financing sources, points out trends, reviews them in relation to the strategic objectives defined in the country's

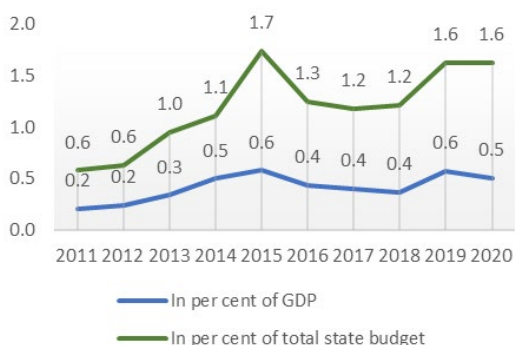
National Basic Social Security Strategy (ENSSB) and provides key recommendations. In 2020, for example, 0.5 per cent of GDP or 1.6 per cent of the total state budget was allocated to social protection programmes, showing a positive trend over the past ten years (see figure 2, which shows the allocation to the National Social Action Institute (INAS) social protection programme).

Between 2011 and 2020, the coverage of INAS programmes increased from 287,000 households to 608,724 households (see figure 3). Currently, 22 per cent of individuals living below the national poverty line are covered. However, benefit amounts have not been adjusted since 2018 and fall short of reaching the target of two thirds of the poverty line defined by the ENSSB.

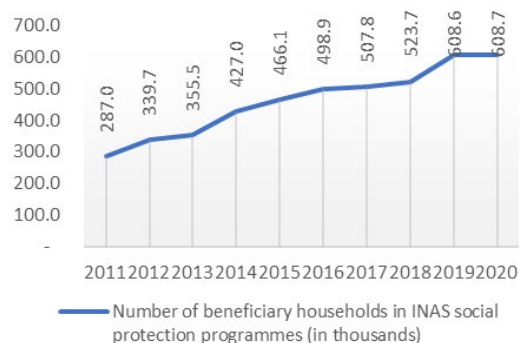
The Social Action Budget Brief has been an effective tool to promote debate around the fiscal envelope dedicated to social protection, monitor progress and advocate for an expanded fiscal space for the sector. It also provides the basis for an evidence-based discussion with representatives of the Ministry of Finance and is an effective way to promote active engagement of employers' and workers' as well as civil society organizations during the preparation of the National Budget Law, as well as to track political commitments on social protection.

Source: UNICEF and ILO (2019; 2020).

► **Figure 2: Spending on INAS social protection programme of Mozambique, share of GDP and total state budget, 2011-2020**



► **Figure 3: Number of beneficiary households in INAS, in thousands, 2011-2020**



Source: UNICEF and ILO (2020, p.11).

▶ 3 Enhancing domestic resource mobilization for social protection

This section discusses options to meet the financing needs identified at country level through domestic resource mobilization, with a view to securing “with due regard for the objectives of social justice and equity, a solid and sustainable economic, fiscal and financial base for the extension and operation of universal social protection systems over the medium to long term, without compromising the adequacy and coverage of benefits” (ILO 2021g, para. 15 (a)). Over the past 10 years, many countries, such as Cabo Verde, China, Indonesia, South Africa and Thailand, have increased investment in social protection, leading to significant achievements in terms of social protection coverage extension. Furthermore, in the African and the Latin American regions, average tax-to-GDP ratios increased as a result of the modernization of tax systems and administrations and tax policy reforms between 2000 and 2015, from 14.2 to 19.1 per cent and from 18.0 to 23.1 per cent, respectively (Modica, Laudage, and Harding 2018).

This shows that options to increase fiscal space, which is defined by the ILO, UNICEF and UN Women as “the resources available as a result of the active exploration and utilization of all possible revenue sources by a government” (Ortiz et al. 2019, p. 9), exist in all countries regardless of their income status, provided that there is political will to discuss all possible options and find the optimal combination of diverse and innovative financing sources, both contributory and non-contributory, while paying due consideration to the national economic context, demographic challenges and the need to ensure just transitions to more environmentally sustainable economies and societies (ILO 2015). The tripartite participation of representative organizations of employers and workers, as well as consultations with other relevant and representative organizations of persons concerned, are essential to this process.

Broadly, countries can consider eight different strategies for creating fiscal space for social protection (Ortiz et al. 2019):

1. expanding social security coverage and contributory revenues;
2. increasing tax revenues;⁵
3. reallocating public expenditures and increasing the effectiveness, efficiency and sustainability of policies;
4. eliminating illicit financial flows;
5. using fiscal and central bank foreign exchange reserves;
6. managing debt: borrowing or restructuring sovereign debt;
7. adopting a more accommodating macroeconomic framework; and
8. increasing official development assistance (ODA) and transfers.

For a comprehensive description and country examples, readers may wish to refer to Ortiz et al. (2019). This section focuses on options (1), (2), (3), (6) and (7), which have been used the most and have shown great potential. The following section on the role of international technical and financial support and coordination will focus on increasing ODA and transfers. Many of these options have also been used during the COVID-19 crisis. Nonetheless, it is important to note that finding resources in an emergency context is different from securing resources in the long term for rights-based social protection systems.

⁵ Contrary to the presentation here, the OECD defines taxes as “compulsory, unrequited payments to general government” (Modica, Laudage, and Harding 2018, 8). In that classification, taxes are classified by the base of the tax and compulsory social security contributions are one category (in addition to income and profits, payroll and workforce, property, and goods and services).

3.1 Increasing tax revenues and expanding coverage and revenues of contributory social security

Social protection systems are typically organized through a combination of tax-financed non-contributory schemes and social insurance schemes. It is estimated that contributory schemes finance more than 70 per cent of the social protection expenditure in low- and middle-income countries.

