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DISCUSSION PAPER

Sustainably Financing Social Protection Floors

Toward a Permanent Role in National Development Planning and Taxation

Barry Herman

Global Coalition for SOCIAL PROTECTION FLOORS

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Content

Preface

The international commitment is explicit and ambitious: "Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable." (SDG 1, Target 1.3) There can be no doubt: social protection has been recognized as a key instrument to end poverty and to give people access to opportunities for a self-determined life.

However, the gap between the commitment and the current situation is extremely wide. The ILO World Social Protection Report 2017–2019 shows that only 29% of the world's population is covered by adequate social protection.

A common reply to proposals for extending and improving social protection is: "we cannot afford it." This is why *financing* has become an important area of advocacy for social protection supporters within governments and from the side of civil society. It is an always contested and extremely challenging terrain.

In order to guarantee universal social protection in both good and difficult times, governments need reliable national resources. It is necessary to strengthen national tax systems, reallocate budget expenditures towards the social sector and in many cases also raise taxes or other fiscal revenues. The selection and design of financing mechanisms is extremely important as it not only determines the sustainability of social protection systems, it also impacts poverty and inequality directly.

Even if at first sight Social Protection seems to be a purely domestic public task, there is – without any doubt – also an international responsibility, as backed by the extraterritorial state obligations agreed upon in the International Covenant on Economic, Social and Cultural Rights (ICESCR, Art. 2.1).

In our globalized economy individual countries cannot control on their own the taxes that escape their fiscal systems. Internationally coordinated efforts are indispensable to effectively reduce tax evasion. There is also a rationale and a human rights obligation to protect social protection spending at all times, especially in times of economic distress. Austerity measures need to defer to the primacy of wellbeing and should never cut into social protection floors.

Additionally, it is necessary to increase official development assistance for social protection. A reliable international funding mechanism for social protection needs to be put in place, especially for social protection floors in the poorest countries. Otherwise it will be impossible to guarantee that nobody is left behind.

To help advance advocacy to this end, Bread for the World is making the attached study available to our community. It reviews the main sources and techniques, domestic and international, for mobilizing the necessary public resources to cover the cost of social protection floors.

CORNELIA FÜLLKRUG-WEITZEL
President, Brot für die Welt

Executive Summary

Social protection systems must be fiscally sustainable so they will provide all residents with adequate social protection in all the challenging situations over the life cycle that pose a risk to livelihood security now and in the future. This is often not the case.

There are two categories of financing of social protection, "contributory" programmes and "non-contributory" schemes. In many countries, contributory pensions, employer paid insurance for workers injured on the job and other social insurance provide social protection to some of the population, albeit usually not for people living in poverty, who are not in a position to pay the mandatory contributions or who do not work in the formal enterprise sector. It is thus also necessary to allocate government expenditures to social protection systems that cover all people. In particular, tax-based financing is needed to pay for "social protection floors" (SPFs), which are the parts of social protection that seek to provide at least a basic level of protection for all residents against each of the main contingencies along the life cycle, as defined in the 2012 Social Protection Floors Recommendation 202 of the International Labour Organization.

To help address that challenge, the present paper focuses on how countries may assure the sustainable financing of social protection floors. It argues that countries need to build strong national tax systems, increase the efficiency in tax collection and administration, and end tax evasion and fraud. In some cases, budget expenditures can be reallocated from less appropriate uses to social protection, as in decisions to allocate savings from reduced fuel subsidies. In quite a number of countries, it will be necessary to raise taxes or other fiscal revenues, including on personal and corporate income, as well as on property and wealth. Striving for universal social protection, some countries have improved the fiscal resources they capture from extractive industries. Other countries have looked to innovative sources of development finance, such as a financial transaction tax (FTT).

Even when sustainable over the long run, social protection outlays are often threatened during crisis periods when their need is greatest and tax collections plummet. One source of the problem in the case of many developing countries is dependence on volatile sources of tax revenue, as when taxes on a limited number of commodity exports form a large portion of their revenues. The paper thus notes disciplined efforts of some countries to build up reserves during boom times to draw down during times of economic bust. Another approach seeks to redefine the risk-sharing between governments and their creditors. The paper argues for proposals to design loans and bonds that automatically postpone or cancel debt servicing during periods of economic stress or natural catastrophe, called "state-contingent debt". These proposals have many supporters but need to be put into practice.

Even if at first sight social protection seems to be a purely domestic public responsibility, there is also an international responsibility to support developing countries in this regard. Indeed – the global community of nations pledged in its 2015 Addis Ababa Action Agenda on Financing for Development to give "strong international support" to help countries "meet the needs of all communities through delivering high-quality [social]

Social protection is a key instrument to help end poverty and give people access to opportunities. People living with disabilities like this man from Rio de Janeiro have the right to a self-determined life.

services that make effective use of resources" and to "explore coherent funding modalities to mobilize additional resources, building on country-led experiences."

In this spirit, the paper calls for increased donor government and international organization grants and subsidized loans (that is, "official development assistance") to help countries develop their social protection systems. International public funds can contribute to the effort of countries to design, implement and finance national floors of social protection, to which end proposals have been made to create a special international fund for advancing social protection.

A related form of international cooperation is to help individual countries to capture more of their own taxes that escape their fiscal systems. Internationally coordinated efforts can effectively reduce tax evasion. Technical assistance is also beneficial to help countries design systems that do not allow opportunities for legal, if unethical, tax avoidance schemes. Additional international cooperation is needed to prevent countries from offering competing tax incentives to foreign investors that erode the national tax base and constitute a fiscal "race to the bottom".

A third form of cooperation aims to assist developing countries during crisis periods when their social protection needs will be most intense. Thus, in response to the increasing number of environmental and humanitarian emergencies, developing countries and international institutions have established a number of quick-disbursing loan and insurance facilities. Furthermore, when universal social protection systems that disburse cash transfers are already in place, they can provide a ready channel for disbursing emergency funds to individual beneficiaries.

The paper concludes by emphasizing that sustainably financing social protection floors needs to be an essential part of explicit national sustainable development strategies. Governments can draw upon a new generation of development planning tools and approaches in order to simultaneously address social, environmental and economic dimensions of development over a number of years. They may also consider the desired scope of government expenditures and the interaction of the policies, programmes and required taxation to address national development goals, not least regarding the complementarity of contributory and non-contributory national social protection programmes.

There can be no doubt that social protection is a key instrument to help end poverty and to give people access to opportunities for a self-determined life in dignity. National social protection systems can also contribute to achieve related sustainable development goals, like food security, good health, decent work, gender equality, reduced inequality and cohesive communities. Nevertheless, mobilizing adequate public resources to cover the cost of social protection floors is always contested and a challenging terrain for advocacy. And yet, the challenge can be met because the requisite techniques and mechanisms of public finance are known to exist.

Chapter 1

Introduction: the scope of the discussion

Since the onset of the global financial crisis in 2008, the International Labor Organization (ILO) has been leading an international movement to encourage governments to deepen basic social protection, that is, basic income security during childhood, adult years and old age, and access to essential health services for all residents. ILO won universal appreciation of the concept of social protection floors (SPFs) and the need to have them in all countries when the International Labor Conference adopted Social Protection Floor Recommendation 202 in 2012. The universal protection approach to SPFs, based on human rights obligations of the state, as opposed to charitable assistance targeted to the poor, has gradually gained international acceptance. That success was further advanced by the Universal Social Protection Initiative that ILO forged with the World Bank in 2015, which then broadened to the Global Partnership for Universal Social Protection launched by ILO and the Bank at the United Nations in 2016. Meanwhile, the International Monetary Fund (IMF) has become increasingly sensitized to the harmful impact on people living in poverty of the economic adjustment programs that countries adopt when receiving IMF financial support during periods of economic distress. Most recently, IMF has increasingly come to appreciate the enduring value of safeguarding social protection during times of crisis, especially uninterrupted provision of basic social protection for poor people. Several donor countries have also decided to provide additional support to developing countries seeking to build their SPFs. One can say, all in all, that basic social protection has now become a global movement, for which the world owes the ILO sincere gratitude.

Nevertheless, as ILO and others fully recognize, actual policies on social protection are made not by international institutions or donors but by governments at national and sometimes at sub-national level. ILO, along with other UN agencies actively assisting developing countries, including UNICEF and the UN Food and Agricultural Organization (FAO), have thus helped governments to design specific SPF policies and programs and have suggested how to assure their financing. The World Bank, which has a history of supporting countries design targeted and conditional social protection programs, is now supporting universal and unconditional protection policies. The IMF, given its macroeconomic policy mandate, has focused on the question of assuring that the policies for social protection are fiscally sustainable. As in most areas of public finance, all of this is contested terrain, and the outcomes have not always been enthusiastic implementation of the proposed SPF programs, or any implementation. Some political battles are lost, but more importantly, others are won. And the struggle continues for universal social protection floors in all countries.

While social protection is an obligation of all governments, this paper seeks to support the case for stronger SPFs in developing countries. A common reply to proposals for enhancing SPFs in developing countries is "we cannot afford it," to which many responses have been suggested. Some of those arguments for how to pay for SPFs are compelling and others are easily dismissed. Here we offer suggestions that are not easily dismissed for ways to cover the cost of SPFs this year, next year and into the indefinite future.[1] They may be seen as part and parcel of the case for more assured annual public resource allocations for a range of progressive programs including SPFs that address social, environmental and development needs. In the language of budgets, the focus will be on government financing of "current" expenditure (e.g., child benefits) as opposed to "capital" expenditure (e.g., building a school). Indeed, the need to provide adequate ongoing public funds for SPFs should be seen as a component of broader social policies (see Figure 1) and as a part of national sustainable development strategies.

The paper will focus on social protection schemes or elements funded through a government's budget that in turn is financed out of tax and related revenues, notwithstanding the important role of contributory schemes for social protection systems, including floors. Contributory schemes rely on mandatory individual contributions to a social insurance that then pays out cash to eligible beneficiaries, the most common example being a "defined-benefit" pension fund in which workers and employers pay in, thereby providing the funds to pay pre-specified cash benefits to the qualified people of retirement age. In principle, contributory systems would be self-financing, accumulating contributions and disbursing funds outside the government's annual budget; but in fact many are actually mixed systems receiving a subsidy from the budget to

1 — In fact, the arguments developed in this paper, such as on the content of tax systems and on non-tax sources of funds for SPFs, are applicable to all countries in the world, even if the discussion here is presented in a developing country context.

