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# **Towards effective and fiscally sustainable Social Protection Floors**

**Preliminary Draft 10 May 2012**

Preliminary report prepared for the meeting of the G20 Labour and Employment Ministers in Guadalajara (Mexico), 17-18 May 2012, on the state of ILO-IMF collaboration in exploring the fiscal feasibility of national social protection floors in selected countries

**International Labour Office, Geneva  
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## 1. Introduction

At the Cannes Summit held on 3-4 November 2011, the G20 Heads of State decided to foster employment and social protection and recognized, as stated in the Summit Declaration “...*the importance of investing in nationally determined social protection floors in each of our countries.*” Determined to strengthen the social dimension of globalisation, they reaffirmed that social and employment issues, alongside economic, monetary and financial issues, would remain an integral part of the G20 agenda. In this regard, they specifically called “...*on international organisations to intensify their coordination and make it more effective. In view of a greater coherence of multilateral action, we encourage the WTO, the ILO, the OECD, the World Bank and the IMF to enhance their dialogue and cooperation.*”

The G20 Ministers of Labour and Employment meeting in Paris on 26-27 September 2011 recommended “*that the ILO and the IMF, in collaboration with other international organisations, strengthen their cooperation in order to help Governments, where necessary, to define the necessary fiscal policies to play their role contributing to the progressive implementation of social protection floors according to national needs and circumstances.*”

Following a joint Conference held in Oslo in September 2010 on “the Challenges of Growth, Employment and Social Cohesion”, hosted by Prime Minister of Norway, Jens Stoltenberg, the IMF and ILO agreed to deepen their collaboration on policy development and joint analytical work in two specific areas. First, they agreed to explore the concept of a social protection floor for people living in poverty and in vulnerable situations, within the context of a medium – to long-term framework of sustainable macroeconomic policies and strategies for development. Second, they agreed to focus on policies to promote employment-creating growth. The two institutions also agreed to continue and deepen their cooperation in support of the G20 and its Mutual Assessment Process aimed at ensuring strong, sustained and balanced growth.

The need for closer cooperation between the ILO and IMF on social protection issues is further highlighted by the 100th session of the International Labour Conference in June 2011 (ILO, Resolutions and Conclusions 2011), and in the SPF Advisory Group Report (2011) chaired by Ms. Bachelet, former President of the Republic of Chile and Head of UNWomen. The report specifically recommends, inter alia, that “*the IMF-supported programmes take into account measures taken by the government to ring-fence and expand social protection systems drawing on the social protection floor approach.*” The group’s report further states it would be “*appropriate to call on the ILO and IMF to increase cooperation on supporting countries in creating and enhancing fiscal space for the implementation of social policies on a sustainable basis*” (SPF Advisory Group, 2011).

The objective of this report is to provide an account of the joint ILO and IMF work to explore the feasibility of national social protection floors at national levels. The finding and results of the three most advanced pilot studies, Mozambique, Viet Nam and El Salvador are briefly described in the current report.

The report stresses that the ILO-IMF collaboration has been crucial in demonstrating that even in low- and lower-middle-income countries such as Mozambique, El Salvador and Viet Nam, basic social protection floor measures are affordable and can be implemented gradually and over time without worsening the outlook for debt and fiscal sustainability.

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## **Closing the social security gap**

A strong consensus has been emerging over recent years that that well-designed social protection systems and sound economic performance can and do coexist. In fact, it is increasingly evident that adequate social security is by no means the consequence of economic growth – it is a prerequisite for this growth.

While substantial progress has been made during recent years, the extension of social protection remains one of the main challenges for balanced economic growth and social cohesion during the coming decades. For a long time it was assumed that in middle- and low-income countries social security coverage would increase in line with economic development; yet this expectation proved to be misplaced. In many countries, the growing incidence of informal work led to stagnant or even declining rates of coverage. As a result, the great majority of the world population still lacks access to social security coverage (ILO World Social Security Report 2010/2011).

Not only for middle – and low-income countries, the first priority today is to provide the 75-80 per cent of the excluded population with some form of social security that allows them to live without fear of losing their livelihood.

In order to close this gap, promising policy innovations have emerged in recent years, largely from the global South. More than 30 middle- and low-income countries have already successfully taken measures to introduce elements of national social protection floors in the form of cash transfer programmes or programmes enabling wider affordable access to health care. Practically all the other countries either have in place various small-scale pilot schemes or debate their social protection strategies. Also promising is the growing understanding of the importance of social protection in national debates and within the international development community. There is also more and more cooperation between the different international agencies involved as well as among the countries themselves: South-South cooperation in the area of social protection has strengthened significantly over the past few years.