Increasing tax revenues is one of the options used to increase domestic resources for social protection (see also European Commission 2015). To maximize the redistributive effect of social protection, it is important that such tax reforms maintain or reinforce the progressivity of the national tax systems in a fair way, which means that those with the greatest capacity to pay bear the largest overall tax burden. Progressive taxation can be achieved through personal income tax rates that increase with taxable income; by avoiding tax exemptions that benefit richer households the most; by taxing personal capital income at appropriate tax rates; or by taxing certain luxury items at higher rates. While the effect of individual taxes is important, it is even more important that the combined effect of the tax system, as well as any spending supported by such tax revenues, be considered when assessing the progressivity of the social protection financing option. For example, cash transfer programmes contribute to reducing poverty, but the combined tax-benefit impact on poverty and inequality may be smaller (or even negative) when financed from certain regressive consumption taxes (which are also paid by individuals living in poverty and hence reduce the net income effect of a transfer) rather than from income taxes or other progressive taxes.

There are other ways to increase tax revenues. The Plurinational State of Bolivia, Botswana, Mongolia and Zambia have introduced taxes on their natural resources to finance their social protection programmes (Ortiz, Schmitt, and De 2019), while Egypt has introduced earmarked taxes to finance its universal health care system and Brazil has introduced a tax on financial transactions (ILO 2016a).

Social security contributions, in turn, are usually funded by employers' and workers' contributions, which should be fairly divided between employers and workers. To strengthen the contribution base, countries need to increase the legal and effective coverage of existing schemes. First, countries can extend the legal coverage of existing schemes or create new schemes for previously uncovered groups with contributory capacity, such as workers in the informal economy; workers in small and medium-sized enterprises; domestic, construction or agriculture workers; or self-employed workers (ILO 2021a). It is important that compulsory affiliation be mandated by law, as voluntary affiliation usually results in very low take-up rates.

Second, depending on the national context, different options to increase effective coverage through administrative, financial or institutional measures are possible (ILO 2021a). The simplification and adaption of contribution collection can cater to volatile earnings of workers in the informal economy (see box 4). Progressive social security contributions, subsidies for social security contributions or the existence of a solidarity (non-contributory) pillar can facilitate the affiliation of small and medium-sized enterprises and of self-employed workers, as well as regular payments of social security contributions. Providing incentives, such as requiring proof of social security and tax compliance as a condition for public tenders or to obtain access to government credit and business services, may contribute to boost affiliations. Furthermore, improved administrative efficiency and better compliance in terms of registering enterprises, declaring all workers and their actual earnings and paying social security contributions are important as well. For example, compliance may be improved by the development of management information systems to keep a track record of affiliations and payments and increase the transparency of the system; the simplification of registration and payment mechanisms; the reinforcement of labour and social security inspections (for example using labour inspection to enforce the social security laws as is done in China (ILO 2016c)); the development of one-stop shops (van Langenhove and Peyron Bista 2019); easily accessible complaints and appeals mechanisms; and advocacy campaigns targeted at both employers and workers.

Social security contributions currently amount to 0.4 per cent of GDP in low-income countries, 2.5 per cent of GDP in lower-middle-income countries and 5.8 per cent of GDP in upper-middle-income countries, with

an average of 5.1 per cent of GDP across all low- and middle-income countries (Durán Valverde et al. 2020). Increased social security contributions can be achieved by extending coverage or increasing contribution rates, although the latter option is often more difficult to implement. There is still considerable untapped potential for using both avenues, as a simulation exercise shows (see Durán Valverde et al. 2020, p. 35 and table 8 for more details on the method). By replacing coverage rates and contribution rates by average estimates for countries with comparable levels of old-age dependency ratios and GDP per capita (PPP terms), respectively, for countries that fall below these averages, potential social security revenues are calculated based on these upward adjustments. Low-income countries could potentially double the revenues generated from contributory schemes to 0.8 per cent of GDP over the next decade. Across all low- and middle-income countries, social security contributions as a percentage of GDP could potentially be increased by 1.2 percentage points to reach 6.3 per cent of GDP.

Countries that do not yet have contributory social protection systems in place or whose systems provide only protection for a limited number of risks should prioritize the development of such schemes to cover workers in formal sector enterprises; countries that have developed comprehensive contributory schemes for the formal sector should prioritize both their implementation through greater compliance with the social security law and their progressive extension to workers in all forms of employment (such as part-time workers, self-employed workers, domestic workers, informal economy workers and enterprises). Contributory schemes are usually self-financed from workers and employers' contributions and as such do not put any strain on governments' budgets.

Both options – increasing tax revenues and increasing social security contributions – require strong governance, administration, accountability and compliance mechanisms that work effectively and efficiently and are transparent. This ensures sound financial management, enforces compliance and prevents corruption and fraud, while also ensuring that the distribution of benefits is fair and efficient. In addition, extending the tax and contribution base also necessitates an integrated approach of social, economic and employment policies that work together to facilitate the transition of workers and enterprises to the formal economy, in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) (ILO 2021c). This includes for instance measures to facilitate business registration and licensing; adapted and simplified taxation and payment mechanisms; simplified accounting standards; access to financial services; and skills development. The formalization of businesses and workers broadens both the tax and contribution base, supporting a better financing mix for social protection and other public services.

Furthermore, minimum wage policies and measures to boost productivity can help to ensure that salaried workers and the self-employed have adequate resources to live on and can contribute their share of contributions to social security. A “race to the bottom” may otherwise lead to a situation in which workers and employers resist the creation or further development of the national social protection system because they cannot afford paying their shares of social security contributions. Similarly, governments may be hesitant to expand social protection coverage for fear that it may disincentivize foreign investors. Trade agreements between countries and contractual agreements between buyers and suppliers in global and national supply chains can contribute to increasing both the political will, tripartite support and financial feasibility of introducing new social protection schemes.