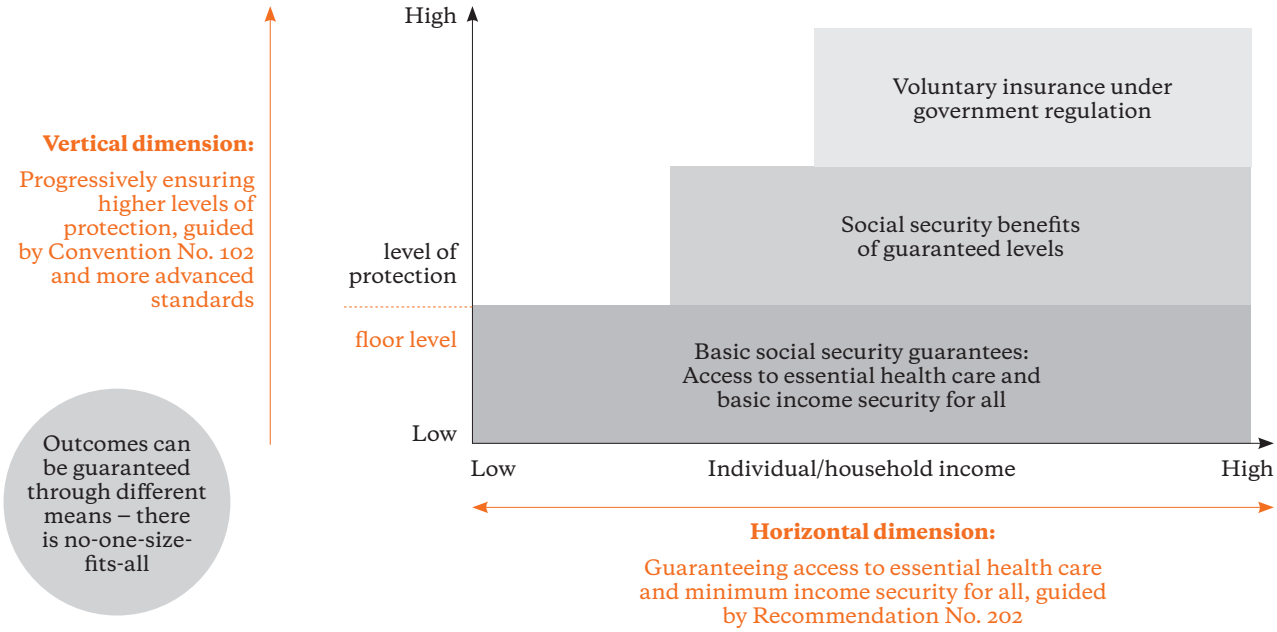

Figure 1: The two-dimensional strategy for the extension of social security
Source: ILO (2012)

secure a floor (minimum benefits) or to include people living in poverty within the same scheme while exempting them from contributions.[2] The decision to focus here on tax-supported SPFs measures or elements reflects a desire to focus on the provision of social protection to people who for any reason may not be in a position to contribute financially.

There are different approaches to providing tax-supported SPFs, one is a program targeted to the poor population, somehow defined and selected (e.g. by a means-test), and the other is a more universal program in which all members of a certain recipient group or category (e.g., all children) receive the benefit. While a program targeted to the poor or most vulnerable entails a lower direct budget outlay than a universal program, it requires a system for identifying people that are eligible. This usually involves disparaging means testing, which often abets social discrimination against poor people, let alone the anger of people above the poverty line at the "free" benefit received by their often so-called "lazy" neighbors (Freeland, 2018). It also requires a bureaucracy to evaluate candidates and monitor their continued eligibility, while the program itself often becomes vulnerable to corruption and political manipulation. Moreover, a means tested program may create an incentive to remain poor enough to qualify for the free benefit, rather than transfer to the contributory system. There is also evidence that the usual efforts to identify the eligible population are highly inaccurate (see Brown, Ravallion and van de Walle, 2017). Indeed, many cross the threshold and become less poor and then fall back into poverty multiple times. Because of all these shortcomings in the targeted approach, as well to give expression to the human *right* to the benefit, this paper focuses on universal provision.

In fact, it is possible to include the tax-financed social transfer to the population living below the poverty line within an otherwise contributory system in that payments could be made universally but contributions made only by the households in the formal economy, as through deductions from wages, understood as a part of the taxation warranted by their income. In that case, the social security system would require annual budgetary subventions to

2 — For a comprehensive overview of the global variety and extent of coverage of social protection systems see ILO (2017) and World Bank (2018).

Social Protection Floors include basic income security from childhood to old age and access to essential health care for all. An inclusive child grant would help realise the right to an adequate standard of living for these children in southeastern Kenya.

handle what would otherwise be a shortfall in contributions. Alternatively, universal payments could be fully financed out of general tax revenues, with the requisite resources collected through the tax system without distinguishing contributions from income tax payments. The central point is to draw our attention in this paper to the need for effective, fair and sustainable ways to mobilize the requisite fiscal resources to cover the cost.

Proposals, such as will be made in this paper, to mobilize additional non-contributory public resources for SPFs may be opposed by the people most able to pay them. Such opposition will need to be overcome. In addition, some governments may not be trusted to fully deliver legislated services and cash transfers. They will need to be monitored well by civil society and an independent press. The objective in this paper is to support policy efforts in individual countries aiming to arrange adequate, effective and sustainable SPFs. The paper thus also notes modalities of support that the international community might strengthen to bolster national SPFs in developing countries.

After specifying certain principles that should guide work on developing SPFs, the paper presents arguments made by ILO and others that virtually all countries already can afford at least partial SPFs, moving then to a discussion of alternative ways to cover their cost, which ILO refers to as generating sufficient "fiscal space". We add a further discussion, which is to assure that adequate funding is available during times of economic volatility or natural catastrophes as well as during normal times. Some of the responses will entail domestic actions, and some will require drawing upon additional modalities of international financial cooperation, some of which are already available to address those volatilities and uncertainties that are beyond national capacities. We conclude with reference to some tools of analysis that can situate the SPF within an overall national sustainable development strategy rather than as a standalone policy objective, thereby switching to a question of the degree to which the net impact of all policies together, including how they are financed, serves to accelerate the eradication of poverty and achieve more equitable societies.

Chapter 2
Some principles to guide our work

In some societies, responsibility for keeping up the livelihood security of the poorest parts of the population largely falls to family relations and informal networks of protection. Yet, this is in most cases not enough for a life in dignity, which is a human right.

The only institution with the capacity to eradicate extreme poverty is the state and that is because the state has the power to impose mandatory tax payments. Indeed, it is universally acknowledged that states have a human rights obligation to respect, protect and fulfil the right to social security. For social security and for a standard of living adequate for health and well-being[3] and thus to provide appropriate public support and a range of public services for all. Unfortunately, although most countries of the world can afford to provide a social protection floor, only some do in fact provide it. Nevertheless, it is the human rights obligation of each country to progressively realize the necessary level of support for an SPF as its economy develops. In the meantime, more affluent countries should support the development and temporarily, as needed, the financing of national SPFs in lower income countries.

Admittedly, it is one thing to assert national and international human rights obligations and quite another to mobilize the political support to organize and pay for an effective and sufficient floor of social protection. There will inevitably be a competition among government ministries for budget resources and a difference of views among taxpayers over who should bear more or less of the burden to provide the requisite public resources on an ongoing basis. There will equally be a contest within donor governments for how and how much to support SPFs in low-income countries. In this situation, explicitly acknowledging certain principles may contain the centrifugal forces and help governments get to a desirable social protection policy.

A set of such principles might include the following:[4]

1. Social protection floors are a human right and should be guaranteed by the state.
2. Agenda 2030 commits all governments to strive towards universal social protection, which means that every person can count on adequate social protection for all situations that pose a risk to livelihood security over the life cycle.
3. SPFs should contribute to gender justice and be twinned with policies to assure women's equal access to opportunities and an end to gender discriminatory laws and practices that impede their economic advancement.
4. SPFs should be seen as part and parcel of broader development strategies, including job creation, decent work and active labor market policies.
5. The commitment to a social protection floor requires adequate and predictable budget allocations over the long run, which in turn requires sufficient, effective and fair taxation.
6. This commitment also requires the ability to ring-fence budget outlays for the social protection floor during times of economic stress.
7. Some low-income countries will need international support to start up or strengthen SPFs, owing to having too little technical and financial capacity.
8. Many developing countries will need temporary support during times of economic stress or natural catastrophe, including assuring uninterrupted basic social protection, indeed, expanded protection as necessary to respond to crises.
9. Each country's acceptance of the tenth sustainable development goal (SDG 10) to "reduce inequality within and among countries" entails shaping national policies to have meaningful redistributive impact.
10. National dialogue involving government, trade unions, employers and civil society organizations can improve the design, ownership and implementation of SPFs and should be fostered.

While adherence to these principles cannot always be assumed by governments, progressive implementation of the precepts should be a policy goal, as should assuring adequate, effective and sustainably financed SPFs. The goal should be to leave no one behind according to human rights principles and according to the concept of SPF and to avoid societal fragmentation.

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3 — Universal Declaration on Human Rights (1948), articles 22 and 25, and International Covenant on Economic, Social and Cultural Rights (1966), articles 9, 11 and 12.

4 — The following draws heavily on the work of Gemma Adaba.

Chapter 3
Overall affordability indicators

Policymaking on basic social protection requires estimating the cost of the additional income transfers and health services that governments should agree to provide. Analysts of Social Protection Floors SPFs have developed analytical tools to make such estimates, which can then open negotiations within the government and with legislators over how much of the needed cost the government should want or be able to cover, or indeed, how much financial support should be provided by the donor community in the cases of the poorest countries.

3.1 The Social Protection Floor Index

One locus of this activity has been the Global Coalition for Social Protection Floors (GCSPF), a network of over 90 civil society and trade union organizations around the world that seeks to promote SPFs.[5] Researchers affiliated with GCSPF produced a study that estimated the financial resources needed by 125 governments were they to increase social protection spending to close the gap between actual government outlays and standard benchmarks of income and health security (Bierbaum et al., 2016/Bierbaum et al. 2017[6]). That study estimated the amount by which the income of the people living below a specified poverty line would have to be raised to close that gap. The study also estimated the amount by which public health expenditures would need to be raised to close a gap with a health expenditure benchmark (health expenditure would need to be further increased if the *share* of health expenditures on the population living in poverty was found to be below a specified floor). Alternative poverty line indicators were used for the income gap calculation, leading to a range of indicators of the gap to be filled. Finally, the measured income and public health gaps were added and shown as a ratio to gross domestic product (GDP), a ratio that the authors denoted as their "index" of SPF financing cost.

The additional fiscal effort needed to close the gaps estimated using this approach was substantial in many countries, such as the Democratic Republic of Congo and Burundi, although relatively less so in many other countries, as in Costa Rica and Uruguay. The least generous income gap to fill was measured relative to the World Bank's benchmark of US$1.90 in purchasing power parity income per person per day. Filling that gap with additional cash transfers, ignoring administrative costs and assuming that all payments were "perfectly targeted" on the people living below the poverty line, would cost nine countries more than 15% of their GDP (Bierbaum et al., 2016, 12). That funding estimate well exceeds what those countries could be expected to mobilize from increased tax revenues over any reasonable time horizon. In addition 20 countries were estimated to need to boost their tax collection by between 5% and 15% of GDP, which would also not easily be achieved in the short-to-medium run. On the other hand, at least 18 countries out of 125 were found to need less than 0.1% of GDP to close the gap and 75 countries registered between 0.1% and 5%.

The "index" helps to focus the attention of SPF supporters in different countries, it provides a rough indicator of fiscal requirement. Supporters of SPFs in individual countries for the next step will then need a more detailed tool in order to assess the cost to the budget of increases in specific categories of SPF expenditure, including for basic income security for the elderly, mothers and children, and persons in active age who are unable to earn sufficient income, for instance in cases of sickness, unemployment, maternity and disability. The "index" assumes income supports are provided only to the people identified as "poor" in the country, whereas the approach favored in this paper is to provide a floor of universal protection to each category of beneficiary, for example, to all the elderly. Although benefits provided to affluent people can be taxed away, those benefits need to be included in the budget expenditure estimates.

3.2 The SPF Cost Calculator and Taxation

To assist in calculating the cost of different specifications of different categories of universal benefits, ILO has prepared an analytical tool that is simple to use by anyone with a computer with internet access and knowledge of a few basic quantitative indicators of national

5 — See www.socialprotectionfloorscoalition.org, accessed 15 January 2018.
6 — www.socialprotectionfloorscoalition.org/our-work/our-library, accessed 13 March 2018.

social needs. It offers the options to use national poverty lines, minimum wages and purchasing power parity dollars per day as benchmarks. With the tool, one can estimate the cost of providing various amounts of cash transfer to specific population groups (mothers and children, orphans, disabled, the elderly), plus estimate the cost of temporary public works jobs for the unemployed.[7] To this calculation, ILO would add an estimate of a reasonable administrative cost to operate the program based on specific country characteristics. However, the calculation does not take account of what the government currently spends on the target population and thus the resulting sums are not the net addition of required public spending, an adjustment that country analysts can make using actual budget data. In addition, the exercise does not include the cost of universal basic health coverage, an additional aspect of the SPF as per ILO Recommendation 202. Nevertheless, the tool provides very valuable information.