## **A renewed global interest in social protection**

The role of social security systems as an automatic stabilizer during crises has been widely acknowledged during the present global financial and economic recession. There is now compelling evidence that countries with effective social security systems, can react quicker and more effectively to a crisis. The global financial and economic crisis has also shown that the most effective social security instruments to mitigate the social fall-out of the crisis are the introduction or extension of unemployment or partial unemployment benefits. ILO studies have revealed that the increased expenditure on social and economic stabilizers has helped to save as many jobs worldwide as discretionary ad hoc stimulus packages (ILO Accelerating a job rich recovery in G20 countries, 2010).

As a consequence of the global social situation, historical experience and the impact of the crisis on social and economic stability, social protection moved up on the global policy agenda.

The outcome document of the Millennium Development Goals Summit, adopted by the General Assembly by consensus on 22 September 2010, considers the social protection floor concept to be among successful policies and approaches. It states that “promoting universal access to social services and providing social protection floor can make an important contribution to consolidating and achieving further development gains” (United Nations General Assembly, 2010a, p. 5).

Building on the impetus of the SPF Initiative, the tripartite constituents of the ILO chose the symbolic opportunity of the 100th Session of the International Labour Conference in June 2011, to reconfirm the role of social security as a human right and a social and economic necessity for countries at all levels of development. Consequently, a new international standard on national social protection floors will be discussed at the 101th Labour Conference in June 2012 (see ILO Report IV 2A and 2B, 2012).

Other international organizations, such as the EC, the World Bank, UNICEF and the WFP are presently preparing new social protections strategies or have already launched theirs (World Bank 2012 and UNICEF 2012) recently. The most tangible outcome, however, of the renewed international interest in social protection was the UN's Social Protection Floor Initiative.

#### **Box 1. Activities of the UN SPF Initiative**

Since its launch the Initiative has developed and undertaken activities in a number of interacting areas:

##### *1) Country support*

The Initiative is supporting a growing number of countries in their endeavours to build or further develop their national social protection floors. At the country level, the Initiative operates through joint SPF task forces or working groups working on social protection, comprised of UN agencies and development partners present in the country and national sector groups. These have been constituted in, for example, Haiti, Benin, Burkina Faso, Mozambique, Thailand, Indonesia, Rwanda, Togo and Viet Nam. The lead is normally taken by the agency that leads the UNDAF work on social protection (e.g. in Burkina by UNICEF, in Mozambique and Viet Nam by ILO, in Togo joint leadership by ILO, UNICEF and WB, in Senegal and Haiti joint leadership by ILO and UNICEF, and in Rwanda joint leadership by ILO and WHO).

Depending on the country context and what is needed, support is provided through different activities including: awareness raising; social protection stocktaking; needs and gap analysis; priority setting; SPF policy formulation; social dialogue; facilitating consensus building; costing of SPF benefits; fiscal space analysis; social protection training; design, administration and implementation of benefits; as well as monitoring and evaluation of SPF policies and schemes. In total, there are about 25 ongoing country advisory activities of different levels of intensity. Further requests from about 5 to 6 countries are in the pipeline.

##### *2) Development of analytical tools*

To support country advisory activities the Initiative has developed a set of analytical instruments that provide the factual bases for national dialogues on alternative policy options, implementation priorities and the phasing-in of SPF policies:

- A procedure to assess the state of national Social Protection Floor Policies and identify coverage gaps building on national tripartite consultations.
- An ILO-UNICEF costing tool that allows users to estimate the cost of different social protection measures. The tool is accompanied by a tutorial explaining each step.
- A rapid assessment protocol (RAP), developed by the ILO in close collaboration with UNICEF, that enables users to evaluate the cost of steps that could be taken to close social protection coverage gaps. The construction of the model goes hand in hand with a national dialogue process involving national authorities and other actors dealing with social protection. The tool further provides a basis to discuss and simulate alternative financing options and fiscal space.
- A static micro-simulation methodology that allows to assess the theoretical impact of alternative benefits on poverty headcounts and the poverty gap on the basis of household survey data.

##### *3) Capacity building*

Strengthening national capacities is a key prerequisite to enable countries to implement social protection floors. The Initiative, i.e. staff members of a number of different agencies, jointly with the ILO's International Training Centre (ITC) in Turin, conducts national, sub-regional and inter-regional training for officials from governments or national social security institutions on the design and implementation of SPF policies and benefit schemes.

The SPF-I supports countries in their efforts to provide access to essential social services and social transfers to everyone, paying particular attention to vulnerable groups including informal sector workers, children, pregnant women, migrants, people affected by HIV/AIDS, populations exposed to adverse external effects like natural hazards or extreme

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climate phenomena etc. It is not a one-size-fits-all social policy approach. Rather, it seeks to ensure that all people have access to social transfers in cash or in kind or legal entitlements that guarantee access to a minimum set of goods and services and hence create a minimum of income security for all, by establishing minimum performance standards of national social protection policies. Depending on priorities and resources, countries may build of higher levels of social security simultaneously with the investment in their national SPF.