► **Box 6: Monotax in Brazil: Extending social protection to microenterprises and the self-employed**

The Simples scheme is a Monotax (simplified tax collection/payment) mechanism for small contributors in Brazil, which unifies several taxes and contributions in a unique payment. Micro-entrepreneurs who join the scheme, as well as their employees, are automatically entitled to the benefits of the contributory social security system. It has proven to be an effective tool to formalize micro and small enterprises and to extend social security coverage to self-employed workers. Between 2008, when individual company owners were included, and 2016, the number of total registered firms covered by the scheme increased from about 3 million to about 12 million. The process works in a simple way. The Simples scheme divides companies into three levels according to their size. Individual micro company owners (smallest category, with one employee) pay a fixed monthly contribution. Micro

companies (intermediate category) and small companies (larger category) pay progressive contribution percentages based on their classification. Simples contributions are collected by the central fiscal administration and the share corresponding to social security payments is transferred to the Social Security Institute to finance social security. Other countries in Latin America such as Argentina, Ecuador and Uruguay have already successfully implemented similar schemes.

Sources: Based on Ortiz et al. (2019, 70); see also ILO (2019a; 2019b). More country examples can be found in Ortiz, Schmitt, and De (2019) and ILO (2019c; 2019d).

3.2 Reallocating public expenditure and increasing the effectiveness and efficiency of social protection systems

The reallocation of public expenditure is another option that is commonly used in many countries. In response to the COVID-19 crisis, for example, Albania reallocated 2 billion leks (about US\$19 million) of defence spending towards humanitarian relief for the most vulnerable. Similar examples of reallocating public expenditures to social protection can be found in Belize, Cabo Verde, the Dominican Republic, Eswatini, Hungary, Saudi Arabia and Ukraine.

In “normal times”, public expenditure reviews, social budgeting and other types of budget analysis can be used to assess the current spending structure and, when politically feasible, provide advice to replace high-cost, low-impact investments with investments that result in more substantial socio-economic impacts and redistribution. Egypt, for instance, removed its energy subsidies and planned to reallocate 1 per cent of GDP to social protection expenditure (even though this target was not achieved by 2019) in the form of additional food subsidies, cash transfers to older persons and low-income families and other targeted social programmes, including more free school meals (IMF 2016). The Sudan is currently implementing a similar reform and launching a quasi-universal, non-contributory social protection programme. Nonetheless, in both countries, only a small part of the savings on the removal of fuel subsidies was reallocated to social protection measures. More broadly, it could be beneficial to explore more to what extent government support for fossil fuels has already been redirected to social protection and the potential to reallocate more (IISD, ODI, and OCI 2020).

Significantly, social protection spending should not be seen as competing with other important social and structural spending, such as spending on health, education and basic infrastructures. Through synergies between social protection and other sectors such as health and education, parts of the fiscal space created for social protection can also benefit those other sectors, thereby enhancing spending effectiveness (for example higher enrolments in schools thanks to family allowances or school feeding programmes). Social health insurance contributes to the sustainable financing of the health sector by creating a solvent demand for quality health care services. These synergies need to be reflected in countries’ national development plans, integrated national financing frameworks and medium-term fiscal frameworks, as outlined in section 2.2 above.

Enhancing spending effectiveness also refers to making improvements in the design and performance of social protection schemes and programmes to achieve intended development outcomes, such as poverty reduction, redistribution or lower maternal and child mortality rates. For example, Costa Rica introduced a new health care model that strengthened prevention and health promotion, leading to substantial improvements in spending effectiveness in terms of health outcomes. The introduction of categorical social protection schemes (that is, identifying beneficiaries based on simple criteria such as age) instead of (proxy-)means-tested programmes increases efficiency since such schemes typically have lower administration costs and can be implemented more rapidly. They also entail fewer of the targeting errors that can be detrimental to creating trust in the system.

3.3 Managing debt through borrowing or restructuring debt

Managing sovereign debt through borrowing and debt restructuring involves actively exploring domestic and foreign borrowing options at low cost, including concessional loans, following careful assessment of debt sustainability and in line with the national circumstances. For example, South Africa issued municipal bonds to finance basic services and urban infrastructure (see Ortiz et al. 2019, 150–51). Furthermore, during the COVID-19 pandemic, the Thai Government introduced a stimulus package totalling 1.5 trillion baht (B) (about US\$48 billion), with about B1 trillion (about US\$32 billion) expected to be financed through additional borrowing. Similarly, countries such as Bhutan, Bulgaria, Cyprus and Honduras increased their levels of borrowing.

Adopting a more accommodating macroeconomic framework creates an enabling macroeconomic condition for exploring domestic and foreign borrowing options. It may also entail allowing for higher budget deficit paths and higher levels of inflation without jeopardizing macroeconomic stability. In the context of the COVID-19 pandemic, for example, regional unions, such as the European Union and the Africa Economic and Monetary Union, have relaxed their fiscal deficit rules to allow countries in their respective regions more flexibility to respond to the urgent needs arising from the pandemic. Finally, the argument in favour of a debt moratorium – delaying the payment of debts or obligations – and debt cancellation has gained strength during the COVID-19 pandemic. International coordination on debt, for instance in the form of the Debt Service Suspension Initiative (DSSI) and the Common Framework for Debt Treatments beyond the DSSI, will be critical.

► 4 The role of international technical and financial support and coordination

Nonetheless, given the significant gaps in social protection coverage and unmet financing needs, in particular in low-income countries, and also given that increasing domestic resource mobilization might take some time, national resources are not sufficient to achieve SDG targets 1.3 and 3.8 by 2030 in particular and the SDGs in general (see for example Gaspar et al. 2019; Manuel et al. 2020). The COVID-19 crisis added urgency to address these gaps and many low- and lower-income countries⁶ called upon IFIs and bilateral development partners to provide additional support.

► Box 7: Rationale for international support

Recommendation No. 202 states that countries whose economic and fiscal capacities are insufficient may need to seek international support, at least in the short-to-medium term. This is also called for by SDG target 1.a, which urges countries to “ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions”.