Indeed, ILO recently published a study that draws on the tool to describe the content and prospective cost of the enumerated categories of cash transfer in 57 lower income countries (Ortiz et al., 2017). Adding together the costs of the enumerated areas of social protection, ILO finds that the cost in terms of required public resources comes to 2.1% of the combined GDP of the 57 countries. The total, however, hides the wide variation among individual countries, which increases from 0.3% of GDP in Mongolia to 9.8% in Sierra Leone.

The message is that financing an adequate social protection floor in some countries can be handled within existing tax and budget policies. In such cases, the additional resources needed will be small enough that they might be acquired by trimming other budget outlays, although each one would have a constituency that would not lightly cede fiscal room to the SPF. In other cases, major changes in tax and spending priorities would be required and in some cases implementing full programs would require at least temporary international assistance.

The SPF Cost Calculator enables civil society actors like Catherine K. Mwangi from Anglican Development Service in Kenyato estimate the cost of providing cash transfers.

In other words, a first indicator of the affordability of SPFs is the share of GDP already collected in fiscal revenues.[8] As reported by the Inter-Agency Task Force on Financing for Development (IATF), a UN advisory body

7 — The link is www.social-protection.org/gimi/gess/SPFCalculReport.action (accessed 4 January 2018).

8 — In the referenced publication, ILO also introduces a statistical indicator meant to inform whether a country can "afford" the SPF calculated with the tool, based on the tax revenue that is currently received by the government plus the official development assistance (ODA) received from its official donors. The indicator is the ratio of the revenues received from both sources to the calculated cost of the SPF. For example, the ILO indicator says that in the case of Ghana, the revenue indicator is 5 times the cost of the country's warranted cash-benefit SPF (Ortiz et al., 2017, table 7.1). In other words, the SPF would absorb 20% of those revenues. For Guyana, the indicator is 44.3, meaning only 2% of public resources would cover the cost of the SPF, while in Mongolia the indicator was 70.3, meaning only 1.4% of public revenues is required. In Bangladesh, the indicator is 2.2, meaning that funding its SPF would take 45% of its fiscal resources. This is quite striking as it means that almost half of Bangladesh's fiscal revenue would be needed for an adequate social protection floor. It would seem that the political economy of Bangladesh would not tolerate so high a percentage and thus a recalibration of the warranted SPF would be demanded. However, a look at the ratio of tax revenue to GDP of Bangladesh (8.5%) points instead to the need to raise more tax revenue, not reduce the warranted SPF. In sum, as these numbers in the proposed indicator are hard to interpret, will be unfamiliar to interlocutors on SPFs, and can be misleading, readers are cautioned against using it.

Social Protection Systems can serve as vehicles through which to put addiditiional cash into the hands of people affected by catastrophes. A cyclon plus storm tide destroyed coastal villages in Bangladesh like the home village of this woman.

of over 50 international agencies,[9] although developed countries collect the highest share of GDP in taxes, the median "tax take" has risen in all groupings of countries since 2000 and the gap between developed and developing countries has shrunk (IATF, 2017, 30). The largest jump in the tax to GDP ratio has taken place in the least developed countries (LDCs), whose median rose from less than 10% of GDP in 2001 to 14.8% in 2015, the last year for which fairly complete data were available. Nevertheless, as the IATF report highlighted, research suggests that countries with a tax to GDP ratio below 15% seem "to have difficulty funding basic state functions" and half the LDCs have ratios below that indicator, or about 10 percentage points of GDP below what many rich countries that enjoy universal social protection systems collect on a routine basis.

In response, many developing countries have decided to target an increase in their GDP share of tax revenue. For example, as the IATF reports, the East African Community has targeted a tax ratio of 25% as a convergence criterion for joining its future single currency area. The West African Economic and Monetary Union and the Economic Community of West African States (ECOWAS) have set 17% of GDP and 20% of GDP, respectively, as "reasonable convergence targets". Also several national development strategies that include tax targets indicate a level of 15% or higher, for example, Egypt, Ethiopia, Indonesia, Uganda, the United Republic of Tanzania and Viet Nam (IATF, 2017, 31).

As a political strategy, it seems that the cost of the SPF estimated with the aforementioned ILO tool provides a useful argument for when it is necessary to increase tax revenues. Opponents of raising taxes to fund SPFs might be asked to pick at different aspects of the assumptions in the calculation, substitute other assumptions and see the impact of what they regard as more acceptable estimates of the cost of providing the cash transfers or the number of people who should receive them (for example, one could maintain universality in child grants but reduce the maximum age for qualification). This can lead to a rich debate that moves toward politically confronting the possibility that an improved

9 — For background on IATF, see www.un.org/esa/ffd/index.html@p=15074.html

SPF can be afforded after all. Moreover, the additional fiscal burden could be ameliorated if the additional outlays would be phased in over time and the size of the target group expanded over time.

This useful ILO tool is nevertheless open to two classes of challenges. First, when countries adopt SPFs, they are making a commitment to allocate adequate budget resources now and into the indefinite future and the tool does not provide a projection of costs 5, 10 or 15 year into the future. This is important as it is relatively easy politically to convince policy makers of the immediate need to give cash transfers to the entire population of mothers and children, the elderly, and persons in active age who are unable to earn sufficient income, but it is irresponsible not to have a sustainable funding plan to pay for them over the long run.[10]

In other words, having a long-run funding perspective will help SPF supporters to make the case that the SPF will be affordable into the future or highlight warranted changes in tax and other policies. For example, on the one hand, as economies grow, the fiscal cost of maintaining the SPF could more easily be covered to the extent that the government relies on income-elastic sources of tax revenue, such as an income tax whose rates rise as incomes rise. On the other hand, for countries entering the "demographic transition", allocations to senior citizens will need to rise and the cost of those transfers would need to be covered by the remaining working and taxpaying population. The conclusion is that for a coherent and proper estimate of the fiscal obligation embodied in an SPF, the cost needs to be considered over a span of years, which can be done as part of the country's overall development plan and medium-term fiscal strategy. This point is addressed in more detail in the concluding section of the paper.

A second shortcoming of the ILO tool is it does not address the volatility and uncertainty that is a regular part of economic life. A credible SPF must not only provide its promised cash transfers during boom times, but also during times of slow economic growth or declines in activity. Indeed, it is increasingly recognized that emergency relief providers can make good use of existing social protection systems as vehicles through which to put additional cash into the hands of affected people after natural catastrophes. Supporters of SPFs should thus also take account of a need to respond to volatilities and uncertainties to which the country is vulnerable. Countries will require a surge in SPF financing during recessions and crises (e.g., a sudden increase in retirements may accompany an economic recession and supplementary income may be needed following a collapse in farm prices or decimation of a harvest owing to drought).

This surge can be funded from the country's own reserves, countercyclical borrowing or emergency assistance. The point is that beneficiaries of SPFs will want to be confident that the fiscal resources will be available to the SPF whenever needed and the government will want to assure its ability to cushion the impact of the shock as a counter-cyclical policy and this requires overall fiscal planning for addressing volatility and other economic shocks.[11]

In sum, the financing requirement that should be associated with the SPF involves both a trend availability of resources and provision for volatility. We will integrate these aspects of the financing needed in the course of the paper, which starts by asking how governments should actually expand their "fiscal space" to cover the cost of a warranted SPF. This requires suggestions of ways to either reallocate specific classes of government expenditures to SPFs or increase specific sources of public revenue. ILO has contributed to this literature over the years, most recently with two publications that policy makers and civil society may find useful as a source of ideas about funding options (Ortiz et al., 2017, already cited, and Ortiz, Cummins and Karunanethy, 2017). The following discussion seeks to draw attention to some economically strong proposals and supplement them with additional considerations.

10 — Politicians must be wary that popular promises of additional cash transfers to the voting public are actually delivered. It is said that Joyce Banda lost her 2014 presidential re-election bid in Malawi in part because her social protection promises did not match delivery (Hamer and Seekings, 2017).

11 — This is not to say that the government should self-insure against all volatility, which would exceed the capability of most developing countries and slow the country's development, as the funds in the fiscal reserve would not be available for development investment. The risk, in other words, needs to be shared with the international community through appropriate official financing facilities, an issue we take up below.

Chapter 4
The content of tax systems

The starting point for the discussion of enhancing tax-financed SPFs is that additional resources will be needed. Some reallocation of the government's budget to increase funding for the SPF at the expense of other budget priorities may be politically possible, and we will discuss that below. However, the most common case will require an increase in government revenue, generally from more tax revenue. The challenge, then, is to propose effective revenue raising methods that can raise substantial sums that are responsive to economic growth, that are administratively efficient, and that are fair in mainly impacting the people best able to afford the tax.

In some countries, people will willingly pay a well-designed tax increase for an expanded SPF out of support for the overall policies of the government, as well as solidarity with people with low income who would benefit most from the SPF. Other countries may have the necessary social cohesion to support the extra tax burden, but people may have low confidence in the capacity or intent of the government to deliver the promised services. And in yet other countries, the intent and capacity of the government might not be doubted, but the affluent may not feel responsible for the entire society. Moreover, some taxes will impact specific economic sectors (e.g., mining, finance) and employers and workers in those sectors will likely oppose a tax that disproportionately impacts them.

Supporters of SPFs will need to build a constituency for the tax increase as a quid pro quo for the expanded SPF. Experience in several countries underlines the danger to continued funding of the program if that constituency is based only in a single political party as opposed to a cross-party constituency. No party remains in power forever and a change of party should not endanger the SPF. Indeed, minimizing the exposure of SPFs to current and future politicization is a key issue in design. Inclusion in the national constitution would give a strong and permanent legal basis for the policy, supported by implementing legislation. Of course, this is easier said than done, but it is the challenge facing SPF supporters to build a robust multi-party caucus for social change. Religious and faith-based organizations that call for fair taxation, monitor tax compliance and the full delivery of budgeted social services and cash transfers may contribute in an impartial manner to such efforts.

Finally, a caveat may also be mentioned about excessive "cleverness" in the design of tax policy in order to make it politically attractive to adopt. It may not necessarily be sustainable in the long run. While all SPF expenditures should be treated as continuing entitlements (i.e., non-discretionary spending in the annual budgets well into the future), in some cases, governments will not make a general commitment but instead enact a specific tax, as on mineral exports, whose revenues would be dedicated to financing one or more specific components of the SPF. This approach might aim to protect the funding of the SPF from political meddling during budgetary negotiations. It may also help enact the SPF expansion in the first place, for example, when the SPF is seen to be paid for by a foreign company exporting petroleum it has mined and not by domestic taxpayers, or when the tax is imposed on an unpopular economic sector, such as banking.

However, assigning specific tax revenues to SPFs is no guarantee of continued funding. Not only may the revenue stream from the tax be highly volatile (as in mineral exports, as discussed below), but also the legislature will always have the power to break the link of the tax to the SPF, just as it can create it in first place. This happened, for example, in Brazil which in 1996 imposed a temporary additional tax on financial transactions (*Contribuição Provisória sobre Movimentação Financeira* or CPMF) whose revenues were earmarked to help fund public health and later to also help fund social security and anti-poverty programs.[12] As a temporary tax, the CPMF had to be periodically extended by the Congress, which it declined to do in 2007. The Brazilian programs have since had to fight for resources with other public programs.

