Executive summary

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# Measuring financing gaps in social protection for achieving SDG target 1.3

## Global estimates and strategies for developing countries

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Protección Social

Protection sociale

Social Protection

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## Executive summary

This paper provides regional and global estimates of the costs and financing gaps of target 1.3 of the Sustainable Development Goals (SDGs) relating to social protection and analyses a number of options for filling those financing gaps in the developing countries using domestic and external resources. The paper considers four policy areas (excluding health) of the social protection floor (SPF): children, maternity, disability and old age. It estimates the coverage gaps for each area; the cost of providing universal coverage; the total financing gap for achieving universal coverage in 2019; and the annual incremental financing needs to progressively achieve universal coverage between 2019 and 2030. In addition to measuring the cost and financing gap of a social protection floor (i.e. with respect to non-contributory social protection systems), the paper attempts to estimate the financing gap of contributory systems – and therefore the potential fiscal space that could be created assuming a potential increase in social security coverage or contribution rates or both. Finally, it provides a list of fiscal space options, paying particular attention to options for raising revenues using taxation and official development assistance (ODA).

The study draws on the latest data available from developing countries and territories, which are classified into three income groups using the World Bank's country classification by income group, as well as regional groups according to the International Labour Organization (ILO) regional classification.

**Key results**

1. **Coverage rates by country-income group.** Upper-middle-income countries show about 90 per cent coverage of older persons aged 65 or over, while in the other social protection areas, coverage is as low as 33.8 per cent for disability or as moderate as 53.6 per cent for maternity. Among lower-middle-income countries, the best-performing policy area is maternity, which covers one in every three mothers, while none of the other policy areas achieves 30 per cent coverage and disability benefits cover only 8.6 per cent of persons with severe disability conditions. Finally, low-income countries present very low coverage across the different social protection areas, with disability having the lowest coverage (1 per cent) among all regions and types of benefits. Only about 15 per cent of the elderly receive a pension in low-income countries.

2. **The cost of a social protection floor comprised of four benefit areas.** The total cost of the universal package is estimated at US$792.6 billion in 2019, of which US$754.9 billion represents the cost of providing the benefits and the remainder the administrative costs. In other words, this amount is the global cost of achieving the universal SPF package in 2019. The total cost, including the administrative cost, is estimated at 2.4 per cent of the gross domestic product (GDP) of the developing countries in the sample. By geographic regions, the cost of the top three regions – Latin America and the Caribbean, Eastern Asia and Eastern Europe – amounts to US$439.5 billion or 55.5 per cent of the total cost. One of every three dollars of the cost corresponds to Latin America and the Caribbean alone. By benefit areas, 54.5 per cent of the total cost derives from old-age benefits, followed by disability benefits at 19.1 per cent. Costs by country-income group range from US$31.1 billion for low-income countries to US$577.4 billion for upper-middle-income countries. In GDP terms, the cost is estimated at 6.4 per cent of GDP for low-income countries, 2.6 per cent for lower-middle-income countries and 2.3 per cent for upper-middle-income countries.

3. **The financing gap in providing universal coverage of the SPF in 2019.** The estimated financing gap in 2019 – the amount needed to achieve universal coverage of the SPF in the current year – is US$527.1 billion or 1.6 per cent of the GDP of the developing countries considered in the study. About two thirds of the gap (US$364.8 billion) corresponds to the share of upper-middle-income countries and 5.6 per cent (US$26.8 billion) to the share of low-income countries. This is partly explained by the composition of the sample, in which low-income countries represent a smaller share of the total number of developing countries than the other country-income groups. Differences in the amounts of benefits in countries in different country-income groups are an additional explaining factor.

4. **The incremental financing needs for progressive universal coverage between 2019 and 2030.** If the universal coverage of the SPF is achieved progressively over the period 2019–2030, the annual incremental financing need is about US$246.5 billion (0.75 per cent of GDP) in 2019, after which the need will increase progressively to reach US$735.2 (1.24 per cent of GDP) by 2030. In relative terms, low-income countries require a greater proportion of their GDP as additional spending needs. For example, by 2030 the incremental financing need will reach 3.78 per cent of GDP in low-income countries, 1.34 per cent in lower-middle-income countries and 1.16 per cent in upper-middle-income countries.

5. **The social protection financing gap in contributory systems and potential fiscal space**. Globally, social security contributions could represent 6.3 per cent of the GDP of the developing countries if all countries that are currently below the expected average coverage/contribution trends were to raise their contributions to the expected level. The expected net increment in fiscal space creation through this channel would be a gain of 1.2 per cent of GDP.

6. **Assessing taxation and ODA options for closing the social protection financing gap.** The global tax burden in 2018 is estimated at 11.1 per cent of GDP. On average, the

universal SPF financing gap in 2019 represents 13.5 per cent of the total tax collection – or 45.0, 16.3 and 13.0 per cent, respectively, for low-income, lower-middle-income and upper-middle-income countries. The SPF financing gap's very high share of current taxes in low-income countries (45.0 per cent) makes it very unlikely that it can be reduced by a significant proportion. In countries with limited capacity to generate domestic resources, external assistance will therefore be required. While the SPF financing gap in 2019 is estimated at 1.6 per cent of GDP, the total ODA allocation to developing countries (in the sample) was 0.3 per cent of GDP in 2017. Therefore, the current level of ODA is insufficient to meet the financing needs identified by the study.

Social dialogue is important to identify policy priorities and ensure the smooth implementation of any reforms in social protection. Experience has shown that policy decisions on social protection reforms usually have a long-lasting effect on the country's national budget, as well as on employers' and workers' contributions to the system. In many countries, therefore, governments do not take such decisions in isolation; rather, they seek support from the full range of political parties in order to ensure that decisions are politically sustainable and they hold social dialogue (consultations) with stakeholders, including employers' and workers' organizations, in order to ensure a better understanding and acceptance of their decisions.

In terms of meeting financing needs, the challenge is much higher for low-income countries, both in terms of the relative cost to them and their relative capacity. This situation must be considered as a critical factor in the formulation of a specific development assistance policy. Massive financial assistance for starting up and temporarily financing benefits could be a feasible option for addressing the SPF gap in low-income countries with limited domestic capacity.

**JEL Classification:** I3, H6, H53, H55.

**Keywords:** social protection, social security systems, social protection floors, child allowances, maternity benefits, disability benefits, social pensions, social security contributions, public expenditure, fiscal space, domestic resource mobilization, official development assistance (ODA), developing countries, Sustainable Development Goals (SDGs).