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# Sustainable Financing of Social Protection

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## Current and emerging challenges in social protection

- The COVID-19 crisis showed that **many** – including non-standard and informal workers – **were not covered by social protection**
- Incomes have continued to be distributed highly unequally, such that many workers have **failed to escape poverty**
- The raising **income inequality** has pushed many households in the top 10 per cent of the income distribution making them insensitive to hikes in the interest rates aimed at reducing inflation
- Currently, stubborn inflation rates have generated **a global cost-of-living crisis**, which is threatening living standards around the world.
- The challenges of **population ageing** for certain G20 countries
- **Digitalisation and the green transition** may lead to more need for support (declining and “brown” industries).
- More frequent extreme weather events will create more need for support, and **climate change** mitigation (such as carbon taxation) may require a social policy underpinning to garner public support.

# What do International Labour Standards say about financing social security?

## Art 71, Social Security (Minimum Standards) Convention, 1952 (No. 102)

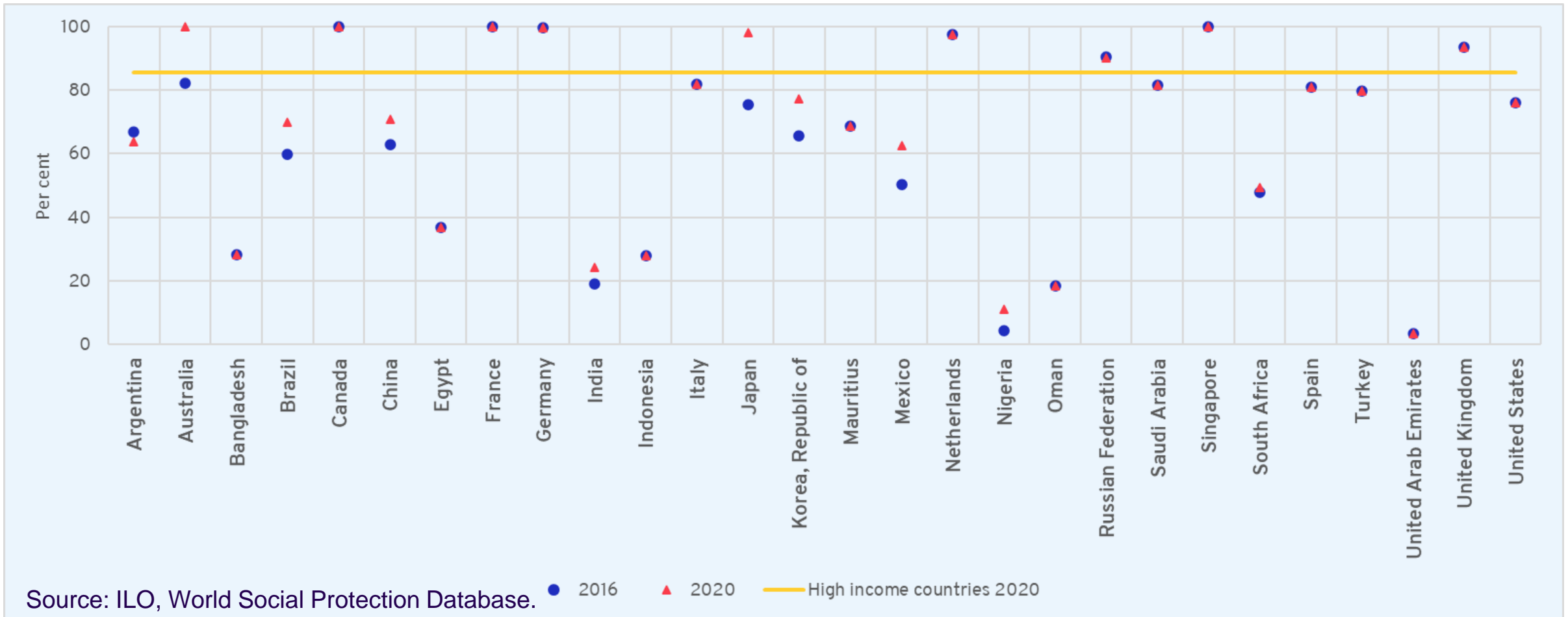
- the cost of social security schemes (including administration) **shall be financed collectively by contributions and/or taxes**, with due attention to avoiding hardship for persons of small means
- the **total insurance contribution borne by workers shall not exceed 50% of the total cost** of the social security scheme, while employers (and the State when applicable) contribute at least the other half of the scheme's cost

## Social Protection Floors Recommendation, 2012 (No. 202)

- **national social protection floors comprise basic social security guarantees** providing basic income security as well as essential healthcare for children, persons in active age and for older persons
- Art 11: Members should **mobilize funds from a diversity of sources**, including a broader and more progressive revenue base, ensure stronger compliance with tax and contribution obligations, as well as of contributions' expenditure reprioritization. Members are also advised to implement measures to prevent fraud, tax evasion and non-payment of contributions.