The importance of development cooperation was further highlighted in the Conclusions concerning the second recurrent discussion on social protection (social security) adopted by the International Labour Conference at its 109th Session in 2021 (ILO 2021f). In line with its constitutional mandate to set international social security standards, its tripartite structure and its technical expertise, para. 21 (c) states that the ILO should:

“explore options for mobilizing international financing for social protection, including increased official development assistance, to complement the individual efforts of countries with limited domestic fiscal capacities to invest in social protection or facing increased needs due to crises, natural disasters or climate change, based on international solidarity, and initiate and engage in discussions on concrete proposals for a new international financing mechanism, such as a Global Social Protection Fund, which could complement and support domestic resource mobilization efforts in order to achieve universal social protection”.

International support is not only a matter of global solidarity but also an issue of political and legal responsibility. In its general comment No. 19: The right to social security (art.9), adopted in 2008, the UN Committee on Economic, Social and Cultural Rights emphasized that the right to social security also includes extraterritorial obligations and that:

“(d)epending on the availability of resources, States parties should facilitate the realization of the right to social security in other countries, for example through provision of economic and technical assistance. ... Economically developed States parties have a special responsibility for ... assisting the developing countries in this regard”.⁷

⁶ Including Afghanistan, Bangladesh, the Central African Republic, the Democratic Republic of the Congo, Guinea, Lesotho, Madagascar, Malawi, the Marshall Islands, Mauritania, Mozambique, Sierra Leone, Solomon Islands, Tajikistan, Togo and Vanuatu.

⁷ UN document E/C.12/GC/19, para. 55.

4.1 Technical support

The need to assist domestic resource mobilization for social protection through technical support has been recognized before and was most recently confirmed at the 109th Session of the International Labour Conference in 2021. Since 2009, UN agencies have joined efforts to support the development of national social protection strategies and systems, including a solid national social protection floor that leaves no one behind. This was reflected in UN development assistance frameworks in many countries and led in 2019 to the development of 35 joint Sustainable Development Goals Fund programmes on integrated policy solutions for social protection to Leave No One Behind (Joint SDG Fund 2021).

In a similar vein and in line with ILO's constitutional mandate to support Member States' development of their social security systems, notably through the [Global Flagship Programme on Building Social Protection Floors for All](#) (2016–2030) (ILO 2021k; 2021l), the ILO supports the design and implementation of national social protection systems including floors through in-country support; cross-country technical advice; the development of practical tools and knowledge exchanges; and forging strategic partnerships, including with UN agencies (ILO 2016b). More specifically, this includes providing technical assistance in conducting costing studies and identifying fiscal space options.

While these initiatives have contributed to increasing coordinated support for countries in building national social protection systems, the need to link policy advice to feasible financing options has become more prominent. An ongoing European Union (EU) action implemented jointly by the ILO, UNICEF and the Global Coalition for Social Protection Floors (ILO and UNICEF 2021) provides technical support to more than 20 countries to strengthen the links and synergies between social protection and public finance management. To achieve this, the action supports national technical ministries (notably labour and social welfare), as well as social partners and civil society organizations, to engage actively with ministries of finance when identifying financing needs for social protection and discussing options for meeting their needs, notably through increased fiscal space at the national level. The action also advocates for using budget support as the preferred aid modality for financial assistance on social protection and related social policy areas, to complement existing domestic resources for social protection and to incentivize appropriate budget allocation for an inclusive and sustainable social protection system.

4.2 Financial support

Considering their significant unmet social protection financing needs, the individual efforts of countries could be complemented and supported by international financing for social protection, based on international solidarity. This might apply to countries with limited domestic fiscal capacities to invest in social protection or countries that face increased needs because of a crisis, a natural disaster or climate change. Such financial support could, for example, complement national budgets to finance non-contributory social protection or support the development of adapted (for example temporarily subsidized) social insurance for workers and enterprises in the informal economy.

To some extent, this has already been done in the context of socio-economic responses to the COVID-19 pandemic. For instance, Bangladesh received a grant of €113 million from the EU and Germany's Kreditanstalt für Wiederaufbau to co-finance a large emergency package, including a cash transfer programme for unemployed and distressed workers in the ready-made garment, leather goods and footwear industries. Bangladesh also received a concessional loan of €150 million from the French Development Agency for a contingency emergency response for poor and vulnerable populations.

In general, there are several ways to channel international financial support, including ODA, such as through project-, results- or policy-based financing; direct budget support, with a specific focus on improving public finance management and social protection systems performance; dedicated "basket" funds at the national level that pool resources from national and international actors; or a global fund for social protection (UN 2021a). The type of international financing made available for countries will also depend on the

existence and proper functioning of public finance management systems. For instance, the Kreditanstalt für Wiederaufbau uses only policy-based lending in countries that already have large own implementation capacities (Heidebrecht and Kemper 2018); in other countries, it might be necessary to build these national capacities first, as well as to comply with international financing regulations. The following considerations would apply in all cases.

Joint financing arrangements at the national level

Most low- and lower-middle-income countries are in the process of building national social protection systems. Universal social protection cannot be achieved immediately but only in a progressive manner, as institutional capacities are developed. As a result, financing needs will increase each year as social protection systems mature and cover more people and more risks with higher levels of benefits. At the same time, in line with international social security standards that stress the overall and primary responsibility of the State and the principle of financial, fiscal and economic sustainability of social protection systems (Bierbaum and Schmitt 2022), international financial support should only be temporary and progressively decrease in relative terms as countries build their own capacities to mobilize domestic resources for social protection.

Both factors need to be considered when discussing joint financing arrangements. In the context of an emergency response such as in the case of the COVID-19 crisis, natural disasters or other shocks, temporary support could be extended to assist countries during the months or years needed to cushion immediate shocks or to adopt and implement their domestic resource mobilization strategies.⁸ In the longer run, countries that progressively build national social protection systems will also be in a better position to respond quickly to future shocks and to use additional financial support to scale up and extend existing schemes and programmes (ILO 2020c; 2020d; Merttens et al. 2017).

