Financing social protection through the COVID-19 pandemic and beyond

Scoping note for the G20 Development Working Group

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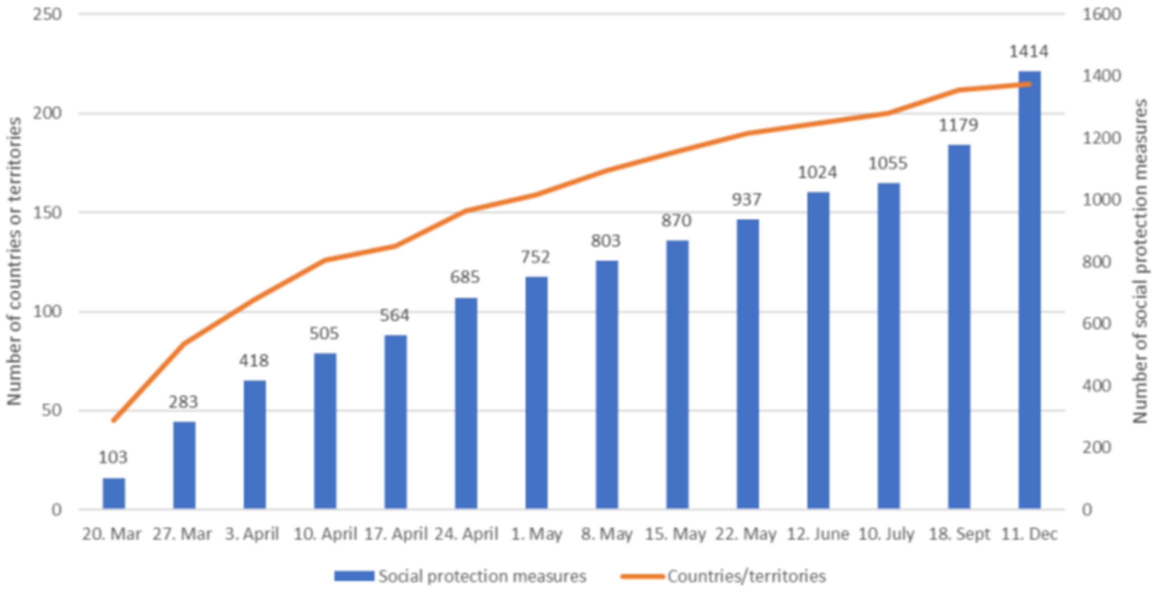
Social protection has been extended rapidly in response to the COVID-19 crisis, but the nature and scale of measures differed among countries.

The size of the response: Social protection policy responses to the COVID-19 pandemic (March-December 2020)



Source: Social protection and jobs responses to COVID-19: A real-time review of country measures.

The nature and scale of the response: Differences across income levels with regard to…

- … gaps in social protection coverage, comprehensiveness and adequacy;
- … use of contributory vs. non-contributory schemes and programmes;
- … the existence of registries and delivery mechanisms to identify beneficiaries and disburse benefits;
- … the resources available to protect health, incomes, and jobs.

This scale-up has been achieved despite a severe deterioration in public finances, but some countries could do more than others.