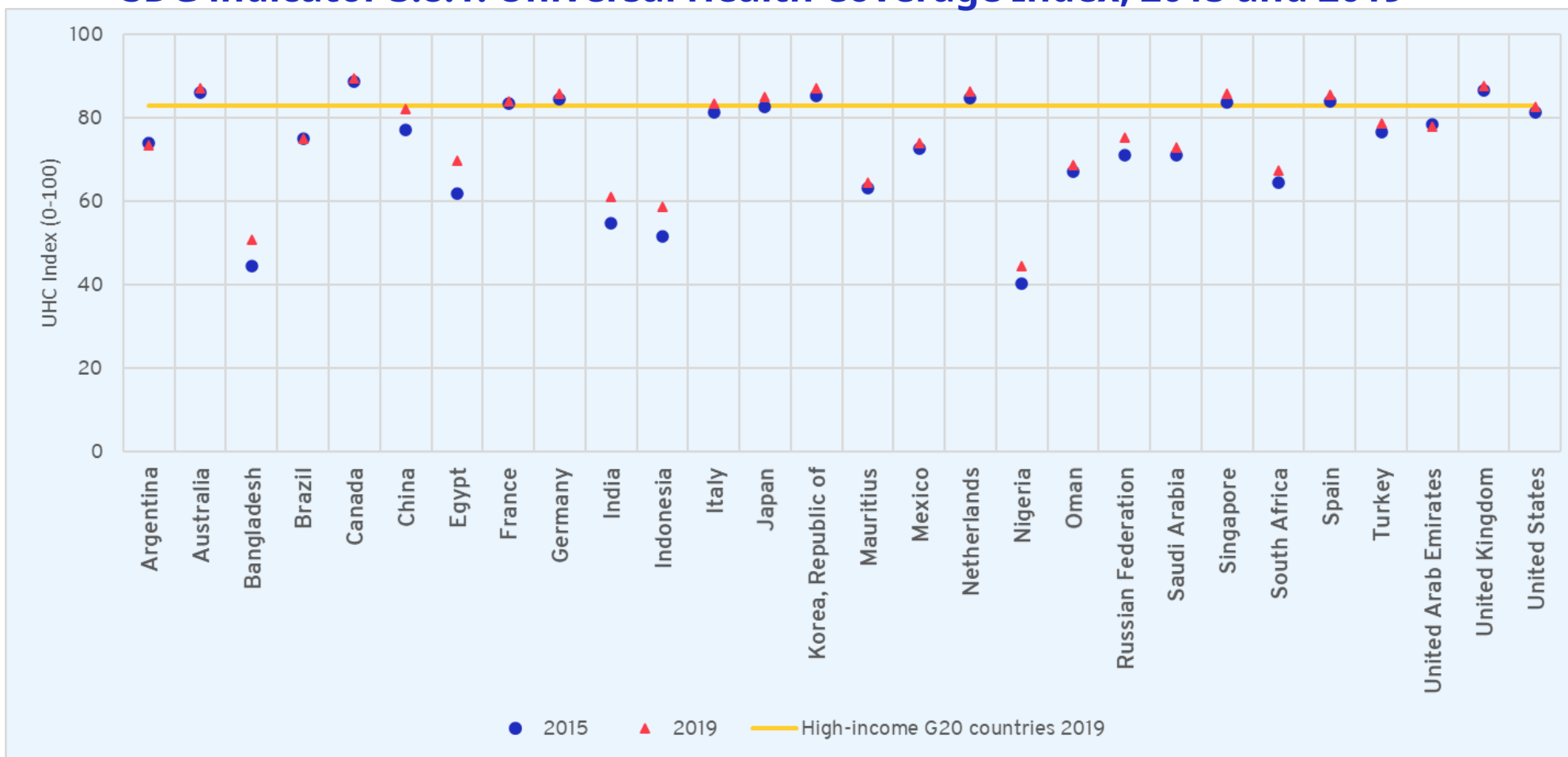
# Social protection coverage differs across the G20

SDG indicator 1.3.1: effective social protection coverage, 2016 and 2020 or latest available year



# Coverage of essential health services has improved in the G20

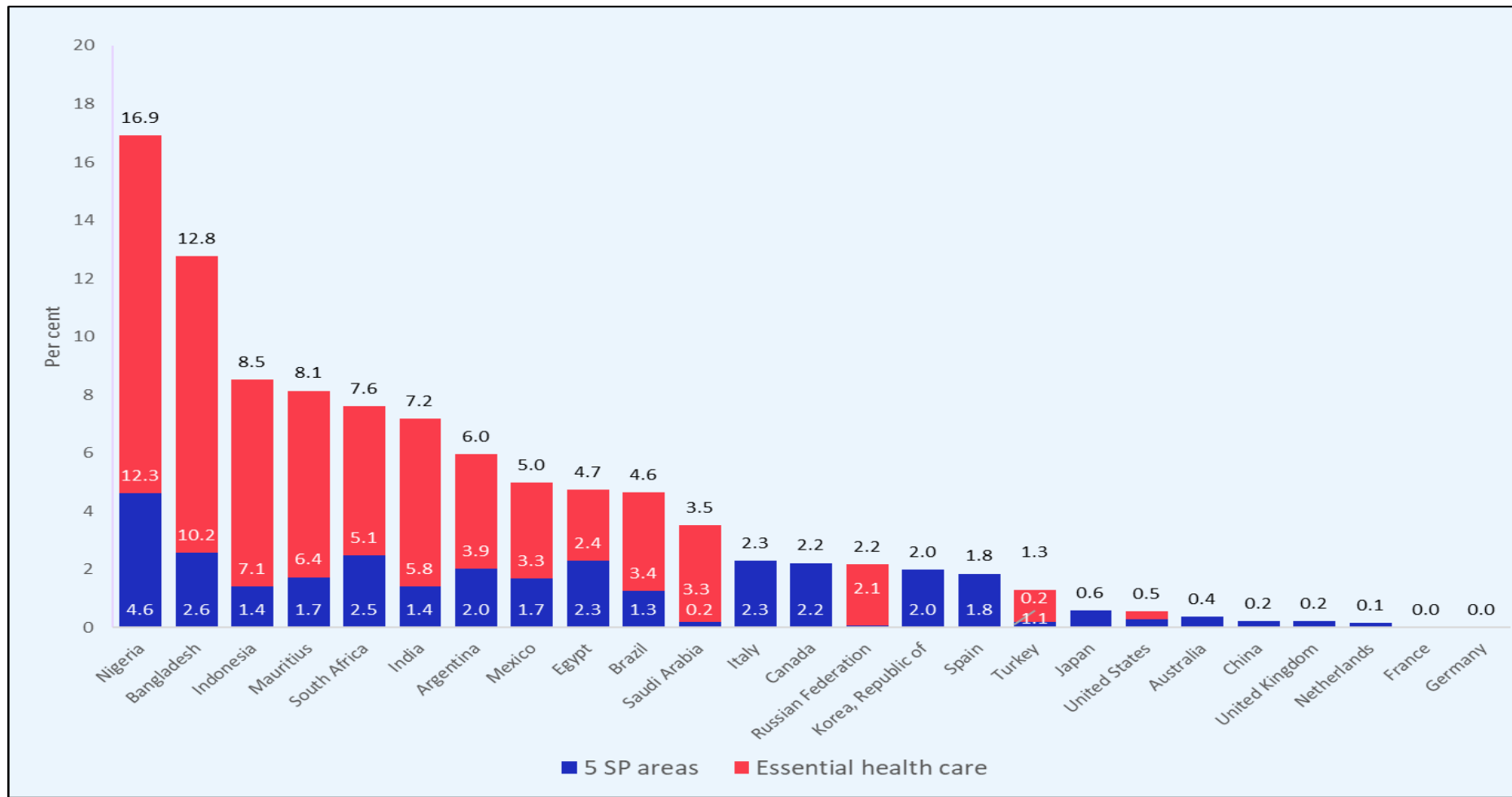
## SDG indicator 3.8.1. Universal Health Coverage Index, 2015 and 2019