Moreover, financial support needs to be offered along with technical support – as requested and required – to assist countries in efforts to increase domestic resource mobilization and create a social protection system that is universal, comprehensive, adequate and sustainable (Bierbaum and Schmitt 2022). If well designed, international financial resources could be used to support domestic resource mobilization, for instance by providing technical support to effectively design and implement contributory schemes for workers in the formal sector (when they do not yet exist) (see box 8), as well as to devise social protection strategies that facilitate the transition from the informal to the formal economy. Such strategies could include partial or temporary subsidies of social security contributions in order to attract new members and build trust in the system, in addition to other measures to increase access, such as the simplification of registration procedures, contribution determination and collection, as well as payment processes (see section 3.1).

► Box 8: Linking financial to technical support in an ILO-BMZ project

During the COVID-19 crisis, workers in the garment sector have been affected by factory closure and the reduction of working time. The objective of an ILO–Federal Ministry for Economic Cooperation and Development of Germany (BMZ) project (2020–2022) was to support them during this difficult period.

In the Lao People's Democratic Republic, which already had a functional unemployment insurance system, the project provided additional unemployment benefits to affected workers. The project could make use of the existing social security infrastructure and the disbursement of the emergency support was very smooth.

In countries without any functional unemployment insurance (Bangladesh, Cambodia, Ethiopia, and Indonesia), the project had only a few months to implement a completely new solution to distribute

⁸ The need to provide social protection to those whose jobs and livelihoods have been disrupted by crisis situations is also highlighted in the Employment and Decent Work for Peace and Resilience Recommendation, 2017 (No. 205).

cash. These solutions had to comply with ILO social security standards, notably the principles of social dialogue and tripartite representation, adequacy of benefits, transparency, and non-discrimination.

The mid-term evaluation of the project, which was conducted in 2021, highlighted that financial assistance to countries (such as the assistance provided by BMZ) can complement and support national efforts to build social protection systems but cannot replace them. Through this project, national constituents with ILO support used the guidance provided by international social security standards to build emergency solutions and achieved institutional changes and advances in the social security system that can today support a more inclusive recovery.

Subsidizing social security contributions through a basket fund to facilitate the extension of coverage to currently unprotected workers in the informal economy is currently being discussed in Jordan in the context of the response to the COVID-19 pandemic (see box 9).

► **Box 9: Creating fiscal space in Jordan during the COVID-19 pandemic and beyond**

In the context of the COVID-19 pandemic, the Jordanian Social Security Corporation, with the technical support of the ILO and other partners, has decided to set up a special fund for employment support and formalization of vulnerable workers, known as the Estidama++ Fund – Extension of Coverage and Formalization. Extending social protection has been a vital part of the Government's response to the COVID-19 pandemic. The proposed fund aims to further increase social protection coverage and adequacy in the short term in order to mitigate income losses of unregistered self-employed, own-account and other vulnerable wage workers who are not covered by existing forms of social insurance and are not eligible to receive social assistance. The fund will provide short-term income support in the form of wage subsidies, together with medium-term contribution subsidies that will provide access to short- and long-term insurance benefits for workers who are currently not insured. It will also support the transition of vulnerable unregistered Jordanian and non-Jordanian workers, including refugees and migrant workers, towards their gradual inclusion in contributory schemes – in a way that is adapted to their needs and takes into account current factors that limit participation – as part of the efforts to promote formalization.

A first contribution to the fund has been agreed by the Governments of Norway and the Netherlands and it is expected to start operations in the 1st quarter of 2022. Additional donors are expected to join the pooled fund in an anticipated second phase and matching funds from the Government are also under discussion. The fund will therefore allow Jordan to advance its agenda of extension of coverage of the social insurance system to the “missing middle”, while preserving the long-term financial sustainability of the Social Security Corporation for currently insured members. This approach is framed within the Jordanian national social protection strategy (2019–2025) and in line with ILO social security standards, including the principles of financial sustainability; solidarity in financing; sound governance; and coherence with social, economic and employment policies. Lessons from the first phase of the implementation will inform further expansion and consolidation of the fund.

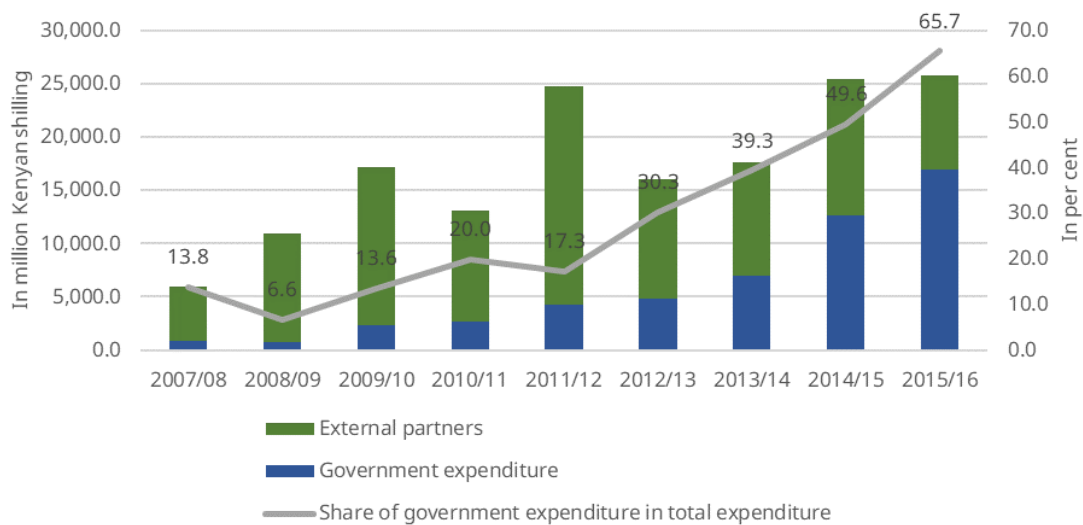
Source: ILO–Jordanian Social Security Corporation project document on the establishment Estidama ++.