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## 2. The Social Protection Floor Pilots

Following the Oslo agreement in September 2010, the ILO launched several Social Protection Floor costing exercises in countries which had requested assistance in developing and implementing a social protection floor. For these exercises, a new costing tool - the Rapid Assessment Protocol (RAP) – was developed by the ILO for the SPF Initiative coalition based on previous experiences with the ILO-UNICEF costing tool. The tool was developed to assist countries to explore the feasibility of adopting national SPFs, assess different policy options, and guide policy makers in their endeavour to expand social protection, as well as to assist in the identification and allocation of fiscal resources required to support the expansion of social programmes. The findings of the national costing exercises were reviewed during an ILO-IMF Workshop in March 2011. This resulted in sharing of information, analyzing and commenting on the methodology of the studies and checking the adequacy of the data base and the viability of the economic assumptions for projection. In one case (Mozambique), the IMF and ILO (in collaboration with UNICEF and other SPF Initiative members), jointly conducted the costing exercise and provided joint policy recommendations to the government. In December 2011, the most advanced country studies, El Salvador, Mozambique and Viet Nam were presented and discussed by the ILO and the IMF, as well as the respective government representatives, in a workshop hosted at a Brookings Institute in Washington as part of the activities of the SPF Advisory Group. The studies are to be published during 2012 (the Viet Nam study in May) as working papers, while the dialogue processes with the governments continue. This section presents the main findings of the three country pilots.

### A. Working modalities/principles

Central to the successful introduction and maintenance of a social protection floor is the question of its affordability and fiscal sustainability – whether there exists sufficient fiscal space to finance an appropriate package of basic social protection measures and to scale them up over time, while ensuring the proper balance with other policy objectives that compete for the same resources. The cost of each measure must therefore be carefully determined and matched with the assessment of the available fiscal space and its projected evolution – this will include an analysis of the scope for expanding fiscal space through the mobilization of additional domestic resources, improved expenditure efficiency and the reallocation of resources within the existing fiscal envelope, or the mobilization of additional predictable external resources.

The methodology of the SPF Initiative pilot cases was designed to address these questions. In a first step, the UN, upon a country's request, will launch an assessment and costing exercise. The ILO, or depending on the country context another member of the UN SPF Initiative active in the field of social protection policies, will lead the exercise, in collaboration with national stakeholders and the other members of the SPF-I Coalition, and assesses and compiles all available data on the existing system of social protection in the pilot country—its cost, coverage, and impact, as well as gaps in effective protection. Based on this assessment, viable country-specific reform options and appropriate new policy measures are identified and their cost and feasibility are projected, using assessment tools such as the Social Protection Expenditure Reviews (SPER) and the Rapid Assessment Protocol (RAP).

The cost of introducing specific basic social protection measures is evaluated and projected over the long term, based on country-specific demographic parameters, as well as key macroeconomic and financial parameters. In addition, the impact of the selected protection measures on reducing poverty, enhancing individual resilience and contributing toward greater social equity is also assessed. The feasibility and sustainability of each of the

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identified options are assessed within the macroeconomic and fiscal framework and the analysis of existing and projected fiscal space provided by the IMF. This framework includes the near-term projections of key macroeconomic variables (economic growth, inflation, fiscal revenues, expenditures and deficits, public debt, and external and domestic financing), as well as longer-term projections drawn from the long-term macroeconomic framework underpinning the debt sustainability analysis for each pilot country.

The scope for expanding available fiscal space through overall economic growth, improvements to domestic revenue mobilization, greater expenditure efficiency or expenditure reallocation, or recourse to additional external financing is discussed. This helps to identify the scope for funding additional social protection measures on a sustainable basis, and to progressively expand their coverage and introduce additional measures over time.

The design of the pilot studies reflects several important features of the Social Protection Floor Initiative as defined in the SPF Initiative Manual (ILO, WHO et.al, 2009), the SPF Advisory Group Report (2011) and in accordance with the Conclusions of the 100th Session of the ILC in 2011. First, country studies are *demand-driven* – the assessments are undertaken at the request and with the cooperation of the government authorities, reflecting their interest in improving the fabric of social protection. This ensures the buy-in and political will that are essential for implementation, which is led by a national social protection task force comprising all key domestic and external stakeholders. Second, the framework is *non-prescriptive and tailored to specific country circumstances*. National social protection floor development processes are country-led and -owned, and the ultimate responsibility for the implementation of national social protection floors rests with national governments and parliaments. Policy and reform options and their financial implications are presented for discussion with the government authorities. The studies can further be used as a basis for national stakeholders to negotiate with the various ministries or they can feed into the national and social dialogue processes on the identification, prioritization and sequencing of social protection provisions. Ultimately, however, it is the government that decides which elements of the proposal to adopt, if any. Third, the SPF Initiative provides an explicit framework for the coordination of the activities of all actors, helping to deepen the coherence of their different approaches and policy advice in various areas and across different sectors, as well as the *coherence of these approaches with national social protection policy and overall development priorities*. All activities to support the various national processes are undertaken in close collaboration with the various UN agencies and other major stakeholders (donors, INGOs, other financial and technical development partners, etc.) of the Social Protection Floor Initiative active in the given country. The strategy for implementation will rely on a participatory approach and support national dialogue. And finally, *implementation is flexible* — the various elements of the social protection floor are individually costed and can be implemented gradually and progressively scaled-up over time, consistent with the availability of sustainable financing and the necessary institutional arrangements.