Source: ILO, World Social Protection Database.

# More investments are needed to achieve universal social protection coverage

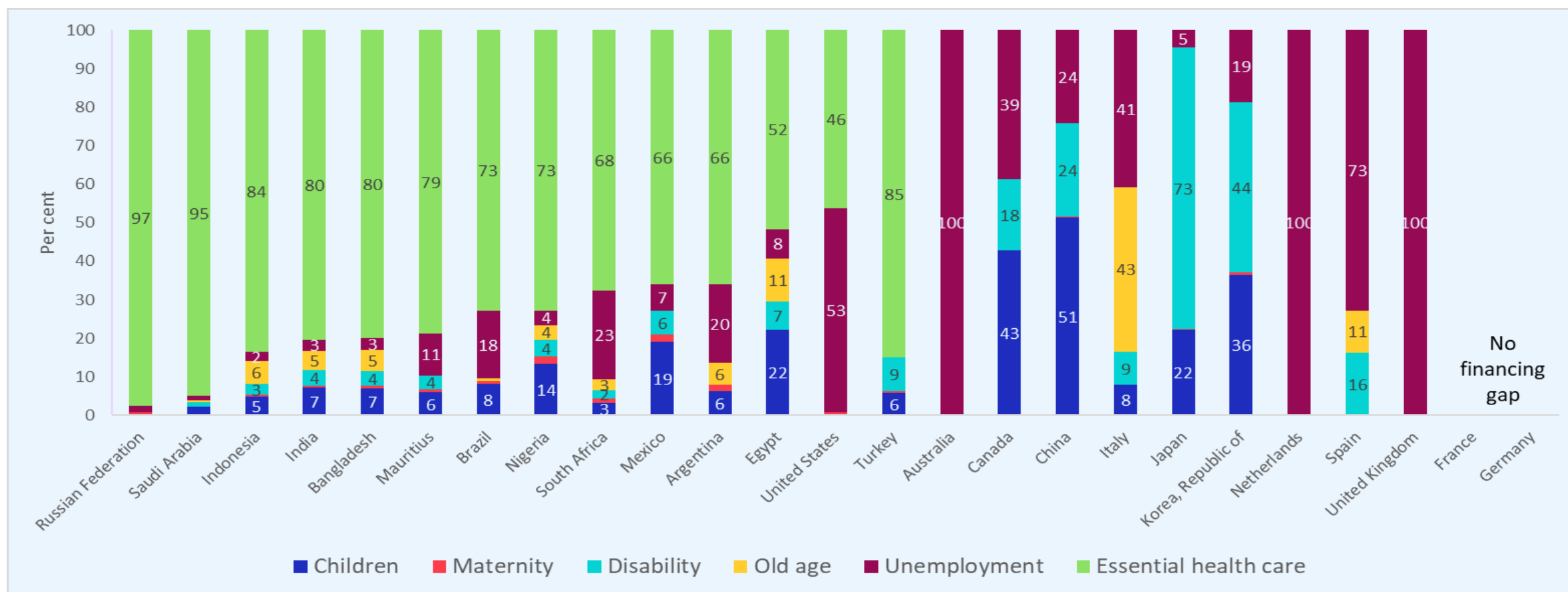
Financing gap for achieving universal social protection coverage, as a percentage of GDP, 2022



Source: ILO  
(forthcoming) Financing  
gaps in social protection,  
2023 revision.

