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Fiscal Space for Social Protection and the SDGs

Options to Expand Social Investments in 187 countries

Isabel Ortiz
Matthew Cummins
Kalaivani Karunanathy

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The editor of the series is the Director of the Social Protection Department, ILO. For more information on the series, or to submit a paper, please contact:

Isabel Ortiz, Director Social Protection Department
International Labour Organization
4 Route des Morillons
CH-1211 Geneva 22 Switzerland
Tel. +41.22.799.6226 • Fax: +41.22.799.79.62

Executive Summary

It is often argued that social protection is not affordable or that government expenditure cuts are inevitable during adjustment periods. But there are alternatives, even in the poorest countries. This working paper offers eight options that should be explored to expand fiscal space and generate resources to achieve the Sustainable Development Goals (SDGs), realize human rights and invest in women and children. These include:

1. Re-allocating public expenditures;
2. Increasing tax revenues;
3. Expanding social security coverage and contributory revenues;
4. Lobbying for aid and transfers;
5. Eliminating illicit financial flows;
6. Using fiscal and foreign exchange reserves;
7. Managing debt: borrowing or restructuring existing debt and;
8. Adopting a more accommodative macroeconomic framework.

All of the financing options described in this paper are supported by policy statements of the United Nations and international financial institutions. Governments around the world have been applying them for decades, showing a wide variety of revenue choices. As this paper demonstrates, examples abound:

- Costa Rica and Thailand reallocated military expenditures for universal health.
- Egypt created an Economic Justice Unit in the Ministry of Finance to review expenditure priorities.
- Indonesia, Ghana and many other developing countries are using fuel subsidies to develop social protection programmes.
- A large number of countries are increasing taxes for social investments – not only on consumption (generally regressive) but also on income, corporate profit, property, natural resource extraction. Bolivia, Mongolia and Zambia are financing universal old-age pensions, child benefits and other schemes from taxes on mining and gas.
- Brazil used a financial transaction tax to expand social protection coverage.
- Ghana, Liberia and Maldives have introduced taxes on tourism.
- Argentina, Brazil, Tunisia, Uruguay, and many others expanded social security coverage and contributory revenues.
- Algeria, Mauritius, Panama among others have complemented social security revenues with high taxes on tobacco.
- Other countries launched lotteries to supplement social spending, like China's Welfare Lottery or Spain's ONCE Lottery for the social inclusion of the blind.
- A number of lower income countries are receiving North-South and South-South transfers, like El Salvador and Guinea-Bissau, while other countries are fighting the large illicit financial flows such by cracking down on tax evasion.
- Chile, Norway and Venezuela, among others, are using fiscal reserves to support social development.

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- Colombia launched the first Social Impact Bond in developing countries in 2017, an innovative PPP; South Africa issued municipal bonds to finance basic services and urban infrastructure to redress financing imbalances after the Apartheid regime.
 - More than 60 countries have successfully re-negotiated debts, and more than 20 defaulted/repudiated debt, such as Ecuador, Iceland and Iraq, using savings from debt servicing for social programs.
 - A significant number of developing countries have used deficit spending and more accommodative macroeconomic frameworks during the global recession to attend to pressing demands at a time of low growth, and to support socio-economic recovery.

Each country is unique, and all options should be carefully examined – including the potential risks and trade-offs associated with each opportunity – and considered in national social dialogue. Given the importance of public investments for human rights, jobs and social protection, it is imperative that governments explore all possible alternatives to expand fiscal space to promote national socio-economic development and the SDGs.

JEL Classification: F35, H12, H2, H5, H6, H62, H63, I38, O2, O23

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Contents

	<i>Page</i>
Executive Summary	iii
Acknowledgements	ix
1. Introduction: Fiscal space exists in all countries.....	1
2. Reprioritizing public spending	5
3. Increasing tax revenues	8
3.1. Consumption/sales taxes	9
3.2. Income taxes	10
3.3. Corporate taxes and taxes to the financial sector	11
3.4. Natural resource extraction taxes	12
3.5. Import/export tariffs.....	14
3.6. Other taxes	16
4. Expanding social security coverage and contributory revenues	19
5. Lobbying for aid and transfers	22
5.1. More North-South transfers: Official Development Assistance (ODA).....	22
5.2. South-South transfers.....	25
6. Eliminating illicit financial flows.....	28
6.1. Curtailing South-North transfers.....	28
6.2. Fighting illicit financial flows.....	28
7. Using fiscal and foreign exchange reserves	31
7.1. Fiscal reserves	31
7.2. Central bank foreign exchange reserves	34
8. Managing debt: Borrowing and debt restructuring	38
8.1. Borrowing	38
8.2. Debt restructuring	41
9. A more accommodating macroeconomic framework	46
9.1. More accommodative fiscal policy	46
9.2. More accommodative monetary policy	49
10. Concluding: Social dialogue on fiscal space options	52
Bibliography.....	55