In short, whether or not a specific tax is associated with funding the SPF, governments will end the link when the overall budget falls under pressure, or when those most impacted by the tax gain sufficient political power, as was the case in Brazil. Thus, SPF supporters will also need to convince the population at large—and at least some of the wealthy that control some of the levers of power—that their opposition to fully and forever funding the SPF is shortsighted and not in the national interest. Prospects for the success in such an endeavor depend in part on the individual tax proposals, the most attractive of

12 — The earmarking of the CPMF was a political commitment, rather than a legal one, as an earlier tax that was formally linked to the social programs was ruled unconstitutional (Baca-Compedónico, de Mello and Kirilenko, 2006, 21).

Taxing wealth is widely seen to be fair.

which, as will be seen, are taxes on wealth and income, including corporate income, as well as taxes on mining, carbon emissions and financial transactions.

4.1 Property and wealth

Societies have always needed a way to pay for essential public services, such as protection from foreign enemies, and as per the principles listed earlier for social obligations, such as the SPF. Economists will say that the most economically efficient and fair way to raise such funds is a single "lump sum" tax on the wealth of persons. Wealth is the net result of past economic activity and luck, including both inheritance and good luck during the person's active economic life. Most societies believe that individuals deserve to keep the wealth they can accumulate (except wealth obtained through anti-social means, like theft). However, economists in their textbooks also say that compared to the alternatives and since public monies must be raised, a tax on wealth is the most economically efficient approach. It would interfere least with incentives affecting ongoing economic activity in contrast to taxes on transactions in goods and services or on income. Greater wealth is also an easily understood indicator of greater ability to pay and thus taxing wealth is widely seen to be fair.

In fact, many countries impose two forms of wealth tax, a property tax on land and houses, and a tax on inheritances. Land and housing taxes are generally used to cover the expenses of municipal government (which is reasonable as the value of a property is a direct function of its location) and are often a major source of municipal tax revenues. A property tax system requires a so-called "cadastral" survey of the boundaries of parcels of land, enumeration of the structures on the land, ownership and the value of the property, which in turn informs legal registry of the property, something that owners of property value as essential when time comes to sell their property or to borrow using the property as collateral that the creditor takes ownership of if the borrower defaults. The assessment of the property's value is the basis for the tax.

While never perfect, property taxation is common and raises substantial revenues. As a municipality grows,

the value of properties rise and the property owners will find their tax payments rising. This is also deemed fair. As some large cities take responsibility for some of the SPF obligations, especially as their cost of living may be higher than the national average, property tax revenues can be a fair way to pay for them. However, while local governments in high-income countries raise 0.89% of GDP as property tax revenue, local governments of lower-middle income countries raise 0.29% and least developed countries raise only 0.03% (Platz et al., 2017, 60).

Important reasons for the difference among countries are lack of titles to property, outdated valuations and inadequate tax collection (Platz et al., 2017, 59–65). An additional potential problem in this system is the quality of the assessment. It may be subject to favoritism in policy making (as it is not uncommon for a company to arrange a beneficial assessment to lower its tax on threat of the firm relocating to another municipality), as well as corruption in valuation. Transparency is warranted, albeit without compromising people's right to privacy (e.g., publishing the tax take by district or neighborhood, but not by individual household).[13]

Inheritance taxes are the second wealth tax that is in common use. While the wealthy will claim the right to dispose of their wealth as they wish, proponents of the moral responsibility of the wealthy may respond that the recipients of inheritances are the children of the wealthy by luck rather than by effort and thus have less claim to take ownership of the wealth than their parents had in accumulating it. Social advocates may also note that wealth is a result not only of individual initiative (and luck) but also of society's collaboration (for example, in educating the workforce, building the infrastructure, etc.) and thus an inheritance tax is partial repayment for society's contribution to the rich person's wealth.

Collecting an inheritance tax is also feasible, as the transfer of ownership is a registered legal transaction. Real property will have been assessed as noted above and securities owned by deceased persons can be priced in financial markets. If the tax system is subject to popular vote, it is likely that inheritances above some minimum will be taxed. Where the wealthy are politically influential enough to fully protect their interest, inheritances will be taxed less or not at all. This is a tax area that is often contested, as when the wealthy disagree with the ethical argument that it is their social responsibility to use a portion of their funds to support essential public services and population living in poverty.

Indeed, it is an old tax, having been assessed by Roman Emperor Augustus and discussed positively by Adam Smith in 1776 in *The Wealth of Nations*.[14] Although an inheritance tax would reduce inequality, it has not been a major source of fiscal revenue in recent decades. For example, while many member countries of the Organization for Economic Cooperation and Development (OECD) have no inheritance taxes, the revenue from those that do have them account for well under 2% of total tax revenue,[15] and thus very small amounts as a percentage of GDP.

4.2 Personal and corporate income

Countries in which almost all economic activity takes place in the formal sector are good candidates for taxing the income of individuals and corporations, as business records will be kept on which to base the tax and verify its accuracy.[16] Moreover, it is easy to structure the tax rates to take a larger percentage of higher incomes than lower ones, called a "progressive" income tax, which gives it ethically desirable features. Most countries have a formally progressive income tax, although the effective progressivity of the tax may be undermined by allowed deductions from income for politically favored activities or exemptions of certain classes of income from taxation.

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13 — As the remainder of this paper addresses national public finance, readers interested in additional detail on municipal finance may consult a major UN Habitat publication edited by Marco Kamiya and Le-Yin Zhang (2016).

14 — While supporting a general inheritance tax, Smith allowed as an exception instances in which an inheritance tax would further impoverish an heir who suffers from the loss of a parent (Book V, Chapter II, Appendix to Articles 1st and 2nd).

15 — For example, they range from 0.3% in Chile to 1.6% in Belgium (calculated from data of OECD (2017), *Revenue Statistics, 1965–2016*).

16 — Taxing a corporation's income is taxing its profits. It is viewed as a tax on the shareholders who are the formal owners of the firm and who benefit financially both through dividend payments and increases in the value of their shareholding as the corporation's market value grows. The corporation can be taxed because it is a legal entity. In contrast, the profits of unincorporated businesses are attributed directly to the owners who pay tax on their business income, albeit at rates that may differ from the tax on wage income or on corporate profits.

It is easy to structure the tax rates to take a larger percentage of higher incomes than lower ones, called a "progressive" income tax, which gives it ethically desirable features.

Some critics will argue that an income tax at too high a rate will have an adverse impact on taxpayer behavior, whether discouraging the worker from seeking higher income or dissuading the affluent from seeking a profitable placement for their savings. This argument is controversial at best, except in one regard. High-income individuals may move out of highly taxed jurisdictions, either physically emigrating or transferring their income-earning assets to a low-tax jurisdiction or outright under-reporting of their income.[17]

Income taxes play a significant role in the tax systems of middle and upper income countries and work best in countries in which there is sense of social responsibility to pay what are deemed fair taxes and a strong culture of tax compliance. There is, however, an art in choosing the set of tax rates and the coverage of the tax so as to maximize the revenue with the fewest unwanted consequences. It also requires an effective tax administration to monitor taxpayer reporting of their income and to audit taxpayers, as there are significant incentives to seek all kinds of legal and illegal ways to avoid taxation.

In fact, it seems that the least developed countries are almost as effective in taxing corporations as developed countries. For example, in 2013 the median revenue that LDCs collected from corporate taxation was 2.1% of GDP, compared to 2.5% in developed countries (IATF, 2017a). This probably reflects the requirement that company records be accessible and subject to tax authority perusal in LDCs and other developing countries coupled with the movement to reduce corporate income taxation in the developed countries. In contrast, the median personal income tax take of LDCs was 1.5% of GDP, compared to 6.6% for developed countries (IATF, 2017a).

One aspect of income taxation that has become a focus of policy attention in recent years is the difficulty in appropriately taxing the income of companies operating in more than one country. The income subject to taxation in those cases has to be divided up among the various tax jurisdictions. The companies can be expected to try to minimize their total tax payment, as by manipulating the notional prices entered in the company's books for transactions among different parts of the company in different

17 — Usually, the employed working class that pays high income taxes also enjoys better public services and is less incentivized to seek a low-tax jurisdiction that provides inferior services.

countries, called "transfer pricing". That is, goods shipped from a subsidiary in a high-tax country to a subsidiary in a low-tax country would be priced low to show more of the profit in the low-tax jurisdiction. Another means to reduce the company's overall taxes is establishing a "headquarters" in a low tax jurisdiction where it will report most of its profits, as by requiring operating subsidiaries to pay high royalties to the "headquarters" for using the corporate name. At the request of the Group of Twenty major economies, the OECD has devised standard rules for acceptable transfer pricing and other aspects of dividing up the taxation of transnational business.[18] OECD member countries are offering assistance to developing countries wishing to implement the new standards.

The standards themselves are not deemed optimal from a developing country perspective and proposals have been made for more advantageous approaches, as in the UN Committee of Experts on International Cooperation in Tax Matters (e.g., see Hearson, 2017). However, a deeper challenge is the call, as by the Independent Commission for the Reform of International Corporate Taxation (ICRICT), to abandon the tax treatment of subsidiaries of multinational corporations (MNCs) as if they were independent firms selling to each other and instead tax the global earnings of the MNCs and apportion the tax collected in an appropriate way to the authorities of the various countries where the MNC operates (ICRICT, 2018).

While a fairer sharing of the taxation of multinational corporations between developed and developing countries is thus much desired, there is little that a single developing country can do by itself to change the global tax standard. There is, however, one area of taxation of international business in which SPF supporters in government, the legislature or in civil society can by themselves (or jointly with local tax justice supporters[19]) seek to stop the erosion of the tax base. This involves what is called the "race to the bottom" in which governments compete with other governments to attract foreign investors by offering increasingly generous special tax privileges, such as "tax holidays" during which no tax is owed or special reduced tax rates that apply indefinitely. Sometimes the cost in foregone taxation well exceeds the gains in jobs from the new investment. Additionally, as it is sometimes the case that one country will be competing against a neighboring country as a location for a factory, SPF supporters in both countries could make common cause to stop the erosion of the tax base.

Personal and corporative income tax play a significant role in middle and upper income countries with a large formal sector.

4.3 Value added

A third category of taxation imposes a tax on the value added at each stage of a production process. The value added is the difference between what an enterprise receives in revenue from sales and what it has paid to its suppliers for inputs. The value added is thus primarily the wages of workers and managers and the profits earned from operating the firm. This tax has been introduced around the world and produces considerable income for

18 — For an explanation of the Group of 20/OECD action program on Base Erosion and Profit Shifting (BEPS) and its implementation thus far, see its website at www.oecd.org/tax/beps (accessed 15 January 2018).

19 — See, for example a list of regional and local members of the Global Alliance for Tax Justice www.globaltaxjustice.org/en/about (accessed 4 January 2018).

governments. While it requires administrative capacity to operate a value added tax (or VAT), it has the advantage of having a built-in verification process. That is, companies report to the authorities both the revenues collected and the cost of inputs and as one company's sales revenue is another company's cost of inputs, the two numbers should coincide (net of transport and insurance). In fact, the tax has spread widely from Europe around the world and has become a major source of tax revenue in many developing and developed countries. For example, it brings in revenues in excess of 7% of GDP in most of South America, Mongolia and Mozambique, and over 5% of GDP in China and the Russian Federation. It brings in over 3% of GDP in South-East Asia and East Africa.[20] It nevertheless remains a controversial tax.