## In which social protection area would investments need to be directed?

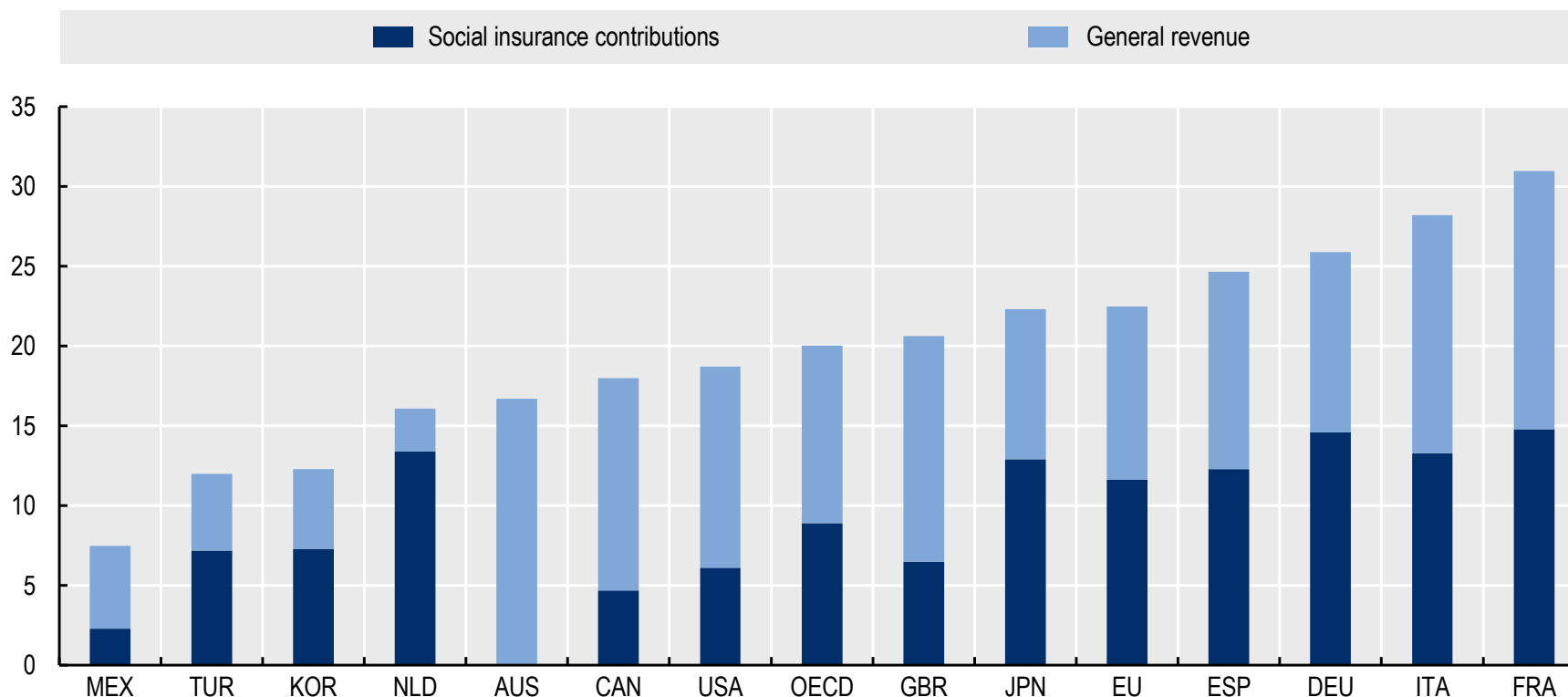
Proportion of total investment needed to close the financing gaps, by social protection area



Source: ILO estimates based on ILO forthcoming, Financing gaps in social protection 2023 revision.

## The financing structure of social protection systems differs across countries with a similar level of spending (1/2)

Public social spending by social security contributions and general revenue funding, in % of GDP, 2019

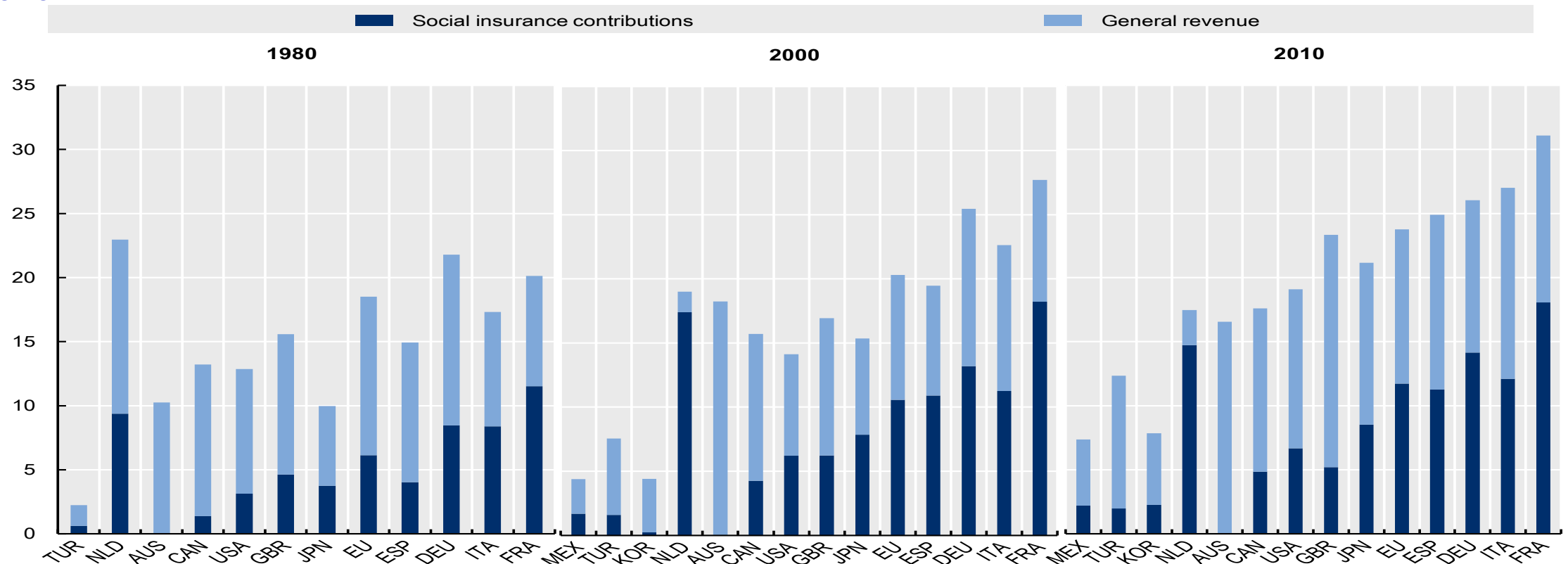


Source: OECD SOCX database (social expenditure), OECD Tax database (social insurance contributions), Immervoll and Kerschbaumer (forthcoming): Financing social protection in OECD countries: An Issues paper.