Similarly, Togo has established the Novissi income support programme for workers in the informal economy affected by the socio-economic consequences of the COVID-19 pandemic. The confidence generated by the Novissi's timely provision and the digital enrolment and payment system built in the context of the programme could be used to encourage workers in the informal economy to register under an adapted contributory scheme that is currently being developed by the National Social Security Fund. The lessons learned in the use of digital technology could also inform the rapid enrolment of the categories of people targeted by the medical assistance scheme within the implementation of the universal health insurance law adopted on 9 September 2021.

The duration of the joint financing arrangements would need to match the time needed to undertake the necessary policy and fiscal reforms and to build national institutions and capacities. The annual levels of complementary financing also need to be predictable so that countries have sufficient time to mobilize resources domestically and can ensure that benefits can be paid, in line with the principle that entitlements to benefits should be adequate, predictable and prescribed by national law, establishing rights for beneficiaries (cf. Bierbaum and Schmitt 2022). The financing arrangements would therefore have to be decided based on the estimated cost for a national social protection floor package and the available domestic resources to finance it.

The schedule should also allow for some flexibility should circumstances change unexpectedly, a fact demonstrated dramatically by the COVID-19 pandemic. Yet, this has also been experienced before, taking the instructive example of cyclone Idai and its devastating impacts in Malawi, Mozambique and Zimbabwe in 2019, as well as many other potential events (for example a global economic recession, a food crisis and so on). These financing arrangements will need to be further elaborated, also taking into account the experience of existing global funds and the solidarity or basket funds established at the national level as in the case of Jordan (see box 9), Bangladesh or Nigeria, for example, or based on the experience of countries such as Kenya, in which the Government, in line with its national social protection policy, has committed to allocating more resources to social protection and has progressively reduced its reliance on resources from external partners (see figure 4).

► **Figure 4: Share of external and domestic financing for non-contributory social protection schemes, Kenya, 2007-2018**



Source: Authors' illustration based on Kenya (2017, Annex 2).

Prerequisites for international financial support and prioritization

International complementary financing arrangements need to be agreed upon in the context of partnership frameworks that foster mutual accountability in achieving shared outcomes (OECD 2019). International social security standards, in particular Recommendation No. 202, which were adopted by representatives of governments and of employers' and workers' organizations from all ILO Member States, are well placed to provide a transparent basis for the development of partnership frameworks to build rights-based social protection systems.

These standards not only define a tangible goal – setting up national social protection floors – but also define principles for guiding countries towards achieving these objectives (Bierbaum and Schmitt 2022). These include, for instance, the principles to develop transparent, accountable, and sound financial management and administration; enhance tripartite participation with representative organizations of employers and workers; and engage in consultation with other relevant and representative organizations of persons concerned. The application of these principles (or a strong commitment to apply them) could be both a precondition for international financial and technical support and serve as indicators to monitor and evaluate the impact of the technical and financial support provided.

Additional prerequisites for financial support may include having at least one national social protection programme or scheme in place that would be available to absorb additional resources and distribute the benefits and could be scaled up, or the political will to establish a new national social protection scheme and progressively increase domestic resources for social protection. For all countries requesting financial support, it would also be necessary to have adopted and costed a strategy for the development of a national social protection floor and conducted a fiscal space analysis that establishes that the economic and fiscal capacities to guarantee the national social protection floor are insufficient and that national efforts need to be complemented with international resources, at least temporarily. Moreover, countries and financial and technical support institutions should agree on a credible, feasible and sustainable medium-term exit strategy from such financial support that is in line with medium-term revenue and expenditure frameworks and/or embedded in integrated national financing frameworks.

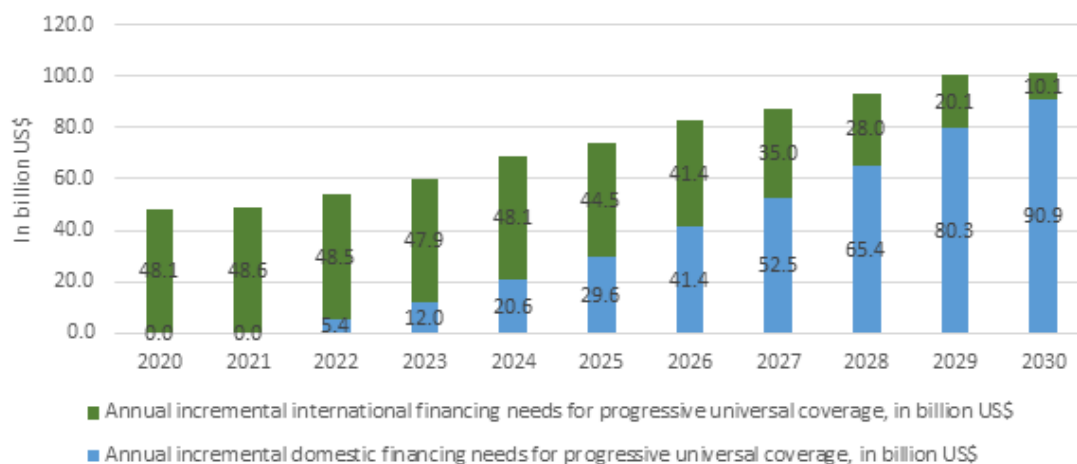
The prioritization of countries for financial support (and technical assistance) could take into account existing coverage gaps and financing needs as well as the current income classification, with a focus on low-income or lower-middle-income countries for the financial support component.