## **B. Three Pilot Studies**

### ***Mozambique***

#### The collaboration process

The Mozambique study is a joint UN-IMF exercise (the ILO in collaboration with UNICEF leads the costing exercise and the IMF the fiscal analysis) to support the government on the design of the new package of programmes that forms the basis for the implementation of the National Basic Social Security (NBSS) Strategy. This package constitutes the core of NBSS Operational Plan approved by the Council of Ministers in

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September 2011. Thereafter, both parties have been working with the objective of documenting the key elements of the on-going policy reform and exploring the technical and financial arguments underlying the policy options that are presented in the Operational Plan. The study includes simulations and cost projections for the period covered by the policy documents approved by the Government (2011-2014) and it already includes some options for the policy dialogue post 2014. Drawing partly on the on-going discussions in the country and on policy recommendations indicated in a 2011 Social Protection Assessment of the World Bank, the study analyses different options to gradually expand the coverage of existing gaps towards the implementation of a comprehensive Social Protection Floor in Mozambique.

In what appears to be emerging as a standard procedure, the UN is leading the costing exercise and developed the various benefit scenarios according to the national priorities and the recently approved NBSS strategy, helped by macroeconomic and general government operations data provided by the IMF for the model. The IMF led the analysis on the creation of fiscal space for government priorities in a medium-term fiscal framework, which is consistent with the maintenance of macroeconomic stability and long-term debt sustainability.

In close coordination with the UN, the IMF strongly advocated the need to increase budget allocations for the implementation of the new NBSS Strategy during semi-annual IMF review missions under Mozambique's economic program supported under the Policy Support Instrument (PSI). Key commitments on social protection have been firmly embedded in the PSI program documents since 2011. IMF and ILO representatives were called by the Council of Ministers for briefings on the relevance and sustainability of Social Protection in Mozambique. Together with other advocacy actions, these made an important contribution to the government's decision to increase Social Protection domestic allocations by 40 per cent, reaching  $\frac{1}{4}$  per cent of GDP, in the 2012 budget. The government also committed to increase budget allocations over the next few years to 0.8 per cent of GDP.

This increase should be sufficient to cover the government's ambitious targets in terms of beneficiaries, although the significant demands on building capacity to roll out the social protection floor throughout the vast country could delay somewhat the achievements of the targets. The government indicated that it would continuously monitor and reassess the implementation and resource needs. Moreover, the IMF and the ILO have also liaised very closely with other development partners to foster closer coordination and to scale up the requisite complementary financing. In particular, discussions are well advanced towards the creation of a common fund that will support financing and capacity building for the roll-out of the social protection programs. Finally, the ILO and IMF intend to maintain their partnership and dialogue during 2012, inter alia through the co-organizing a Conference on Social Protection (jointly with the Government, the World Bank and the UE).

The IMF is also collaborating in the finalization of the paper "Towards a Mozambican Social Protection Floor – Consolidating a Comprehensive Social Protection System in Mozambique – Analysis of Policy Alternative and Costs" which is planned to be published as an ILO ESS working paper. The IMF intends to also produce a working paper describing the exercise, but with greater emphasis and detail on the calculation of the fiscal space and the macro linkages, complementing the first paper.

Currently, the ILO is working with the Government on the production of a user-friendly version of the costing tool, to allow its use on the production of government plans. Indeed, the government is already using this tool to ground the discussions on the increase of the benefit levels for 2013. The tool will also be used for capacity building purposes as part of a training module.

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The collaborative work done by UN, IMF, WB and development partners has been critical in leading the policy dialogue that resulted in the adoption of the new Operational Plan and is guiding the implementation phase, based on support provided to the government efforts to increase its delivery capacity. At the same time, it had important implications in the way that social protection gained new space in national discussions.

Regardless of the partners collaborative approach, the most important feature behind the recent years strides towards a National Social Protection Floor has been the strong Government leadership. Throughout the process, decisions were built on solid technical bases (the costing exercise and the vulnerability analysis jointly done with the WB are two good examples) and reinforced by a wide consultative process.