Immediate challenges during COVID-19

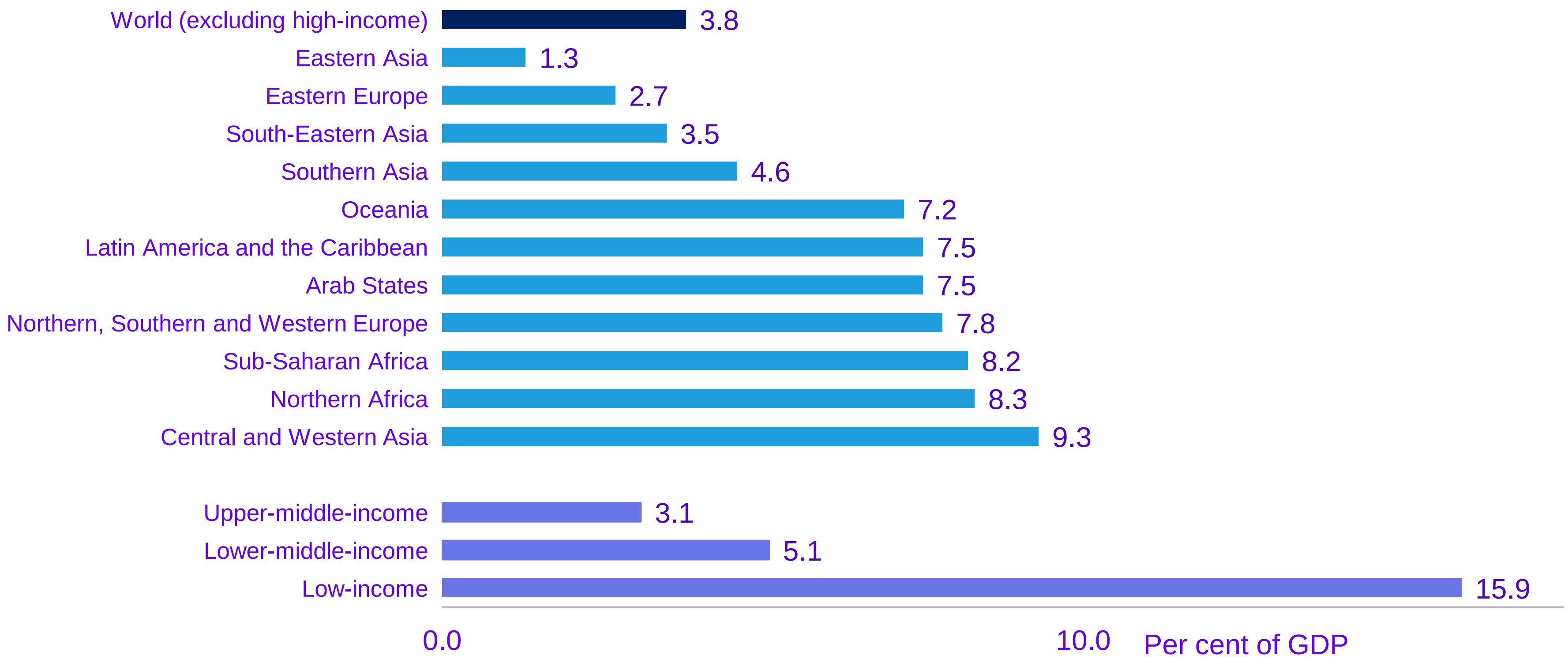
- Major declines in fiscal revenues, specifically in first half of 2020 (taxes on goods and services, corporate income, trade, commodities)
- Sharp declines in remittances, foreign direct investment, and capital flight
- Rising deficits and debt servicing costs

Increasing fiscal space for social protection during COVID-19

- Restructuring or reprioritizing budget lines
- Domestic debt and deficit spending
- State reserves, contingent funds, fiscal savings
- Debt relief and emergency financing, Debt Service Suspension Initiative (DSSI), Common Framework for Debt Treatments

Social protection has clearly demonstrated its value during COVID-19, but achieving universal coverage by 2030 will require additional investment.

Low-income countries would need to invest an additional USD 77.9 billion or 15.9% of GDP per annum to guarantee at least a basic level of social security for all through a nationally-defined social protection floor.



Notes: The graph shows the financing gap for achieving a universal package comprising social protection benefits for children, maternity, disability, and old-age and access to essential health care in 2020 as a percentage of GDP (low- and middle-income countries only).
Source: Financing gaps in social protection: Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond.

Expanding domestic resource mobilization and national ownership is critical for achieving universal social protection…

Persistent challenges

- Low levels of domestic revenue mobilization
- High levels of informality, resulting in foregone revenues from taxes and social security contributions:
  - 60 per cent of global employment is informal
  - 81 per cent of economic units (enterprises; including own account workers) operate in the informal economy
- High debt levels

Options to maintain and increase fiscal space for social protection beyond COVID-19 at the national level

- Expanding social security coverage and contributory revenues
- Increasing tax revenues
- Reallocating public expenditures, enhancing quality of spending
- Eliminating illicit financial flows
- Managing debt by borrowing and restructuring debt
- Using fiscal and central bank foreign exchange reserves
- Adopting a more accommodating macroeconomic framework

…but the international community has a key role to play as well, with support aligned through Integrated National Financing Frameworks.

- Increased ODA in line with previous commitments; continuing debt relief and safeguarding social protection spending; coordination on tax matters (BEPS)
- Technical support to build capacities; knowledge sharing
- **INFFs**: Essential tool for achieving the SDGs by 2030:
  - Explore synergies and manage possible trade-offs across different development objectives
  - Key reference point for donors and external creditors