VATs were adopted as a superior form of sales tax. One may see that a tax on the value of sales at each step in a multi-firm production process would impose a higher overall effective tax charge on the buyer of the final product than would be built into the final cost of an integrated producer. One consequence is the incentive for a firm to make each stage of production internal to the firm and reduce its tax burden and the price it can profitably charge, impeding the competitiveness of smaller, less "vertically integrated" firms. The VAT attempts to eliminate this and other unintended distortions in economic incentives.

The VAT is nevertheless still a form of sales tax in which people of differing incomes pay the same amount of tax. That means the tax will amount to a larger share of the income of a poor person than a wealthy one, which economists call a "regressive" tax. With this in mind, some countries exempt some economic activities from the VAT, such as those of the baker, flour miller and wheat farmer, wherein the loss of tax revenue is deemed worthwhile in order to avoid adversely impacting the population living in poverty. Nevertheless, unless the VAT exemption applies to goods consumed only by poor population, which bread is not, the targeting of the benefit will not be as intended (Abramovsky, Phillips and Warwick, 2017). In all, owing to its regressive nature, supporters for SPFs should hesitate before calling for increased VAT to cover the cost of the SPF.

4.4 Internationally traded commodities

Taxes on imported or exported goods were once the major sources of tax revenue in developing countries. They are a form of sales tax that is relatively easy to collect, as goods generally enter and leave a country through a limited number of locations. Goods passing through a port will be registered by the customs authorities and it is only a matter of adding an additional charge to collect a trade tax. It is in the interest of countries to collect the most tax at the least cost and taxing goods at the border can be a part of that, albeit subject to limitations on permitted maximum tax rates on imports set through agreements negotiated in the World Trade Organization (WTO).

While some countries imposed uniform tariffs on imports, others differentiated the tariff rates, making them higher on goods that compete with domestic production. The original argument for that rate of tax was to protect new domestic firms, usually for a temporary period and thus called "infant industry" protection. However, countries can also impose tariffs to protect old and sclerotic firms, usually argued as a way to defend jobs. Indeed, WTO rules allow countries to temporarily raise tariffs to stem imports from specific exporters that are found to be selling their product below normal costs and thereby harming the domestic producers, called "dumping". One concern is that anti-dumping and other protective tariffs make it more difficult for efficient producers with actually lower production costs to export to those markets. Nevertheless and from a public finance perspective, after several rounds of global trade liberalization agreements and with the spread of bilateral and regional free-trade agreements, import tariffs have fallen to such an extent in all countries (with specific exceptions) that these taxes are no longer a substantial source of tax revenue in most countries.[21]

20 — Data from IMF World Revenue Longitudinal Data, updated as of 17 November 2016 (http://data.imf.org/?sk=77413F1D-1525-450A-A23A-47AEED40FE78, accessed 5 January 2018).

21 — For example, customs and import duties went from over a third of tax revenues in Mauritius, Tunisia and the Dominican Republic in 1980 to 2.3, 8.8 and 6.1 percent in 2012. In Thailand, Honduras and Uruguay, the share went from about 21% in 1980 to 4–6% in 2014 (data for years available from World Bank "Databank", https://data.worldbank.org/indicator/GC.TAX.IMPT.ZS?end=2014&start=1980&view=chart&year_low_desc=true, accessed 5 January 2018).

SPF supporters might make common cause with anti-corruption campaigners as less corruption can mean more funding for SPF. Protest against Corruption in Cape Town.

Taxation of exports, however, has remained important for countries exporting a generally limited number of commodities, especially minerals such as petroleum or copper, but also agricultural products. In some cases, the "export" is actually a service provided in the country to visiting foreigners, namely tourism, on which many small island developing countries depend. In that case, the taxes are likely to be imposed as tourist visas or excise taxes on transportation or on hotel stays.

Sometimes taxes may be imposed on specific classes of exports whose producers are deemed well able to pay. However, such producers may or may not respond well to being singled out to pay higher taxes. For example, in early 2008 the recently elected government of Cristina Fernandez de Kirchner in Argentina imposed additional taxes on farm exports whose prices had risen unusually high. She intended to help pay for expanded social protection and public works policies enacted previously. The farmers, in this case, were unwilling to comply and responded with lockouts and roadblocks, causing some domestic food shortages and raising support for the farmers against the new administration among the urban middle class. The government sought to fight out the tax battle in the Congress, but ultimately lost enough support that the bill was narrowly defeated and the tax was removed (Calvo and Murillo, 2012).

Political factors influence whether and how much to tax commodity exports in other cases as well. The three main exports of Ghana, for example, are cocoa, gold and petroleum. Cocoa is grown by smallholder farmers, while gold and oil involve large-scale foreign investors. While gold and oil are typical extractive operations whose contribution to fiscal revenue results from negotiation over contracts with individual large firms, the cocoa sector operates differently. Cocobod (Ghana Cocoa Board) buys cocoa for export from Ghanaian farmers at a preset price and then sells it on international markets. This stabilizes "farm-gate" prices and it mobilizes substantial export revenues for the government, depending on the difference between the domestic and international prices (Kalavalli and Vigneri, 2012). One may expect that the export tax collected is not only a function of the variable international market price, but also of the relative political strength of Ghana's 700,000 or so cocoa farmers.

A further political concern in taxing commodity exports is that the large amounts of funds that are typically involved have long posed a huge temptation for corruption. Indeed, SPF supporters might well make common cause with anti-corruption campaigners in their country on the argument that less stolen money could mean more funding for the SPF. For example, local members of the campaign to Publish What You Pay could find it strategically beneficial to help monitor the transparency commitments made by the government and the major mining companies.[22]

Transparency commitments are likely made as a part of membership in the Extractive Industries Transparency Initiative (EITI), whose more than 50 member governments promise to publish what they receive from the companies and whose company members promise to publish what they pay. Moreover, IMF is in the process of finalizing an updated Natural Resource Fiscal Transparency Code and an accompanying manual, which is

22 — See www.publishwhatyoupay.org (accessed 4 January 2018).

part of its broader effort to raise standards for overall fiscal transparency. IMF staff will undertake official reviews of country implementation of the code, which can be used by civil society as a standard against which to compare government practice even of governments not members of EITI.[23]

Additional issues are involved in determining what the share of government revenue should be from large-scale mining operations.[24] The goal should not only be to maximize the public share of the value of the minerals extracted from the ground, but also to ensure that the host country be adequately compensated by its mining enterprises for the negative impacts of the operations on local communities and to ensure that the company returns the land to an acceptable state after the mine is depleted.

As there are many examples of countries foregoing collectable earnings on their national patrimony, developing countries can often benefit from technical assistance in drafting exploration and then exploitation contracts with mining companies. Both donor governments and Southern partners can be useful sources of this assistance, as can domestic and international civil society organizations and legal research institutes.

If and when an unfair contract is agreed, it may take a substantial and even disruptive political movement to draw sufficient attention to the problem so that all parties agree that the contracts have to be renegotiated. A case in point is that of Bolivia, in which the government of President Evo Morales changed the sharing of revenue on gas exports from 18% to the government and 82% to the producers to a 50–50 split of the revenues. While the government could have sold this change to Bolivians on its own merits, popular support was solidified by pledging the additional funds for core social services, including the "*renta dignidad*", an old age pension, and "*Bono Juancito Pinto*", a cash transfer for children in primary school to compensate for the cost of books, uniforms and transportation (Ortiz, Cummins and Karunanethy, 2017, 13).

4.5 Other transactions

In addition, governments regularly enact fixed or *ad valorem* taxes (specified percentage of the pre-tax price) on numerous specific transactions based on various considerations. For example, as some individuals may benefit directly from use of a particular public service and others not at all, the users may be fairly made to contribute to its construction and maintenance rather than pay for it out of general tax revenues. A typical example is a toll charged for use of a turnpike highway, or a tax on gasoline that is used to maintain streets and roads. Other "user fees" include charges for public transportation and for piped potable water and sewerage.

Although there is no denying the benefit is worth paying for (assuming the quality of service warrants it), the burden on the poor population in paying the fee may be unreasonable and, indeed, many countries exempt or reduce charges for them. In some cases, government practice has become more sensitive to equity concerns, and user fees that parts of the population had difficulty paying have been discontinued, as in eliminating school fees for attending primary school. In other cases, policymakers should not want to fully eliminate the user charge, as on the use of potable water, in order to retain the incentive effect from the charge, which will discourage users from wasting water. In water use, as also in electricity consumption, it is possible to build in an equity element into the pricing structure through a progressive tariff rate that favors the people with low income by starting low but rises per unit for households consuming higher volumes per month. It is essential that when it is appropriate to charge user fees, the impact of the charge on low income groups be taken into account. In many cases, the poorest population may be unable to afford clean water or electricity, even when using small amounts under a progressive tariff structure. One way to address this can be to compensate them through some form of

23 — IMF reported that 22 country studies on the emerging natural resources code had been completed by August 2017; further detail on the status of this work at IMF, as of October 2017, may be found at www.imf.org/en/about/factsheets/sheets/2016/07/27/15/46/encouraging-greater-fiscal-transparency (accessed 4 January 2018).

24 — When mines are operated by state-owned companies, the contribution to the government budget may be recorded in the government's accounts as "non-tax revenue", in essence, comprising the delivery of profits in the form of dividends and royalties, and even "export taxes" in certain cases, which can make comparative data misleading if "fiscal effort" is measured by "tax effort" alone (Prichard, Cobham and Goodall, 2014). Government policy on the transfer to the budget of earnings of state-owned companies should allow for retention of sufficient funds for ongoing maintenance and investment in the mining operation through its useful life. A case in which the government deprived its mining company of sufficient retained earnings over many years to disastrous effect is Venezuela's Petróleos de Venezuela or PDVSA (Rojas, 2017).

income support. Unlike standard social protection cash transfers, however, this payment cannot be universal as it must by definition be targeted on people living in poverty to carry out is compensatory function.[25]

While user fees are not ideal candidates for producing general tax revenues for financing SPFs, there are other types of excise tax that might serve that function owing to the large funds they could raise. In particular, a "carbon tax," i.e., a tax on the carbon emitted into the air by fuel or other processes might play such a role. The argument for the tax is that emitters do not currently pay for the damage they do to the environment and that they would reduce emissions and do less damage if they had to pay the full economic cost of their carbon-emitting activities. The size of the tax needed to reduce emissions to a targeted level should be based on how much carbon is released into the air, for example, per liter of gasoline or ton of coal, and by estimates of how sensitive use of those fuels would be to changes in their prices. Studies suggest that such a carbon tax could raise very large fiscal revenues, potentially providing funds for government social programs as well as environmental protection (United Nations, 2012).

Indeed, several authorities at national and sub-national level have enacted carbon taxes.[26] Thus, where the political option exists to enact a carbon tax, SPF supporters might well make common cause with supporters of the tax, not only because such tax revenues could help fund the SPF, but also because environmental protection is a universal priority. It will also be appropriate to build into the carbon tax policy a way to compensate poor population for paying the higher prices for carbon-intensive goods, similar to the case of compensating them for paying user fees for potable water.

Despite its fiscal attractiveness, the carbon tax unfortunately competes with a different approach to limiting emissions that does not provide as large a fiscal windfall, namely establishing a market in carbon emission permits. In this questionable market-based option, governments issue annual carbon emission permits to relevant enterprises in a total amount that reflects the country's overall emission target. The more efficient emitters would emit less than their maximum allowed and could sell the surplus on their permit to firms that cannot reach their target level without additional investment expenditures that presumably would cost more than the purchased permit. It would not matter that some companies over-emitted while others under-emitted as long as the overall target were met. A market would thus arise in emission permits. Governments could still raise some funds in a carbon-market system if they sell the annual permits to the covered firms, as is the practice, for example, in the Regional Greenhouse Gas Initiative, a carbon market policy for electricity generation of a coalition of northeastern states of the United States.