## Findings and results of the study

Mozambique experienced high growth (7-8 per cent growth) over the last 10 years, but did not reap the benefits of the growth in social and fiscal terms. While considerable fiscal space has been created, it was largely channelled to address the country's enormous infrastructure needs. At the same time, poverty rates have remained largely unchanged. Indeed, the release of the latest poverty figures, together with the 2010 riots in reaction to food and fuel price increased, were important elements to trigger the government interest in Social Protection, creating the ideal momentum for this study to take place.

The study estimates the costs and projections of five different scenarios (A, B, C1, C2 and C3). Scenario A is the current Government proposal as defined in the Operational Plan 2012-2014, and extended till 2022. With the RAP, the projected costs of the recently approved government plan are simulated based on several assumptions that were made including on the projected take up rate, the estimated increase in eligible target group due to demographic changes, and the anticipated administrative costs. The simulation exercise for scenario A shows a steady increase in the budget allocation that keeps costs up to a maximum of 0.8 per cent of GDP.

This scenario is consistent with the medium-term fiscal framework underlying the authorities' economic program with the IMF. As such, it is consistent with macroeconomic stability and debt sustainability. The study replicates the IMF's analysis on the available fiscal space and its use for social protection purposes. Under the analysis, social protection under the NBSS strategy would increase from 0.25 per cent of GDP in 2012 to 0.8 per cent of GDP in 2016, and possibly even higher after that, depending on the implementation capacity and government objectives, facilitated by an expected increase in revenues and the phasing-out of the costly and ill-targeted fuel subsidy, which is expected to be completed in 2012.

Over time, additional resources could become available, which could possibly be used to expand the social protection programs. In particular, the possibility for taxing extractive industries which are currently contributing marginally to government revenues despite large profits seems most promising, although further work in setting up the appropriate fiscal regime is needed. In any case, additional revenue will not automatically go to social protection alone. There are significant needs across all sectors and the government's priorities include increasing investments in infrastructure. Moreover, further donor support could be galvanized, although aid flows are on declining trend.

Scenario B is a scaled up alternative of the current government plan. Under scenario B, benefit levels of certain transfers are increased, the calculation method of one of the benefit levels is revised, and coverage of another transfer is expanded in urban areas. The new amounts and figures are introduced in the simulation from 2013 onwards. The costs at a maximum are estimated to be approximately 1.6 per cent of GDP in 2021. However, as the major stake of the coverage increase will take place within the public works programme,

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the paper recognized the fact that from an operational perspective it might be challenging to increase the number of beneficiaries above a certain level.

Scenario C1, C2 and C3 can be seen as a proposal to deal with this challenge. Its proposals are presented for the period after 2014 as the current Basic Social Security Strategy ends in 2014. The different scenarios are also aligned with some of the recommendations from the World Bank Mozambique Social Protection Assessment of 2011, mainly by using the existing basis to articulate the social protection floor around two main pillars: a social pension and a child benefit focussed on the poor. Within C1 and C2 the transfers keep targeting households. In contrast with all the previous scenarios, on C3 the system targets individuals. The estimated maximum cost of the C1 scenario is 1.4 per cent of GDP, 2.5 per cent for C2 and 2.75 per cent for C3, all in 2022.

The costs of the proposed scenarios are substantial but not higher than other similar benefits in other countries such as South Africa. Moreover, most of the Scenarios maintain its costs within the potential fiscal space available according to IMF projections.

In light of the above, it appears that on the basis of financial affordability, the government could have the space to foresee a significant expansion of basic social security programs, possibly beyond what is currently being proposed in INAS recent Operational Plan for Basic Social Security.

Nonetheless, the implementation challenges are enormous. With the support of the World Bank, the UN and bilateral partners, the government aims to enhance its management and information system, including a single registry, new payment modalities, and new processes of identification and selection of beneficiaries and monitoring and evaluation mechanisms. It will also seek to reinforce its operational capacity at the district level, and is assessing the possibility of obtaining further donor resources, through the creation of a common fund which is currently being discussed. Should these challenges be overcome, progressively building a Social Protection Floor in Mozambique, adapted to the context and country pace, could be affordable and implemented in a way that does not threaten fiscal sustainability.

## ***Viet Nam***

### The collaboration process

The Viet Nam study was launched to support the implementation planning of the social protection strategy in Viet Nam by using the SPF approach and tools. The exercise began with a rapid assessment mission in January 2011 aiming at starting the national dialogue on the implementation of the social protection strategy in Viet Nam between Vietnamese stakeholders and the UN system. During that mission the ILO met with the IMF representative present in Viet Nam. The ILO also coordinated efforts with the IMF in Washington who shared its most recent data resulting from a mission in February/March 2011. An exchange took place during the workshop in March 2011 in Geneva. The IMF on that occasion provided data on long term projections and comments. A revised version was presented in December 2011 at the Brookings Institute Seminar in Washington. Finally, the study was finalized for publication (planned for May 2012) taken into account the comments from the government as well as the IMF.