## Social contribution financing is on the rise in the G20

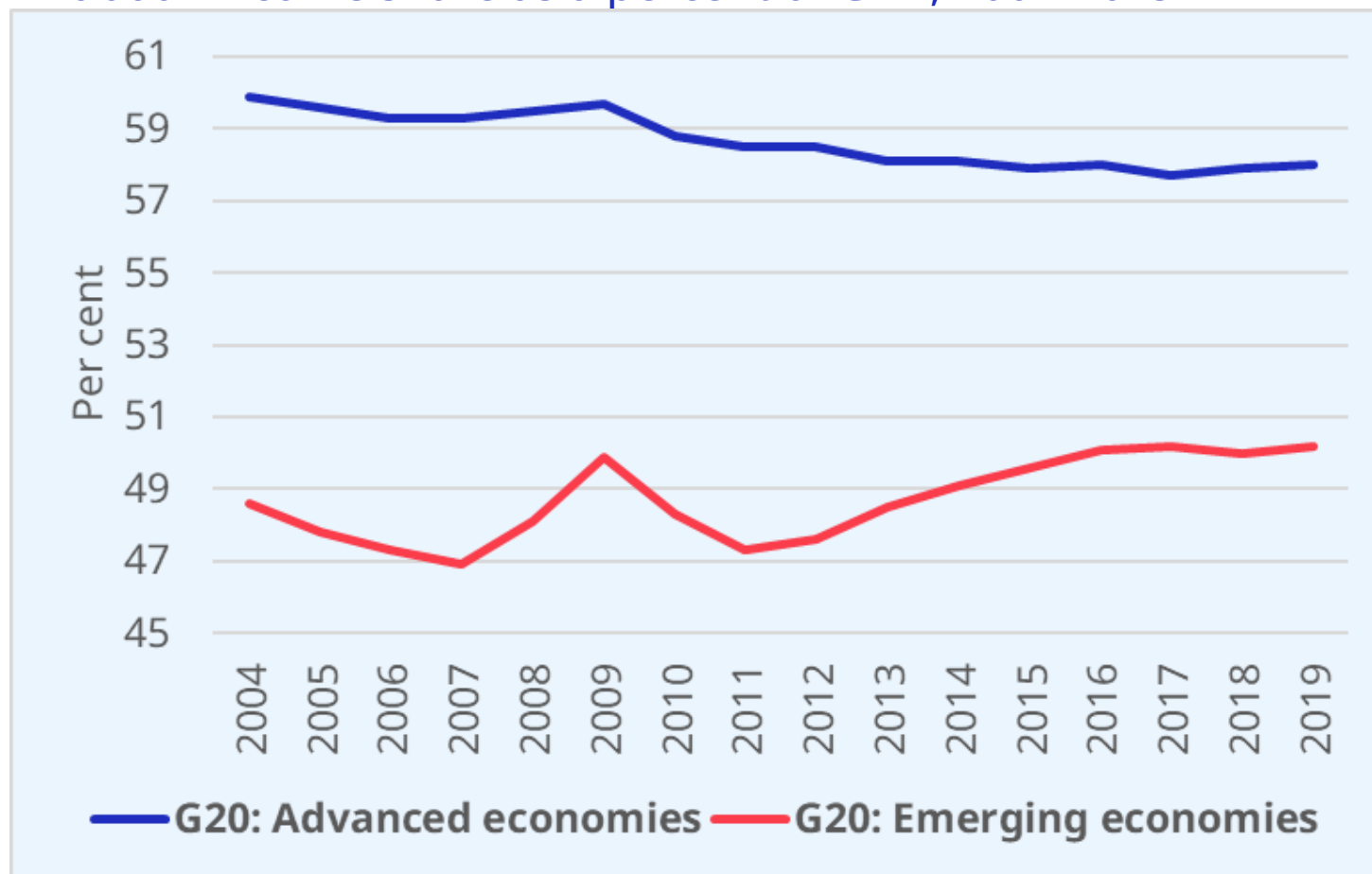
Public social spending by social security contributions and general revenue funding (% of GDP), 1980-2010



Source: OECD SOCX database (social expenditure), OECD Tax database (social insurance contributions), Immervoll and Kerschbaumer (forthcoming): Financing social protection in OECD countries: An Issues paper.

## The decline in labour income share in advanced G20 economies threatens contributory social protection finance

Labour income share as a percent of GDP, 2004-2019



Source: ILOSTAT, forthcoming.