Another class of specific taxes are sometimes classified as "sin" taxes. These include taxes on high-sugar sodas, as in Mexico, to try to encourage healthier nutrition, or taxes on tobacco. The case for tobacco taxes is two-fold. On the one hand, by raising the cost of cigarettes and other tobacco products, it discourages their consumption, improving the health of smokers and even of non-smokers owing to their inhalation of secondary smoke. On the other hand, as many tobacco users are apt to develop lung cancer and will have to be helped by the public health system, some of that cost can be offset by tobacco taxes.[27]

SPF supporters may want to press for deeper "sin taxes", although not necessarily earmarking the funds for SPF funding since the most effective "sin tax" would eliminate the unwanted behavior and then yield zero tax revenue. On the other hand, one may imagine a sales tax on a class of goods and services that are not usually grouped with "sin" but might be by some ethicists, namely, taxes on luxuries that are only consumed by wealthy people, such as a luxury sedan or private jet airplane or membership in an exclusive golf club. It is likely that the demand for these goods is highly price-inelastic

25 — In countries in which virtually everyone files an income tax return, the compensation can be paid through a "negative income tax" or a credit against taxes owed. Low-income households who are receiving universal cash transfers can receive the benefit through an increased cash transfer (which would introduce a different level of payment to poor versus non-poor recipients of universal SPFs). It is not clear how the compensatory payment would be made to people who do not fall into either of these categories.

26 — As recently enumerated by the World Bank (2017), they include Chile, various Canadian provinces, Colombia, Iceland, Latvia, Norway, Singapore (as of 2019), South Africa (being legislated), Sweden and Switzerland.

27 — While it might be possible to direct revenue from a tobacco tax to some of the cash-transfer schemes in the SPF, it is more typical to apply the resources raised to public health expenditures, which are also included in the concept of SPF (World Health Organization, 2016).

Financial Transaction Tax (FTT) would be easy to collect and progressive in effect.

and thus wealthy people would continue to purchase what they had previously purchased pre-tax.

A final example of this type of excise or sales tax is a fixed charge on one or more types of financial transactions, usually labeled a financial transactions tax (FTT). Some versions of this tax are hundreds of years old, having had the form of "stamps" that had to be purchased from the government and affixed to various forms of legal documents, such as the transfer of ownership of securities. While mostly imposed electronically today, a tax on securities transactions and other financial transactions, including check payments or transactions using automated teller machines (ATMs) has several desirable features. Firstly, the tax is easy to collect because the transactions are all recorded. Secondly, the tax is progressive in effect in that even though each transaction carries the same fixed charge, wealthy households make more financial transactions per year than lower income households. Thirdly, even people who evade the income tax system will be subject to the tax when and if they use the financial system for transactions.[28]

Unfortunately, the financial industry has strongly opposed the tax whenever it has been enacted and the ability of vested interests to design financial strategies to evade the tax usually grows over time (Baca-Campodónico, de Mello and Kirilenko, 2006). Indeed, the kind of FTT proposed in the European Union, which 11 countries that use the euro currency agreed to consider more closely in 2012, has still not been adopted. Nevertheless, the FTT, whether enacted at national or multinational level, is a tax that makes supreme sense to seek to enact. Admittedly, it could be a risky strategy to seek to condition acceptance of an SPF on FTT financing, as it would have to withstand perpetual attack. As the Brazilian case noted earlier and the ongoing disappointment in the European Union showed, the political forces aligned against the FTT can be discouraging. Nevertheless, it seems a battle worth engaging in.

28 — Indeed, during the time that Brazil imposed an FTT, it learned about many taxpayers whose financial transactions over the year did not match their income tax declarations and thus ultimately raised income tax collection; a similar effect was seen in Ecuador and Peru (Coelho, 2009, 14-15).

Chapter 5

Non-tax ways to free funds for SPFs

It is routinely said that there are no votes in raising taxes. Politicians would thus much appreciate alternative ways to support expanded Social Protection Floors (SPFs), especially ways that do not challenge specific political constituencies, such as improving government efficiency. In fact, administrative reforms can free up resources for SPFs. Other methods are also possible.

5.1 Increase efficiency

One area of government in developing countries in which there appears to be significant scope for efficiency gains is tax collection. Although systematic estimates are lacking of the loss from inefficiencies in tax administration, there are reasons to think the losses might be substantial. One indication is a finding in a study based on Public Expenditure and Financial Accountability (PEFA) assessments of 58 developing countries. It found that, while in about two thirds of the countries, taxpayers largely knew their obligations, less than half of the countries had effective systems to register and monitor taxpayers so that their obligations were appropriately assessed, and in only a quarter of the countries were taxes effectively collected (Carnahan, 2015). Not surprisingly, the donor community is now offering increased assistance to developing countries to help them improve their tax administration systems. Initiatives range from traditional types of administrative improvements to digitalizing and automating tax collection systems.[29]

In addition, many concerns have been raised about inefficiencies in social protection floor programs per se. Savings could be won, it is said, through administrative reforms, such as by breaking down ministerial "silos" to take advantage of the cross-cutting aspects of comprehensive social protection policies, or relaxing centrally-imposed restrictions on provincial or state operations in federal states.[30]

Nevertheless, it may well be expected that efficiency-increasing reforms will not generate enough savings to cover the warranted expansion of SPFs. In the absence of the political ability to increase tax revenues, one might look for additional opportunities to mobilize public resources for SPFs.

5.2 Reduce fraud and deception

Governments are subject to two categories of fiscal abuse by their citizens. One is the leakage of government spending into corrupt hands and the other is tax evasion.[31]

Efforts are fully warranted to seek to end corruption, which is as much a matter of changing political culture as it is of impeding the ability of officials to abuse the public trust. Most governments have pledged to do so, but actions on some pledges seem easier to take than others, depending on the national situation. For example, corruption of workers in the civil service or military may be discouraged not only by anti-corruption campaigns, but also by paying more remunerative wages. Ending corruption at more senior levels requires effective police actions.

While in some countries many brave civil society activists risk their lives to fight corruption and dirty dealing, it can be a dangerous path to follow. Whether SPF supporters join that struggle in their countries is a hard choice they alone can make. This notwithstanding, one may enthusiastically recommend that civil society campaigners join with domestic coalitions of civil society organizations, churches and labor organizations to roll back the leakage of public resources to corrupt officials.

Governments that wish to fight corruption do not operate in a vacuum, at least not the signatories of the United Nations Convention against Corruption. Parties to the Convention may take advantage of various programs of cooperation, including on the repatriation of stolen assets to their country of origin. While hopeful, it has thus far proved difficult to repatriate stolen assets.

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29 — In this regard, IMF, building on the PEFA experience, developed with partners a diagnostic tool for assessing tax administrations so as to better pinpoint areas most in need of further attention, called TADAT, the Tax Administration Diagnostic Assessment Tool (www.tadat.org), For an assessment of major potential areas of reform in tax administration, see Junquera-Varela, et al (2017).

30 — See, for example, the chapters on coordinating sectors and institutions and on monitoring and evaluation of social protection programs in Latin America in Cecchini et al (2015).

31 — Firms and individuals who reduce their tax payments by taking advantage of specific provisions in a usually complicated tax structure but staying within the law are said to engage in tax "avoidance." It is the responsibility of the legislature to end the practice by closing the legal loopholes.

Reduction of tax evasions helps to free resources for social protection spending.

The specific assets must first be identified as owned by the family of the corrupt official, itself often a challenge with various national jurisdictions providing "safe havens" to hide the beneficial ownership of particular assets. Once identified, a complex legal process is needed before the government where the assets are located agrees to return them to their origin country. Efforts are underway to speed up this process, but data for 2010–2012 indicate the challenge: out of US$1.4 billion in identified and frozen assets, only US$147.2 million had been returned to the countries of origin (IATF, 2017, 44).

5.3 The false promise on "illicit flows"

The other major category of fiscal cheating is tax evasion (discussed in section 6.2). Unfortunately, discussion in official forums as well as in civil society sometimes confound losses in developing country fiscal revenue from tax evasion with a broader category of international finance called illicit financial flows (IFFs). Estimates of the volume of IFFs leaving developing countries are very large.[32] However, there is no agreement on which types of international flows to qualify as IFFs, nor on how to measure them. Indeed, it is in the nature of quantitative estimates of illicit flows that they have to be inferred indirectly. Thus, estimates of the size of the flows cannot be deemed reliable, although the belief is that they are large overall (if not large in every country).

Some supporters of SPFs have seen ending IFFs as a promising avenue for mobilizing funds for SPFs. This would indeed be a politically attractive approach, in that the funds would come from payments no longer avoided by anti-social elements of the society, rather than from responsible citizens. However, while all of society should fight to eliminate illicit financial flows, the amounts that can be turned into regular tax revenue will be far less than the IFFs themselves. For example, firms that intentionally misinvoice their international trade (too low for

32 — The IATF reported estimates of US$25–55 billion annually from Africa and US$50–100 billion from Latin America and the Caribbean, just from one type of IFF, misinvoicing of trade (IATF, 2017, 43).

exports or too high for imports) are secretly moving financial resources offshore at the same time as they are under-reporting their profits on export or import operations. The fiscal loss is the foregone tax on the undeclared profits, which is much less than the full value of the financial transfers. In addition, while it is fully warranted to seek to curtail the export of illicitly obtained funds, as from the drug trade or illegal gambling or other activities, the main policy goal would be to close down the illegal industry, not making it part of the legitimate and taxable income of the nation. The illicit flows would end because the activity ends. There is no fiscal benefit per se.

In short, while all efforts to eliminate IFFs should be undertaken, campaigning against the specific IFF flows per se, such as misinvoicing or drug trafficking as part of a strategy to raise fiscal resources for an SPF seems a less than promising way to mobilize the requisite fiscal resources.[33]

5.4 Reallocate budgeted expenditures

Every item in a government's budget will have a constituency that will fight to maintain it, although some categories might also face opposition. For example, it is often easy to argue that military expenditure is excessive relative to foreign security threats and that the funds for excess military spending should be reallocated to more socially beneficial uses, including SPFs. The problem is that this argument is rarely effective politically where security is deemed the highest priority, even if military spending is not the most effective way to deliver it, especially where most of the military expenditures are aimed at control of the domestic population. Nevertheless, according to ILO, the case for reducing military expenditure to free up fiscal resources for social protection was successfully made in two instances, Costa Rica and Thailand (Ortiz, Cummins and Karunanethy, 2017, 5). Where that option exists in other countries, and where the "military" expenditure categories to be reduced do not include social protection services and cash transfers to the families of military personnel, SPF supporters might well make that case.

Another proposal to reallocate expenditures is to remove fuel subsidies. Many countries adopted fuel subsidies on the argument that the poor parts of the population could not afford to pay the market price of fuel, whether for cooking or as embodied in public transportation or electric power. However, that argument was increasingly recognized as disingenuous in the sense that the primary beneficiaries of fuel subsidies have been the middle and upper classes, which made it an expensive way to help people living in poverty. Moreover, with greater global sensitivity to the threat of global warming, a subsidy that incentivizes increased fuel use was increasingly seen as environmentally damaging as well as socially inefficient. Thus, international economic agencies, such as IMF and the World Bank, as well as social agencies, such as ILO, have been calling for the removal of fuel subsidies and reallocating the budget expenditure to social programs, such as SPFs.