International resources to meet countries' financing needs

These considerations at the country level – combining progressively increasing total resource needs as social protection systems are established and decreasing international resource needs as domestic resource mobilization is strengthened simultaneously – are the basis for providing the estimate of resource needs from international sources between 2020 and 2030 based on the estimated financing needs presented in figure 1. Figure 5 shows the incremental needs for the progressive extension of social protection in low-income countries in a highly stylized way. They are only indicative for several reasons, including that national social protection floors might differ from the generic set of benefits used for the global calculations, as well as that the speed of extending coverage, comprehensiveness and adequacy and increasing fiscal space depend on the specific national context. Nonetheless, it provides a rough indication of the magnitude of the challenge and the type of monitoring that will be carried out in the context of the implementation of the Global Accelerator for Jobs and Social Protection outlined in box 2.

The blue bars indicate the annual incremental domestic financing needs for building social protection floors in low-income countries. The green bars show the corresponding amounts that would need to be financed from international resources, such as Special Drawing Rights or ODA. This assumes that given the strain of the current COVID-19 pandemic, financing needs would need to be covered fully from international resources in 2020 and 2021. From 2022 onwards, it is assumed that the share financed from domestic resources progressively increases by 10 percentage points each year and international partners' co-financing is continuously phased out accordingly. This means that in 2026 only half of low-income countries' financing needs would need to be financed from international sources and in 2030 only 10 per cent would need to be financed. Subsequently, international financial support would aim merely at safeguarding investments in the case of covariate shocks.

► **Figure 5: Stylized graph on incremental financing needs for progressive extension of social protection in low-income countries, by financing source, 2020-2030**



Source: Authors' illustration based on Durán Valverde et al. (2020).

To ensure progressive implementation, avoid retrogression and increase credibility and trust in the social protection system, it is crucial that recipient countries can rely on international financial support over a clearly defined and sufficiently long time period that allows for strategic planning and uninterrupted support. This follows from the principles that social protection schemes and programmes should be anchored in national legal frameworks and benefits should be predictable. The inability to fulfil legal commitments could lead to legal claims from beneficiaries, lack of trust in the system and social unrest.

While international resource mobilization and debt relief have provided important short-term financial assistance in the context of the COVID-19 crisis, they represent only a small proportion of what is needed to sustainably close the social protection financing gap in low- and middle-income countries. Previous commitments exist as well, yet despite the Addis Ababa Action Agenda's call for enhanced ODA to support financing for sustainable development (United Nations 2015), many countries in the Organisation for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) fall woefully short of meeting the agreed target of 0.7 per cent of gross national income (GNI); preliminary figures for 2019 show an average value of 0.3 per cent of the combined GNI of all OECD/DAC countries (OECD 2021).

Encouraging and supporting the mobilization of international resources for social protection, including through increased ODA, is therefore needed. In reality, the share of disbursed ODA allocated to social protection represented a mere 1 per cent of total bilateral ODA in 2018 (OECD 2020b), leading to questions of how ODA can be better oriented towards social protection and how its centrality for countries' social and economic development can be recognized beyond the current emergency situation. Whereas this would require a substantial share of total ODA channelled towards social protection in the initial years (for example, the financing needs of low-income countries in 2020 correspond to more than one third of total OECD/DAC commitments in 2019), the financing needs to be covered from international resources would continuously decline as domestic resource mobilization is enhanced.

To complement regular sources of financing and fill remaining gaps, donor (but also recipient) countries could consider a range of innovative sources of financing, some of which have already been implemented. These include earmarked taxes (financial transaction taxes, taxes on airline tickets, dedicated funds from extractive industries, sin tax on tobacco, alcohol and fast food, billionaires' tax, inheritance tax, arm trade taxes, levies on mobile phone calls and so on); debt-based borrowing mechanisms (debt conversion linked to social protection, diaspora bonds and so on). Overall, these sources of financing vary in terms of several criteria that should be taken into account for policy considerations, including the objectives of the financing

sources, their time frame, whether they are earmarked, the level at which they would be raised, their overall sustainability and the political will to implement them (Durán Valverde et al. 2020, table 9).

4.3 International coordination to increase domestic resources for social protection

Finally, it will be essential that the strategic objective of establishing basic social security guarantees to all and building universal social protection systems is supported by the multilateral system through enhancing the coherence of national and international policies and creating an environment that is conducive to increasing fiscal space at the domestic level. This will require strong political will and the active mobilization of IFIs and development partners. This is also in line with the proposed pillars of the Global Accelerator for Jobs and Social Protection (see box 2). Such coordination efforts include meaningful international tax reform, which seemed unrealistic (for example Ghosh 2020; ICRICT 2018) until the recent approval by G20 finance ministers of a global corporate tax rate of at least 15 per cent, which aims to put an end to tax optimization and ensure that giant digital corporations pay their fair share of taxes. Combating corporate tax evasion and avoidance, including the “base erosion and profit-shifting” strategies employed by companies to shift operations from high- to low-tax regimes, would also increase tax revenue significantly. It is estimated that domestic tax base erosion and profit-shifting by multinational companies cost countries US\$100–240 billion in lost revenue each year (OECD 2020a), not including the costs to countries of regulatory competition in the taxation area. More than 135 countries collaborate within the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) to put an end to tax avoidance strategies that exploit gaps and mismatches in tax rules to avoid payment of tax. Furthermore, the joint OECD/United Nations Development Programme (UNDP) Tax Inspectors Without Borders initiative helps developing countries to collect the taxes due from multinational enterprises and assist each other in building tax audit capacity.