## G20 examples of increasing contributory revenues for financing social protection

### Extension to difficult-to-cover groups

- Argentina, Brazil, Indonesia simplified administrative procedures to enrol and pay contributions

### Public trust

- Japan introduced on-site pension lessons in schools and developed study tools including “pension manga”
- France implemented communication campaigns to show the positive impact of social security
- In Oman, the social security institution collaborated with academic and educational institutions to educate young generations about social security



## G20 examples of increasing contributory revenues (2)

### Strengthening contribution collection and preventing fraud

- Spain implemented a tailored portal to facilitate domestic workers' registration and contribution payment
- France developed a tailored portal for the self-employed and entrepreneurs to facilitate registration and contribution payment
- Using behavioural techniques, Indonesia could reduce social security contributions arrears of employers and encourage them to make on-time payments of member contributions
- Argentina, France, Indonesia, Oman, Saudi Arabia and Spain have developed fraud detection systems using data analysis, predictive analytics, and data exchange with other public agencies
- Mexico provided the employees monthly reports on the contributions made by the employers as a dissuasive and corrective measure to address under-declaration
- Singapore developed video spots and advertising posters to educate employers on their legal obligations and employees on their rights

## G20 examples of increasing contributory revenues (3)

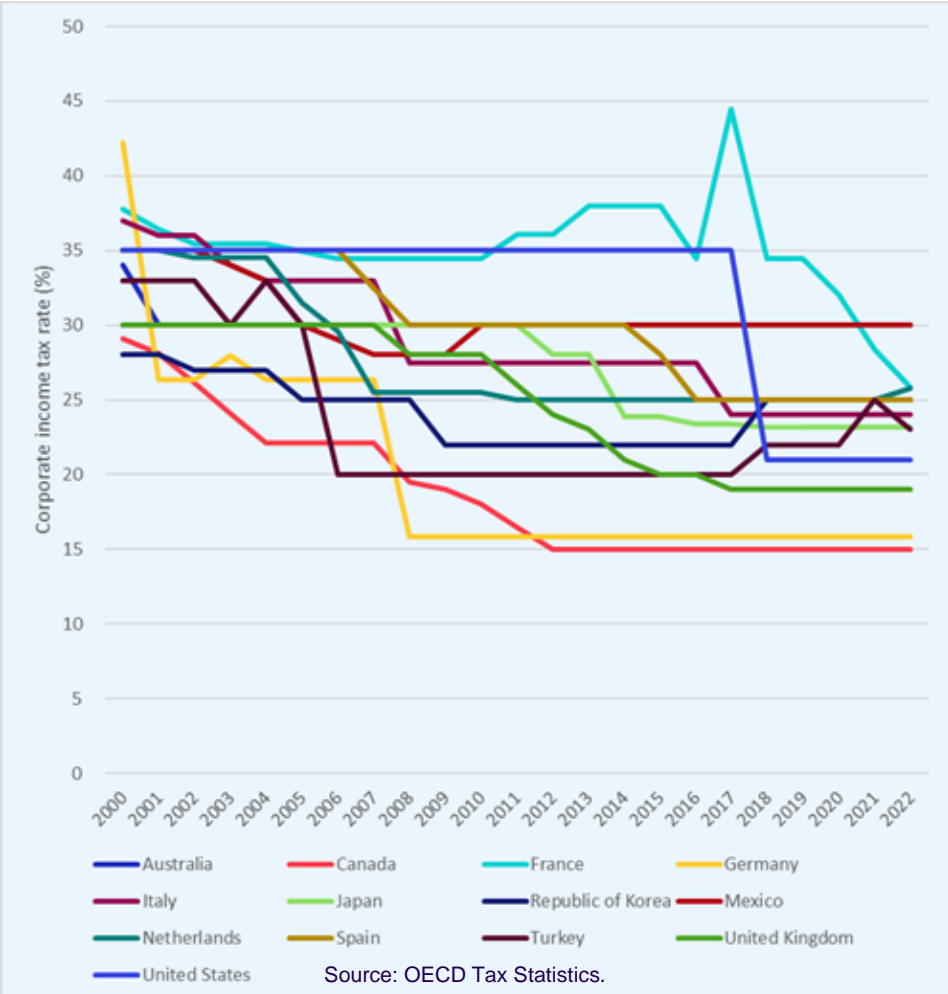
### Optimizing the investment of social security funds and introducing ESG considerations

- Indonesian social security institution has strengthened asset-liability management and introduced more dynamic investment approaches to improve funding ratio
- The social security institution in Oman has enhanced data management and investment risk assessment to enhance investment income and the fund life
- The Republic of Korea and Japan introduced ESG evaluations and indexes to investment strategies in public reserve funds.