As ILO advises, it is important to time the reduction in the subsidies with the introduction of the compensating programs, as poor population will acutely feel the withdrawal of the subsidies. In the case of Ghana, as cited by ILO, the removal of the fuel subsidy saved Ghana's government US$1 billion in 2013, whereas the compensatory social program was said to cost only US$20 million (Ortiz, Cummins and Karunanethy, 2017, 7). A similar experience was seen in Indonesia (Kwon and Kim, 2015). More funding for an SPF might have been captured in both cases.

5.5 Prepare for volatility: commodity reserve funds

As illustrated in the discussion above of Ghana's cocoa marketing board, some governments have adopted policies to reduce the uncertainty faced by farmers that accompanies the volatility of international commodity markets. Another approach taken by farmers and the mineral sector in a number of mainly middle and upper income countries has been to hedge against volatility through purchase or sale of financial securities that fix prices for future delivery. Governments that depend heavily on taxation of commodities for their public revenues face the same uncertainties from price volatility as

33 — Directly attacking tax evasion, however, especially in cooperation with other countries, is a more promising approach (see section 6.2 below).

Connection reserve funds can help to finance social protection floors during difficult times when commodity prices go down.

do the farmers and miners. To some degree they may also hedge against uncertainty through the purchase and sale of derivative financial securities. However, the needs of states can be quite large and the price fluctuations can be longer lasting than most financial derivatives will cover. Thus, some governments have taken a different approach and established fiscal reserve funds. They receive tax revenues during boom times and disburse them back to help cover expenditures during bad times. While usually not dedicated to financing SPFs per se, having additional revenues during difficult times reduces the political pressure to reduce social spending, including on social protection floors.

The Economic and Social Stabilization Fund of Chile is probably the most prominent benchmark for this approach to stabilizing fiscal revenues in commodity dependent countries.[34] The law requires the government to balance its budget over time but to allow deficits to emerge that the Stabilization Fund can help cover when there is a sufficient dip in the economy or fall in international copper prices. Although there is a "fiscal rule" to determine when the fund should make a payment to the government, there is also an independent committee that decides when and how much to disburse in interpreting the rule, so it is not a mechanical process (Frankel, 2013). This is important because it aims to prevent a practice observed in certain other countries in which governments raided their reserve funds for one reason or another, making them unavailable when needed (IMF, 2015).

With this caveat, it seems that the strategy of adopting well-articulated fiscal reserve funds in commodity dependent countries very much deserves attention by supporters of SPFs. It requires a certain government discipline during boom times when there will be strong political pressure to unsustainably expand government expenditure and in which the government administration may assume that the next crisis will fall on a successor government. That too will need to be addressed, not only through legislation but also through monitoring by stakeholders that have a longer run perspective than elected officials.

5.6 Prepare for volatility: sovereign debt innovation

Almost all governments are net debtors, owing more money to their creditors than they hold in assets. This in itself is not a bad situation, especially as governments undertake infrastructure and other non-marketable long-term investments that benefit future generations as well as the current one. It is fair to ask the future beneficiaries to share the cost of the investment. It is also appropriate for governments to smooth their expenditures when their revenues fluctuate owing to normal economic cycles. Commodity exporting countries may do so through national fiscal reserve funds, as noted above, but all countries want the ability to borrow in such circumstances, with a view to repaying during recovery periods.

34 — The government of Michelle Bachelet legislated this fund in 2006 to replace an earlier Copper Stabilization Fund and also created the Pension Reserve Fund to ensure that government guarantees can be met for basic pensions for poor people, specifically "to guarantee basic solidarity pensions to those who were not able to save enough for their retirement" in a country with increasing life expectancy. Annual contributions to the fund are required by law and it also has the first priority to receive budget surpluses (see www.hacienda.cl/english/sovereign-wealth-funds/pension-reserve-fund.html, accessed 7 January 2018).

The difficulty arises when recovery does not come or when the government borrows excessively during normal times instead of appropriately financing its expenditures through taxation.

When governments borrow in their own currency, they can avoid facing bankruptcy from excessive debt by issuing enough currency to cover all their obligations. Of course, over using this escape valve leads to hyperinflation, as witnessed in Zimbabwe in recent years, ultimately leading the population to abandon the currency.[35] When governments borrow in foreign currency, this strategy is not possible and instead the government is forced to default after the amount by which it can squeeze its other expenditure categories to free up funds for its debt servicing is exhausted.

Sovereign bankruptcy is extremely disruptive and socially costly and the only preventive advice offered by the international community and by each nation's bankers has typically been "you must act prudently." From a social perspective, it is disappointing advice as it says nothing about safeguarding some types of essential government expenditures when austerity policies become unavoidable. Indeed, there is increasing realization that this is so (IMF, 2017).

In pre-crisis situations, politics may overwhelm prudence and social responsibility, even in the richest countries. But even prudent regimes may be pushed into insolvency by events beyond their control. To help such countries, interest has been growing in new types of sovereign borrowing instruments that would take account of various sources of volatility. Such loans or bonds would pay the creditors less or suspend payments during specified emergencies, freeing budget resources to continue social protection and other essential expenditures.

Such sovereign borrowing instruments would share risk between the lender and the borrower in a fairer way than is the standard practice today. There has been some experimentation with such instruments, including that by the French development agency in issuing *prêts contracyclique* to certain African countries, which allow borrowing governments to choose to delay repayments. In addition, the well-established issuance of Islamic bonds (*sukuk*) by a number of governments, which do not pay a fixed interest rate, suggests the investor demand for risk-sharing securities in the global financial market may be more diverse than believed. There has also been considerable financial and legal work to imagine how a "GDP-linked" bond might be drafted in which the borrowing government would pay more interest during a time of economic boom and less during a time of recession. Another approach being investigated in various international institutions would suspend payments during specified crises, such as a hurricane.[36]

While one can make the case for combining the most attractive parts of such proposals into an "ethical" bond (Herman, 2018), no borrowing sovereign has thus far offered to issue such an instrument, fearing that the higher interest rate that lenders would demand would exceed the value of the flexibility built into the instrument. No official institution has followed the French initiative either. Nor have the multilateral financial institutions sought to see what the demand might be for such bonds, which one of them might issue to raise funds to then lend to developing countries. The borrowing nations thus await a "first mover" from the public or private sector to test the market for such instruments.

Supporters of SPFs could possibly encourage some developing country to become that "first mover" with an agreed *quid pro quo* in the form of a government promise to safeguard its budget allocation to the SPF by earmarking first use for the SPF of the resources freed by the crisis-related debt-servicing reduction. Public financial institutions in developed countries or socially responsible institutional investors in the global market might step forward to be the first purchasers of such "SPF-assured, GDP-linked" bonds. It seems an idea not yet tried anywhere.

35 — Zimbabwe's monthly inflation peaked at 500 billion per cent in September 2008 and then disappeared from use, with local goods priced and transacted in US dollars or South African rand (IMF, 2009, 5).

36 — For a brief review of these initiatives, see Herman (2017).

Chapter 6
International cooperation

The discussion thus far has concerned how countries might seek to finance their social protection floors out of domestic fiscal resources. Social protection is a purely domestic public responsibility par excellence, but with three exceptions. One is when the capacity is missing to design adequate SPF programs and mobilize adequate tax revenues, which international expertise can help improve and which international funds can temporarily help supplement in the early stages of SPF improvement. The second exception is to overcome the limited ability of developing countries on their own to collect the taxes that escape their fiscal systems and their economies. The third exception is when international economic volatility or natural disturbances so severely shake economies that it would be difficult to adequately recover without international financial support. We address these three exceptions in turn.

6.1 Official Development Assistance

Official development assistance (ODA) is the primary category of grants and low-interest loans that OECD member countries offer to support the development of developing countries, including assistance to their programs of social protection. There is much justified concern in international civil society about the disappointing prospects for overall flows of ODA, especially when seen against the international commitments to achieve the SDGs and the 2030 sustainable development agenda, let alone given the still unrealized need to honor the long-standing international obligation to assist the governments of lower income countries to fully realize the human rights of their people. In this reality, there is inevitably going to be a competition among aid-receiving countries and among sectors in individual countries to win ODA resources for their programs.

Indeed, ILO identified a set of 14 aid "darlings" that for mainly political reasons receive more than 30% of ODA flows from OECD donors, against 13 of the world's poorest aid "orphans" that receive 5% (Ortiz, Cummins and Karunanethy, 2017, 22–23). ILO also reports that few aid resources are directed to the social sector, citing statistics for the early 2000s when 73% of ODA flows to sub-Saharan Africa were used for debt reduction and building up foreign exchange reserves (ibid., 23–25).[37]

Worrisome total aid flows notwithstanding, there are various instances in which ODA and other international support, including philanthropic and civil society initiatives, help developing countries to start up and operate different social protection programs. These efforts are valuable. However, they can also be challenging if they are not coordinated with the national government and when there is no joint "exit strategy" to shift the program's financing to the government when the temporary external funding period ends.[38]

Donors expect when funding pilot projects in which they make extensive investment in monitoring and evaluation that the government will assess the specific program or design features and adopt them when warranted into national policies. In fact, donors may find themselves lobbying the government to take over their projects.[39] The central point is that both the donors and the recipient government should appreciate at the beginning of a project that decisions on its post-assistance future must be made before the project ends. The reality appears to be that donors are not able or willing to make open-ended commitments to funding SPFs in developing countries. Countries accepting donor initiatives to start such programs will ultimately have to decide if they are prepared to "own" them.

Although each individual project will only be supported by donors on a temporary basis, the capacity of the international community to help has increased and needs to be further increased to assist the developing countries as a whole in designing and upgrading their social protection systems. There are important initiatives in this regard at the level of the United Nations organizations and by regional and bilateral donors.[40] In addition, on 19 December 2017, ILO and the King Baudouin Foundation of Belgium launched a new effort to help finance ILO technical assistance to developing countries seeking to improve their SPF systems. A unique feature of the

37 — In fairness, this was a period of major debt relief operations for the heavily indebted poor countries, most of which were in Africa.
38 — See, for example, experiences in Namibia and Tanzania (Liebert, 2011).
39 — For example, UNICEF has lobbied the Swazi government to take over as part of its 2017/2018 budget the donor funded cash transfer program that expires in March 2018 (UNICEF, 2017).
40 — See the enumeration in Herman (2017), 13–15.

fund is that it may receive private as well as official resources, to which end the ILO launched a global appeal for contributions (ILO press release, 19 December 2017).

Nevertheless, the call remains unanswered for a dedicated international public fund to support SPFs in developing countries grounded in the human rights obligations of states (De Schutter and Sepúlveda, 2012). Coupled with the unsatisfying overall outlook for ODA for social protection, the conclusion can only be that internationally active civil society organizations should lobby OECD donors and South-South providers of cooperation to increase their aid efforts and better target their assistance to strengthening SPFs. In addition, civil society organizations in developing countries that seek to promote SPFs should not hesitate to seek to mobilize support among official institutions resident in their countries, such as UN offices (e.g. ECLAC, ILO regional offices) and other partners to help develop local options for strengthening the SPF that they would prepare for government consideration.

6.2 International tax cooperation

The incomes of domestic companies, hosted foreign firms and affluent households that escape taxation and seep abroad is difficult for individual countries, especially developing countries, to track. As the relevant information is hidden from the home country's tax authority, identifying the income subject to tax depends on cooperation with foreign authorities. While certain jurisdictions abet tax evasion and tax avoidance of foreign nationals, other jurisdictions willingly cooperate, albeit under strict rules embedded in international agreements. Many of the agreements are parts of bilateral tax treaties that mainly establish how the countries will divide up the taxation of companies (or even the earnings of rock stars) operating in both jurisdictions, as well as specify how the partners will help enforce each other's tax laws. There are also often provisions on sharing tax-related information in regional or other multi-party tax treaties.