### Findings and results of the study

The last decade has seen the development of a fairly extensive set of social protection policies in Viet Nam including a social insurance scheme mandatory for workers, a health insurance system for both formal workers and the poor and vulnerable through various strategies and several social assistance benefits targeting vulnerable groups excluded from

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the labour market. Finally, Viet Nam embedded several social protection interventions within different National Target Programmes (NTPs) targeted to specific vulnerable groups, areas and sectors to provide access to basic social services.

The Ministry of Labour formulated a draft Social Protection Strategy (2011-2020) in order to further develop the national social protection system. The strategy embraces not only social transfers but brings into a consistent and comprehensive framework labour market policies, social insurance policies, health-care policies, social welfare/assistance, poverty reduction programmes and access to public social services.

The ILO, on behalf of the global UN SPF Initiative, assessed the existing social protection system of Viet Nam and designed several alternative scenarios, using the RAP to estimate the costs of closing the SPF gaps. For each scenario, some assumptions were made on the design of the schemes (types and levels of transfers in cash and in kind) in order to be able to estimate the costs.

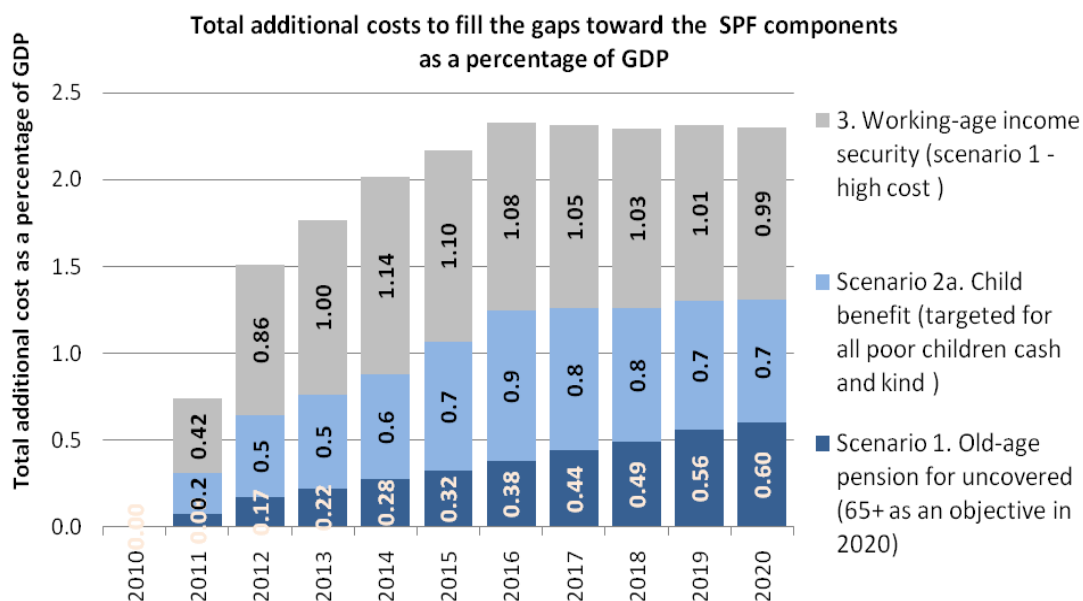
For the elderly, an enhanced social pension was suggested, by increasing the benefit level from the current level, VND270,000 (around US\$13) to the poverty line, VND400,000 (US\$19.4) in rural areas and VND500,000 (US\$24.2) in urban settlements. Furthermore, the age threshold was lowered from 80 to 65 years. Gradual implementation and two different scenarios were assumed: one providing the social pension to people not covered by the formal pension, with a maximum cost of 0.6 per cent of GDP; and another providing 50 per cent of the benefit to those receiving the formal pension as a step to building a universal non-contributory scheme; the latter would cost up to 0.8 per cent of GDP. A social pension would reduce poverty among the elderly population from its current level of 14.5 to 12.2 per cent.

In addition, a package for children under 16 years old, composed of an allowance of between 25 and 50 per cent of the minimum wage, additional education services and one meal per day, was suggested for gradual implementation over five years. The ILO designed two scenarios for poor children: one benefit capped to two children per household, which would cost 0.47 per cent of GDP; and another without any ceiling, with a maximum cost close to 0.87 per cent of GDP by 2016. The former would reduce child poverty from 20.8 to 12.2 per cent, while the latter would cut it drastically to 2.2 per cent. Obviously, the difference is explained by the high number of children in poor households.