Furthermore, in the context of the COVID-19 pandemic, the argument in favour of a debt moratorium (delaying the payment of debts or obligations) and debt cancellation is gaining strength. In this regard, G20 finance ministers agreed on a debt “standstill” in 2020, which allowed for the postponement of debt repayments from 73 eligible low-income countries. The debt standstill was extended until end-2021 to reduce strain and provide some support to the poorest countries. This measure corresponds to the first phase of a three-pronged approach to debt, as outlined in a report of the UN Secretary-General issued in May 2020 (UN 2020).⁹ Finally, private sector enterprises equally have a role to play. In addition to honouring tax and social security legal obligations in all countries of operation and as part of their environmental, social and corporate governance commitments, private sector enterprises may support, in full respect of country ownership and through national employers’ organizations, the expansion of national social protection systems in countries of operation, notably to guarantee decent work conditions to the workers of their supply chains and increase market stability. For example, in 2020, brands, manufacturers, employers’ and workers’ organizations and civil society groups committed to a global [Call to Action](#) on the COVID-19 pandemic response in the global garment industry. This Call to Action included the commitment to “take action to protect garment workers’ income, health and employment and support employers to survive during the COVID-19 crisis, and to work together to establish sustainable systems of social protection for a more just and resilient garment industry”. The 130 endorsing organizations further committed to “support the development of social protection floors and to extending social protection for workers and employers in the garment industry, consistent with ILO Recommendation No. 202 with a view to establishing over time the responsibilities of all parties to contribute for sustainable systems”. Another example is the partnership of the ILO and Fast Retailing, the parent company of the UNIQLO clothing brand, which aims to strengthen the social protection and employment services available to workers in Indonesia.

⁹ The second phase aims at providing additional, targeted debt relief for countries that require support beyond a temporary suspension of debt service, while the third phase consists of addressing structural issues in the international debt architecture in order to prevent defaults leading to prolonged financial and economic crises in future.

▶ 5 Conclusion

In 2008, a financial and economic crisis hit every region and country in the world. Countries that already had social protection systems in place, covering all or a large part of their populations, were the first to offer an adapted response to individuals and companies affected by the crisis. They were also the first to bounce back and find the path to economic growth. Social protection was rightly seen as an automatic stabilizer in times of crisis. On this promising basis, the UN launched the Social Protection Floor Initiative as one of nine initiatives to address the crisis and accelerate economic recovery. Since then, many countries, convinced of the role that social protection plays in economic and social development, have significantly extended coverage to their populations, whether for health care, children, persons with disabilities, older persons or persons of working age. UN agencies, joined by many development partners, also increased their support for the development of national social protection systems in order to make the right to social security a reality for all. Despite this enthusiasm and these developments, investment in social protection systems, whether through contributory or tax-financed schemes, has remained largely insufficient and partly explains why today one person in two lives without any social protection.

Achieving SDG targets 1.3 and 3.8 by 2030 would require developing countries to invest between 1.9 and 2.4 per cent of GDP per year over and above what they already invest (Durán Valverde et al. 2020, figure 5). This additional investment in social protection is entirely feasible in middle-income countries, which have sufficient domestic resources to increase the fiscal space for social protection. This requires strong political will to enforce social insurance laws, extend contributory schemes to other categories of workers and enterprises that are currently excluded and develop and finance non-contributory schemes.

For low-income countries, the situation is quite different. Closing financing gaps would require a much larger effort, in the range of 9.8 to 12.1 per cent of GDP. This does not seem feasible by 2030 without significant support from the international community. Such support would be financial as well as technical to enable countries not just to distribute aid but also to build robust systems with legal entitlements and strengthen the national capacity to collect more taxes and contributions in order to provide a social protection floor for all. This is where technical and financial support must be sufficiently coordinated to promote a shared, national vision of social protection development. This coordinated approach can only work if all actors, national and international, systematically apply international social security standards and demonstrate a strong commitment to building universal, comprehensive, adequate and sustainable social protection systems.

Investing more in social protection would build a more stable, just and sustainable world, in which everyone has access to health care and protection of their livelihoods in the event of job loss, illness, maternity or disability and during childhood and old age. Social protection systems, including social protection floors, prevent and reduce poverty, inequalities and insecurity. Building social protection systems, including strong floors, not only changes people's lives and gives them peace of mind but also increases domestic demand for goods and services and creates an investment in worker productivity. It contributes to inclusive economic recovery and further economic development. By putting solidarity into practice, social protection recreates the social fabric that has been strained by large-scale global transformations and also recently by COVID-19 lockdown measures.

► **Table A.1: Incremental financing needs for progressively closing the social protection floor coverage gap in low-income countries, 2020–2030 (billions of US\$ and percentage of GDP)**

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Low-income countries	In billion US\$	48.1	48.6	53.9	59.9	68.7	74.1	82.8	87.4	93.4	100.3	100.9
	In per cent of GDP	9.80	9.45	9.90	10.38	11.23	11.41	12.02	11.95	12.01	12.14	11.49
Lower-middle-income countries	In billion US\$	203.2	209.3	219.7	240.0	268.4	296.1	326.3	351.7	379.4	406.7	413.4
	In per cent of GDP	2.83	2.74	2.72	2.80	2.96	3.08	3.20	3.25	3.31	3.35	3.21
Upper-middle-income countries	In billion US\$	517.6	523.2	409.4	443.3	479.1	518.0	551.1	586.2	620.9	657.9	686.3
	In per cent of GDP	2.17	2.04	1.52	1.56	1.61	1.65	1.66	1.68	1.69	1.69	1.68
Low- and middle-income countries	In billion US\$	769.0	781.0	683.0	743.2	816.2	888.3	960.2	1025.3	1093.7	1164.9	1200.7
	In per cent of GDP	2.44	2.31	1.92	1.98	2.07	2.13	2.18	2.21	2.23	2.25	2.19

Source: Durán Valverde et al. (2020, p. 33).

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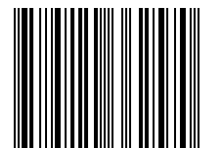
Contact details

Social Protection Department (SOCPRO)

International Labour Organization
Route des Morillons 4
1211 Geneva 22
Switzerland
T +41 22 799 7565
socpro@ilo.org
www.ilo.org/secsoc



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