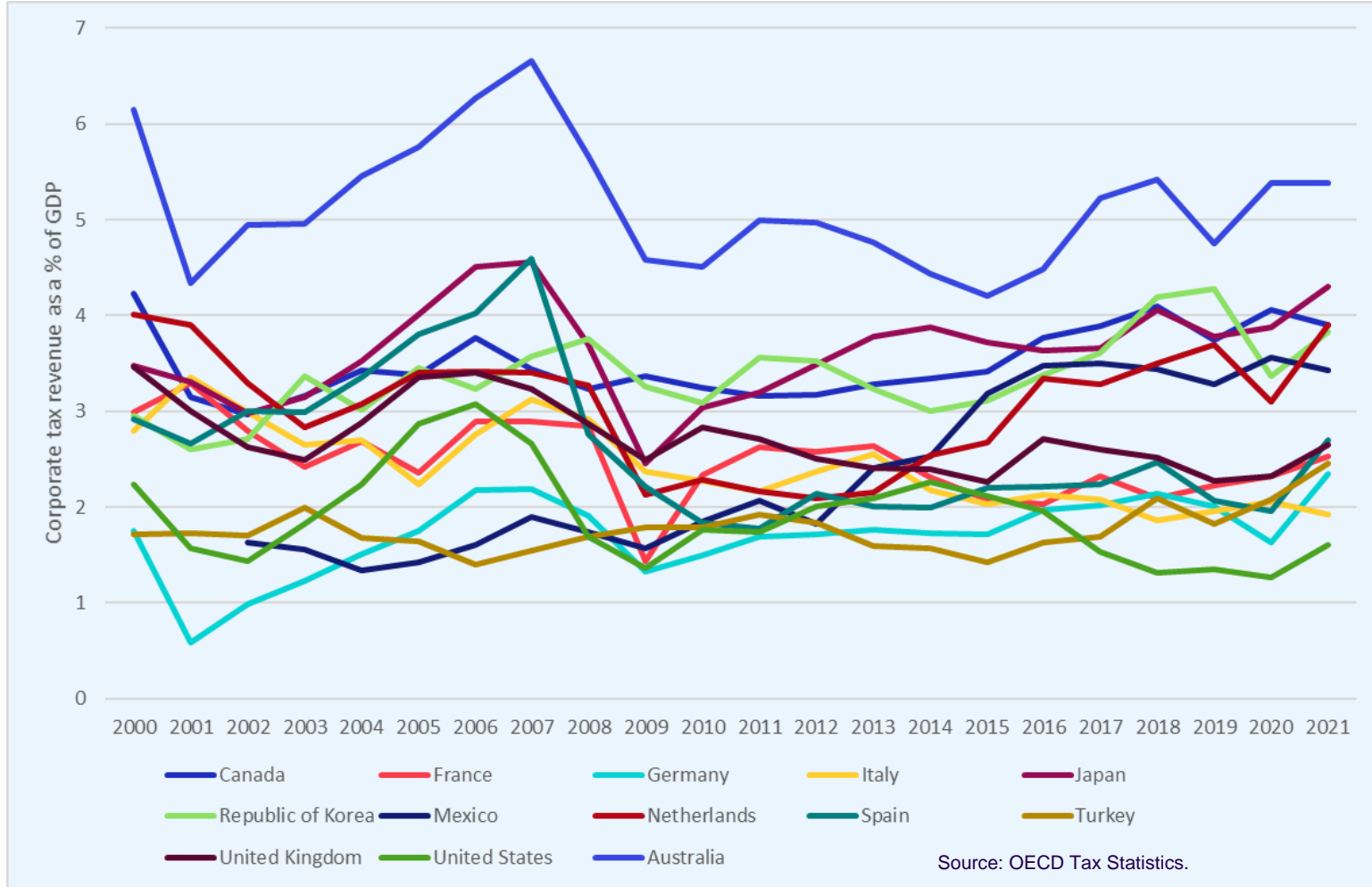


# Corporate tax rates and revenues have declined in the G20

## Corporate tax rates, 2000-2022



## Corporate tax revenues as a percentage of GDP, 2000-2022



## G20 countries have found alternatives ways of increasing tax revenues

- Voluntary tax compliance programmes
- The emerging role of environmental taxes for financing social protection
- Increasing the price of carbon emissions to EUR 30 per tonne of CO<sub>2</sub> emissions

**5% of GDP**

India

**1% of GDP**

Argentina  
Australia  
Brazil  
Canada  
Mexico  
Turkey  
United States

**0.5-1 %of GDP**

France  
Germany  
Italy  
Japan  
Netherlands  
Republic of Korea  
Spain  
United Kingdom

**Additional tax  
revenues**

## Eliminating illicit financial flows is a concrete financing strategy for extending social protection coverage

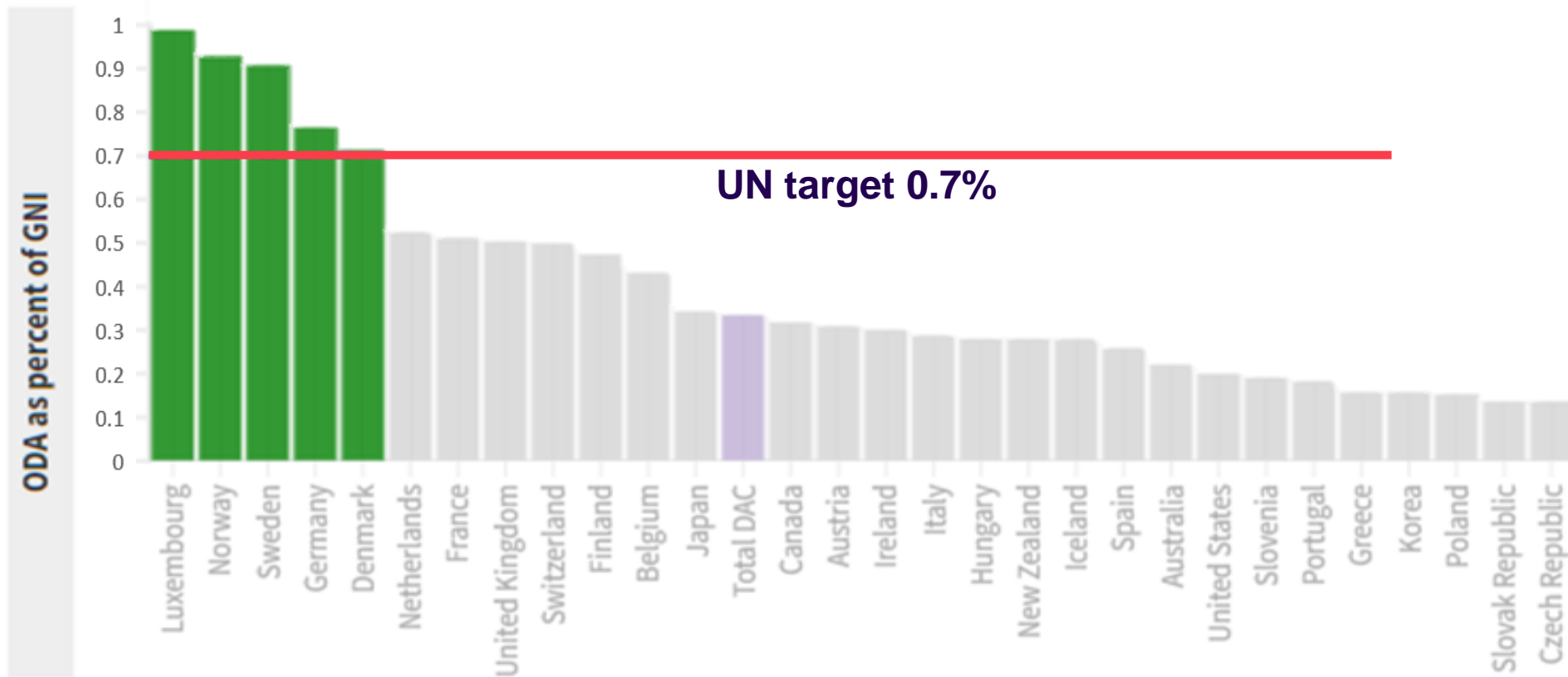
- Illicit Financial Flows (IFFs) generally involve money laundering, bribery by international companies, tax evasion and trade mispricing
- The ILO estimates that success in fighting illicit financial flows would alone free up more than ten times the annual total of official development assistance (ODA) disbursed and received across the globe
- To improve measurement of illicit financial and arms flows, the UN is piloting a project in 8 developing countries, including Nigeria