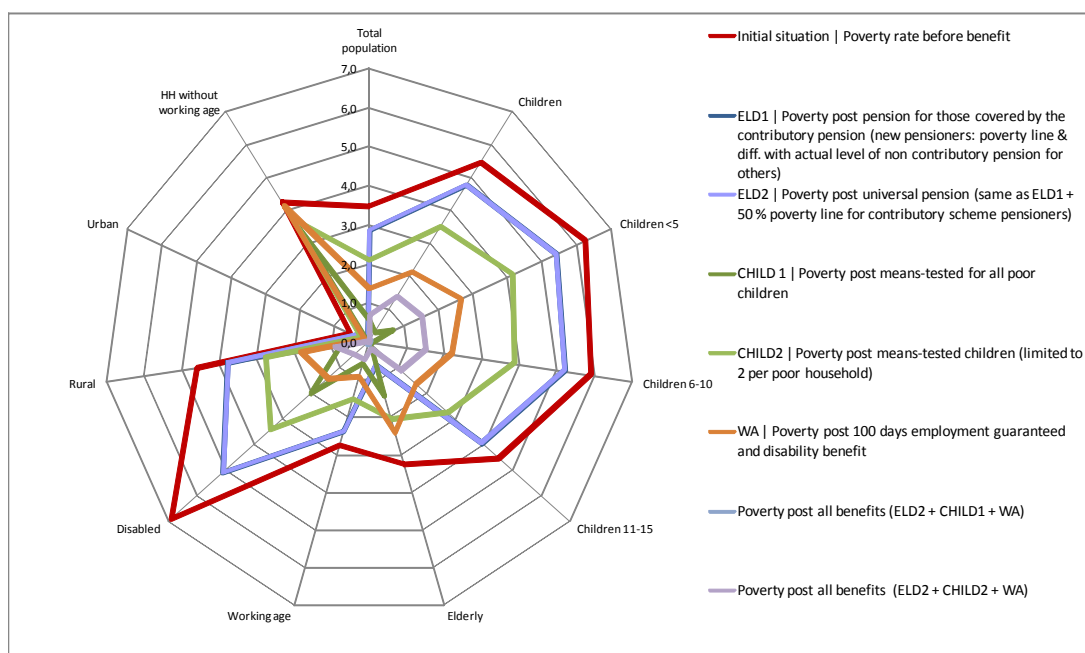
Finally, for the working-age population, the ILO proposed the gradual implementation over four years of an employment guarantee of 100 days, similar to the Mahatma Gandhi National Rural Employment Guarantee Act of India, combined with social assistance for the disabled and training services to facilitate return to employment and the creation of micro-enterprises. This benefit would reduce the working-age population poverty rate from 12.1 to 5.3 per cent and the disabled poverty rate from 25.8 to 9.4 per cent, with a maximum cost of 1.14 per cent of GDP.

With gradual implementation, the cost for all three benefits (pension for the uncovered elderly in the “cheapest version”, targeted child benefits for all poor children, and working-age benefits) would peak around 2016, once fully implemented for the working-age benefit and child benefit and with the retirement age reduced for the uncovered to 72 years old. The total cost of the entire package declines from a peak of around 2.33 in 2016 to 2.3 per cent of GDP in 2020.

**Figure 1. Intermediate scenario. Old-age pension for elderly not covered by contributory scheme, child benefit for all poor children, working-age income security**