Annexes

1. Selected fiscal space indicators for 187 countries.....	63
2. Social security contribution rates	70

List of tables

1.	Matrix of fiscal space strategies, selected countries	3
2.	Developing countries that lowered income tax rates for the top income brackets, 2014.....	10
3.	Aid concentration and neglect, 2008-12	23
4.	Net transfer of financial resources to developing economies, 1998-2010	28
5.	Exporting illicit capital and health spending in developing countries, latest year available...	29
6.	Sovereign Wealth Funds based on fiscal reserves, June 2014	33
7.	Foreign exchange reserve adequacy in selected developing countries, 2013	36
8.	Real fiscal deficits and health spending in 38 Sub-Saharan African countries, 2014.....	47
9.	Safe inflation thresholds for developing countries.....	50
10.	Developing countries with low inflation rates, 2014 forecasts	51

List of figures

1.	Total government expenditure in selected countries, 2014.....	2
2.	Taxes on goods/services and overall tax revenue by income groups, 2000-11	9
3.	Fiscal revenues from the mining sector in Zambia	14
4.	Tariff rates by country income groupings, 1996-2010.....	15
5.	Ratio of social security contributions to public social protection expenditure	19
6.	Number of registered monotax enterprises and insured members	21
7.	ODA and health spending in selected developing countries, 2010-12.....	24
8.	Use of ODA in Sub-Saharan Africa, 1999-2005.....	25
9.	Illicit Financial Flows (IFFs) versus Official Development Assistance (ODA), 2003-12.....	29
10.	Assets under management by Sovereign Wealth Funds, 2000-13	32
11.	Foreign exchange reserve accumulation by developing region, 1993-2013	35
12.	Public bonds by developing regions, 1980-2013	38
13.	Possible borrowing candidates, 2013	39
14.	Debt and health spending, 2011-13.....	42
15.	Poor country debt at a glance	43
16.	Projected and actual fiscal deficits in developing countries, 2007-15	48
17.	Fiscal surplus and health spending, 2014.....	49

List of boxes

1.	Identifying fiscal space: How to use Annex 1	4
2.	Thailand: Reallocating military expenditures for universal social protection	6
3.	Egypt: Reviewing Budget Priorities at the Economic Justice Unit of the Ministry of Finance.....	6
4.	Indonesia, Ghana: Lessons from using fuel subsidies for social protection systems	7
5.	Brazil: A financial transaction tax to finance public health and social protection.....	12

6.	Bolivia: Taxing hydrocarbons key for national social development.....	13
7.	Zambia’s revenues from its recent mining fiscal regime	14
8.	Algeria: Taxes on tobacco, alcohol and on pharmaceutical imports to achieve universal social protection.....	16
9.	Spain: ONCE Lottery for the social inclusion of the blind and visually impaired	18
10.	Brazil: Increasing coverage and collection of social security contributions	20
11.	Monotax in Uruguay: Extending social protection to the informal economy	21
12.	South-South bilateral cooperation in Guinea-Bissau	26
13.	ALBA South-South regional transfers in El Salvador	27
14.	Fighting tax evasion – The US Foreign Account Tax Compliance Act (FATCA).....	30
15.	When resources and poverty abound: The paradox of Timor-Leste	34
16.	South Africa: Subnational Bonds Finance Basic Urban Infrastructure and Services	40
17.	Colombia's Social Impact Bond: An innovative public-private partnership (PPP).....	41
18.	Iraq and Iceland: Debt repudiation.....	44
19.	Debt audits: The case of Ecuador.....	44
20.	The need for an international debt work-out mechanism.....	45
21.	More accommodative macroeconomic frameworks: Developing countries’ deficit spending during the Global Recession 2007-2015.....	48

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