Designing and Implementing Social Protection Systems

A course for policy-makers, government officials and practitioners around the world

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Mr. Nard Huijbregts

Financing Social Protection Programmes

Institute of Development Studies
Economic Policy Research Institute
UNITED NATIONS UNIVERSITY
As a share of Gross Domestic Product, how much does the average country spend on social protection?
Social protection expenditure as a share of GDP, by region

World Bank (2012)
What explains these differences?

Sensitive to the definition used
Social protection expenditure as share of government expenditure, in 2015

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Government Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>44.77%</td>
</tr>
<tr>
<td>Denmark</td>
<td>43.02%</td>
</tr>
<tr>
<td>Italy</td>
<td>42.59%</td>
</tr>
<tr>
<td>Austria</td>
<td>41.96%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>39.85%</td>
</tr>
<tr>
<td>Spain</td>
<td>39.12%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>38.38%</td>
</tr>
<tr>
<td>Poland</td>
<td>38.32%</td>
</tr>
<tr>
<td>Portugal</td>
<td>37.8%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>36.78%</td>
</tr>
<tr>
<td>Estonia</td>
<td>32.07%</td>
</tr>
<tr>
<td>Australia</td>
<td>28.19%</td>
</tr>
<tr>
<td>Colombia</td>
<td>27.2% (in 2014)</td>
</tr>
<tr>
<td>Israel</td>
<td>27.02%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>25.35% (in 2014)</td>
</tr>
<tr>
<td>United States</td>
<td>20.79%</td>
</tr>
<tr>
<td>South Korea</td>
<td>19.41% (in 2014)</td>
</tr>
</tbody>
</table>

OECD (2017)
Advanced economies spend 10 times more on social protection

Share of GDP per sector, by region

Mason & Shetty (2018)
Social protection reduces poverty in high-income countries

SOURCE: OECD AND ILO
Social protection reduces poverty in high-income countries.

(Source: OECD and ILO)
Social protection reduces poverty in high-income countries.
Relationship between social protection spending and HDI

Public social security expenditure as a percentage of GDP

UNDP (2011) and ILO (2010)
Government social spending over time
And, where is the majority being spent on?
- Children
- Working age individuals
- Older people
With the majority being spent on...?

**Public Social Protection Expenditure in Africa, by category**

ILO (2017)
And in Asia..

Public Social Protection Expenditure in Asia, by category

ILO (2017)
Social safety net spending by region, per type of programme

World Bank (2018)
And, how are these social protection programmes being financed?
Financing Social Protection

- **TYPE OF INSTRUMENT**
  - Social Transfers
  - Social Insurance
  - Labour legislation

- **SOURCE OF FINANCING**
  - Financed from taxes
  - Financed by contributions from employees
  - Financed by employers

- **EXAMPLES**
  - Social pensions
  - Disability benefits
  - Child grants
  - Workfare
  - Grants for poor households
  - Contributory pensions
  - Survivors pensions
  - Invalidity benefits
  - Unemployment insurance
  - Maternity insurance
  - Death benefits
  - Minimum wage
  - Statutory maternity benefits
  - Leave pay
  - Compensation for dismissal
  - Work injury compensation
Financing Social Protection

- Domestic resource mobilization
- Overseas development assistance
- Efficiency gains and reallocation
- Deficit financing or borrowing
Domestic revenue mobilization as a share of GDP in selected African countries
Domestic Revenue Mobilization

Variation in Domestic Revenue Collection

- Policy Gap
- Natural Resources
- Collection Gap
Zooming in on taxes

Source: International Center for Tax and Development (2016) and OECD (2013) revenue statistics. For all countries, the most recent data entries between 2011 and 2013 were reported.
Increasing tax revenues: the single biggest potential

Potential and actual tax ratio, selected countries in 2014

IMF (2016)
Tanzania financed its expansion by reforming its tax system

<table>
<thead>
<tr>
<th>Revenue Realization (per cent)</th>
<th>Proportion of increased fiscal space allocated for social protection expenditure (per cent of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>100</td>
<td>1.83</td>
</tr>
<tr>
<td>67</td>
<td>1.23</td>
</tr>
<tr>
<td>50</td>
<td>0.93</td>
</tr>
<tr>
<td>33</td>
<td>0.6</td>
</tr>
</tbody>
</table>

*Potential additional fiscal space generated from tax reform, different scenarios*

EPRI (2015)
Ghana instituted an earmarked tax

NHIL (2.5% VAT)

SSNIT Contributions (2.5% of payroll)

Road Accident Fund

Workmen’s compensation

Interest on Fund (Investment Income)

Premium & Registration Fees

Other Income

Ministry of Finance

National Health Insurance Fund (NHIF)

Payment to Healthcare Providers

Admin. & General Expenses of NHIA

Support to the Ministry of Health [Capped @ 10%]
Now, what about overseas development assistance?

Share of donor-funded safety nets

Beegle, Coudouel and Monsalve (2018)
Now, what about overseas development assistance?

Global Overseas Development Assistance between 1960 and 2012
Tackling illicit financial flows

*Illicit financial flows versus overseas development assistance, in billions of USD*

World Development Indicators (2015)
Efficiency gains can have huge potential; look at Bangladesh!

Share of total expenditure on social protection in Bangladesh, by programme
But also, South Africa reprioritized..

Spending on security sectors as a share of GDP in South Africa
.. from defence spending to social spending.

Spending on social sectors as a share of GDP in South Africa
It’s a matter of priorities!

Global Military Spending

- United States: 42%
- Rest of the world: 58%

Global Social Protection Spending

- Europe (n=36): 58%
- Rest of the world: 42%
Finally, a costing exercise!

- So, what makes up the cost of these social protection programmes?
Costing Social Protection Programs

Cost = (coverage x benefit size) + administration

Policy Choice

Design/implementation
Costing Social Protection Programs

- $\text{Cost} = (\text{coverage} \times \text{benefit size}) + \text{admin cost}$
- Coverage and benefit size are policy choices
- Administrative cost depends on design and implementation
  - Well-implemented categorical transfers $< 5$ per cent of budget
  - Badly implemented public works programs $> 60 - 95$ per cent of budget
In the end, what determines success?

- Affordability ultimately means **willingness** of society to pay tax and contributions to finance programs.

- Willingness depends on:
  - Program design parameters (universal, targeted)
  - Effectiveness of current programs

- Willingness needs to be translated into **political will** to (re)allocate new and available resources to finance programs.