The standard approach to international cooperation in tax enforcement is for one tax authority to request information on one of its taxpayers from another tax authority with which it has an information sharing agreement. The requesting authority has to explain that it believes the taxpayer has hidden income from tax at home or has otherwise abused its home tax laws. In effect, the requesting authority is asking the requested authority to help it investigate one of its taxpayers, which could involve the foreign authority serving a summons on a bank thought to be helping the taxpayer hide his money. While it can be a powerful tool, this approach puts a heavy burden on the requesting authority, as well as requiring support of the requested authority. Newer agreements provide automatic exchange of information among participating authorities, albeit under specified conditions, including adopting the OECD common reporting standard and guaranteeing the confidentiality of information received. Indeed, most developing countries do not have the capacity to assess the information they would receive in automatic information sharing, let alone guarantee its confidentiality, although this is the direction in which cooperation and capacity building should move.

To deepen enforcement cooperation among tax authorities, OECD created a Global Forum on Transparency and Exchange of Information. Originally comprised of OECD member countries and certain other tax authorities that had agreed to implement a set of OECD standards on information sharing, it has since expanded to 149 tax authorities (as of March 2018, according to the Global Forum). Members of the Global Forum agree to be peer reviewed on their cooperativeness, while non-cooperating authorities can be subjected to "defensive measures" that would make it unattractive for foreign taxpayers to hold or hide funds in those jurisdictions.

However, as underlined by the 2016 "Panama Papers" leak of 11.5 million private financial files, the extent of tax cheating has been huge, global, and involved senior political leaders in a number of countries as well as prominent people in business.[41] The most valuable information from the Panama Papers was apparently naming the "beneficial owners" who were hidden behind various shell

41 — The International Consortium of Investigative Journalists, which made the leaked Panama Papers available to the press, counted 140 politicians from 50 countries who were connected to offshore companies in 21 tax havens (www.icij.org/investigations/panama-papers/the-power-players).

The Ebola pandemic devastated Liberia, Guinea and Sierra Leone so because of the absence of functioning health-care systems in parts of these countries and because of the slow international response to the crisis.

companies that had been used to launder money, hide money and evade taxes. Further policy development in identifying beneficial owners of companies (and their bank accounts) is one priority area in which to deepen intergovernmental cooperation, but it is one among many areas. Increasingly, all in all, developing countries and their aid partners are focusing on more effectively chasing the tax cheats.[42] Effectively doing so will not only collect more tax revenue per se, but may also make it harder to be a successful tax cheat and thereby discourage further tax cheating attempts.

6.3 Internationally sharing in crisis response

Arguably, some parts of the international community of powerful countries and the multilateral financial institutions that they control have become embarrassed by the impact on poor population of the policies—or lack of policies—for joint international response to economic and humanitarian crises. It is hardly controversial that the Ebola pandemic so devastated Guinea, Liberia and Sierra Leone first because of the absence of a functioning health-care system in many parts of those countries and

42 — Enhancing international cooperation on tax matters is a priority of the United Nations Financing for Sustainable Development intergovernmental discussions and interagency cooperation, focused both on improvements in cooperation policies and in technical assistance for implementing those policies and in tax administration more broadly (see IATF, 2017, 34-40).

second because of the slow international response to the crisis. It is also widely agreed that the pressure for austerity in Greece in order to pay its creditors and avoid bankruptcy was excessive, debilitating to working families and in the end failed to prevent a sovereign default. It is also unimaginable how the small Caribbean island of Dominica, which lost approximately 90% of its housing stock, could recover from the hurricanes of 2017 without international support.

In response to such concerns, the IMF, the World Bank and other development institutions have increased the number of facilities that can quickly provide funds to help handle various sorts of economic and environmental emergencies. The United Nation's Financing for Sustainable Development (FPO) Follow-up Forum in its negotiated intergovernmental outcome of 2017 asked the Inter-Agency Task Force to prepare an inventory of existing quick-disbursing facilities, which it would present for discussion at the April 2018 FfD Forum meeting.[43] The aim of that discussion was be to assess whether enough types of funds with enough resources exist to meet the range of likely emergencies in the coming years.

While one should not prejudge that discussion, a pertinent question for developing countries is "will we receive that support when we need it?" Some of the facilities are insurance programs, such as the African Risk Capacity Insurance Company, which insures participating countries against drought, or the Caribbean Catastrophe Risk Insurance Facility, which insures against catastrophic storms. To receive insurance payouts, which are quickly made, participating countries have to have paid the insurance premiums[44]. A number of loan facilities have also been created, as in the IMF and World Bank, which will disburse funds quickly, but for which governments have to prequalify. In addition, there are now multiple agreements between developing countries and other countries to temporarily swap their currencies in the event of a sudden shortage of foreign exchange, usually associated with a financial crisis, though potentially for any valid reason of temporary need. Complementing these insurance and loan programs, there are also a number of funds (albeit small ones) that will quickly disburse grants for emergency responses.

The point of this discussion from the perspective of social protection—indeed, the context in which the United Nations Member States asked the IATF to prepare the inventory—is that governments should be able to protect their social protection programs during crises. Moreover, in many cases, having operational cash-transfer SPFs in place provides a ready way to quickly distribute additional funds during an emergency. Thus, strengthening SPFs may be seen as warranted not only for itself but also to strengthen a country's emergency response capacity. The question that faces national supporters of social protection is "if we need such support in a crisis, will we be able to access the available facilities?" The parallel question at international level asks "is there an adequate system to meet prospective emergencies wherever they may occur and what more needs to be done in terms of boosting existing facilities or creating new ones?" These are debates worth having in and among governments, with legislatures and among other stakeholders.

43 — The IATF prepared the inventory of such facilities for its 2018 report, released in April 2018; see the set of facilities described in Herman (2017, 15–18).

44 — For further discussion of Climate Risk Insurance and the question of justice and human rights see: www.brot-fuer-die-elt.de/fileadmin/mediapool/2_Downloads/Fachinformationen/Analyse/Analysis73-Protected_against_climate_damage.pdf

Chapter 7
SPFs in sustainable development strategies

The discussion in this paper has focused on assuring adequate funds for tax-financed social protection floors in developing countries. However, these Social Protection Floors (SPFs) do not exist in a vacuum. They have both a social protection and a development context that must be taken into account by the governments responsible for them.

In the social protection context, the tax-based SPFs should be seen as part of a broader set of social policies and programs that includes, in particular, contributory social protection. As mentioned in the introduction, these are arrangements in which workers and/or their employers make payments into a dedicated fund from which beneficiaries make withdrawals when they qualify (e.g., on retirement). Tax-financed SPFs may also be complemented by various social insurance programs, such as "workers' compensation", whose premiums are usually paid by employers and which make payments to workers when injured on the job. Many pension, health-insurance, long-term care and unemployment support programs are also in the nature of insurance policies, whose premiums are often shared between employers and employees albeit often supplemented by the government. There are options to integrate poor population, who are not able to contribute, within the same scheme by exempting them from payments. Their contributions would be replaced by tax-financed government subsidies to the respective contributory scheme (e.g. national social health insurance) facilitating a universal coverage and preventing fragmentation of the system which often leads to poor services for those who cannot pay.

Tax-based social protection measures and elements are an important part of the universe of universal social protection systems. They guarantee the right to social protection independent of contribution capacity. Unlike the contributory and insurance parts of social protection, these elements cannot be self-financing, and they should be available into the indefinite future. That means there has to be provision for them as a regular part of the government's annual fiscal budget.

The annual budget, in turn, should be shaped by a medium-term fiscal program, which reflects the context of SPFs, as part of each country's sustainable development plan. Both the medium-term spending program and the development plan should include social protection components and within them SPF components. Developing countries cooperating with the IMF, the World Bank and bilateral donors will be expected to carry out developing planning and medium-term budgeting exercises as part of their cooperation with those institutions and they should come to include social protection as standard features. Countries have already accepted international obligations to undertake longer term planning and announce their plans, as in declaring the details of their "nationally determined contributions" to reducing carbon emissions, as agreed in the 2015 Paris Conference on climate change, as well as in devising national strategies to implement the 2030 agenda for sustainable development on which countries report (albeit voluntarily) to the United Nations. Social protection, including floors, should be a standard part of the latter exercises, as per the SDGs.[45]

However, not only should it be increasingly expected that governments prepare extended period planning documents for their sustainable development and that they should include within them provision for social protection and SPFs, but tools have been developed to facilitate comprehensive development planning. Indeed, such tools have become more sophisticated in the decades since they emerged in the 1950s (as has the computing power to operate them). Planners can now pay increased attention to human development concerns and can better track the interlinkages among economic sectors and help envisage alternate future scenarios that can assist in arriving at coherent plans that reflect national priorities.

This is especially useful for tracking the interactions of different government programs that might otherwise be assessed only within their policy "silos". For example, if imposing a tax on sugary drinks to discourage consumption and raise tax revenues also encourages poor people to consume non-potable water, it will increase the demand on the public health system that will need to treat the affected people, offsetting at least in part the envisaged benefits of the sugar tax. This one

45 — SDG target 1.3 (Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable), 3.8 (Achieve universal health coverage (UHC), including financial risk protection, access to quality essential health care services, and access to safe, effective, quality, and affordable essential medicines and vaccines for all), and 8.b (By 2020 develop and operationalize a global strategy for youth employment and implement the ILO Global Jobs Pact), as per www.ilo.org/global/topics/dw4sd/themes/sp-floor/WCMS_558585/lang--en/index.htm

example would involve the interests of the ministries of finance, agriculture and different departments of the health ministry.

Among the new generation of tools to facilitate cross-ministerial and economy-wide assessments of policy proposals is a set of computer modelling techniques that can simultaneously address social, environmental and economic dimensions of development policy. These models have been used in the past to assess the policy options, including sources of finance to reach the Millennium Development Goals in several countries. More recently, an expanded portfolio of modelling tools is being used to address the challenges of a more comprehensive agenda for sustainable development. While no country has yet requested assistance on the use of these models for the design or financing of SPFs, per se, such analyses would fit within their scope.[46] Furthermore, while these tools are being developed by experts from the United Nations, the World Bank and elsewhere, the UN Development Program (UNDP) has been developing a methodology that can help gain a picture of the potential financing landscape for SPFs as part of an overall "development finance assessment".[47] This UNDP tool can in principle help answer questions about prospective ways to mobilize necessary tax revenues in a specific country context. Finally, a major research project has been underway for some years at the Commitment to Equity Institute at Tulane University to develop a practical methodology to measure the net impact of combinations of expenditure and tax revenue policies. It is increasingly being taken on board by donors and the international financial institutions.[48]

In other words, provision for an adequate social protection floor and its sustainable financing over planning horizons should be seen as part and parcel of integrated national development planning and budgeting. Whether developed through sophisticated simulations or spreadsheet models or pencil and paper projections, the place of SPFs in development planning should be clearly reflected. Also, the analyses should be available not only within governments but also shared with the public so that civil society organizations and their academic partners may assess the assessments. Indeed, national expertise on the use of these tools by government officials and national universities will help build sustainable national capacity to assess and review the policy options available to countries for nationally owned development strategies and policies. In this way, a national social dialogue on SPFs becomes, in effect, a piece of a political strategy for achieving socially, economically and environmentally sustainable development.

46 — See https://un-desa-modelling.github.io (accessed 30 January 2018).

47 — See www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html (accessed 30 January 2018).

48 — For eight detailed case studies applying this approach to fiscal analysis, see Inchauste and Lustig (2017); for the project itself, see www.commitmentoequity.org (accessed 7 January 2018).

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