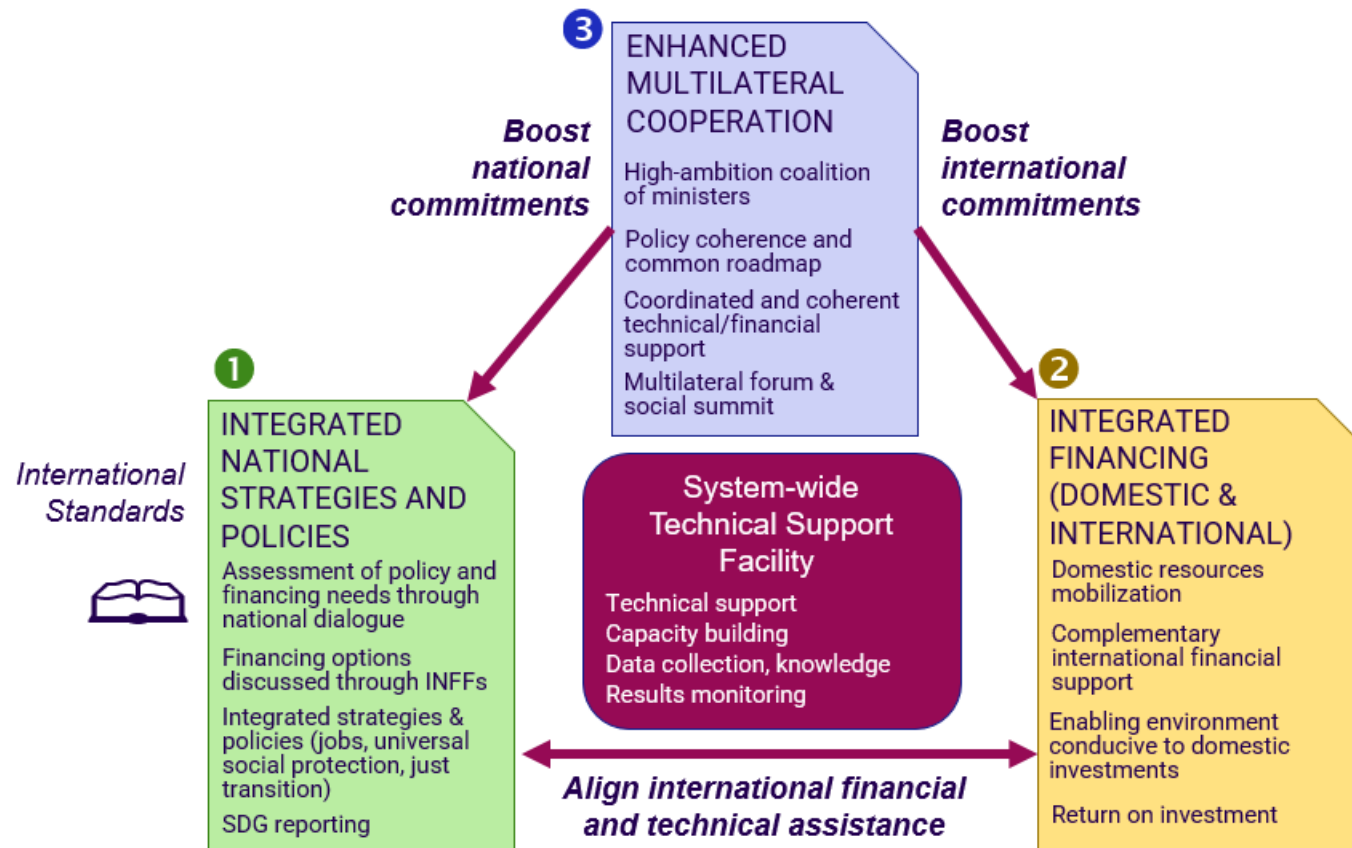
# International aid is of utmost importance to finance social protection in low-income countries

Official Development Assistance as a percentage of Gross National Income, 2021



Source: OECD 2023

## The Global Accelerator on Jobs and Social Protection for a Just Transition will finance USP in lower-income countries



Source: ILO

▶ Thank you for your attention



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