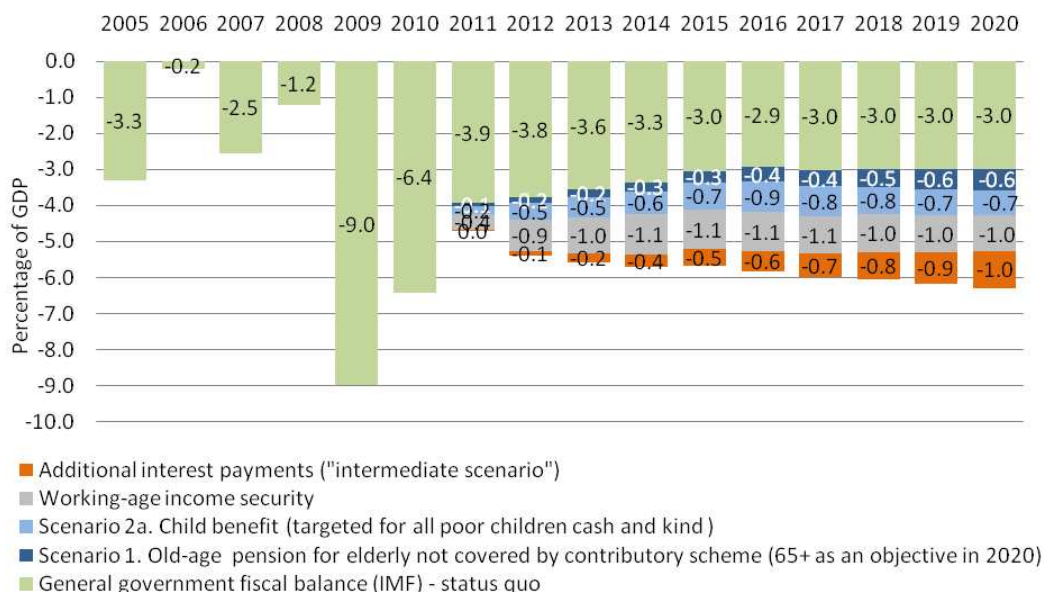


**Figure 2. Simulation of impacts on poverty gaps of the different SPF benefit components**



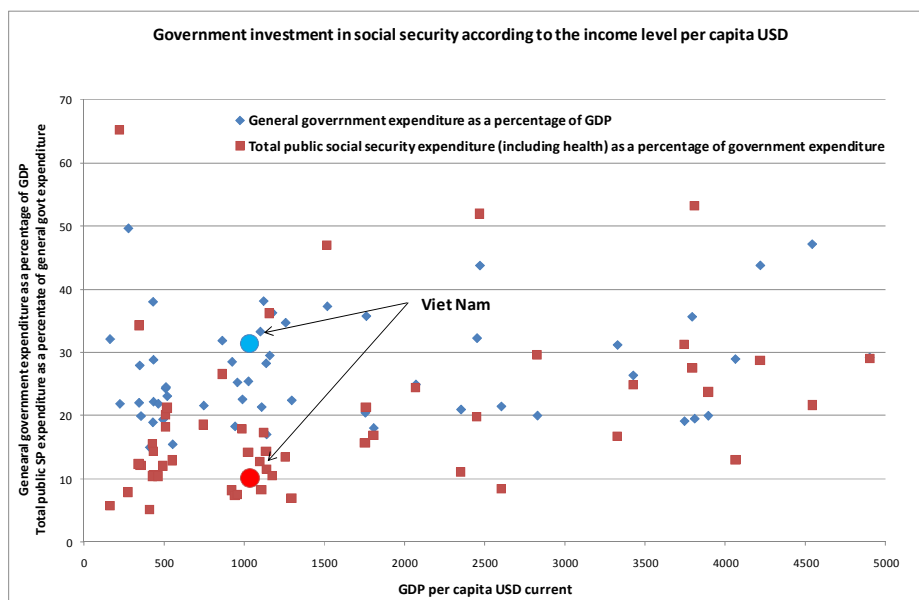
The possibility of adding SPF benefits that will close coverage gaps within the next four years appears unlikely, especially in view of the latest government announcements indicating that Viet Nam might have to go through a longer recovery period than was assumed last spring. However, fiscal space may be opening up around the middle of this decade that would allow a gradual strengthening of various elements of the SPF in addition to the health gaps that are being closed during the first half of the decade. None of the individual measures appear so expensive that they could not be introduced without increasing the annual deficit to more than 3 per cent, provided the level of overall revenue were to be restored to its pre-crisis level.

**Figure 3. The impact of filling the SPF gap on the General Government Deficit – Intermediate scenario**



Some degree of underestimation of revenues also seems to have occurred during recent years, which may indicate further space for the extension of benefits. In addition, the comparatively low share of the government budget that is presently spent on social protection may indicate that some fiscal space could possibly be freed over the years by shifting expenditure away from other uses (see figure 5). At least the low and declining state social expenditure ratio should provide some justification for undertaking an overall budgetary review within the next few years. A combination of increased personal income tax, which is currently very low, by 1.3 per cent of GDP and a 1 per cent increase of the value-added tax rate could already cover the cost of the most SPF modest scenario.

**Figure 4. Viet Nam’s total public and state social expenditure in an international context, 2009**



To sum up, Viet Nam has already introduced substantial elements of its social protection floor and is pursuing determined policies to close the health coverage gap within the next four years. The study estimates that the SPF gap could be gradually closed progressively over the next 10 to 15 years without a major increase of overall revenues compared to pre-crisis levels.



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## ***El Salvador***

### The collaboration process

A preliminary version of a technical note was prepared based on initial RAP calculations, the results of a first mission to El Salvador at the end of February 2011, and data provided by the IMF on El Salvador. Following the ILO-IMF workshop in Geneva in March 2011, the IMF supplied further revenue and expenditure information for the past 10 years, as well as some fiscal projections made at the end of 2010, and in April 2011, the IMF commented on the first version of the technical note. The suggestions covered a wide array of issues and were used to revise the note which was subsequently shared with the Government of El Salvador, as well as the IMF.

The revised third edition of the document, which incorporates the Government's comments, was presented at the Brookings Seminar in December 2011 during which the IMF provided comments. The note is currently being finalized and translated for possible publication as an ESS working paper.

### Findings and results of the study

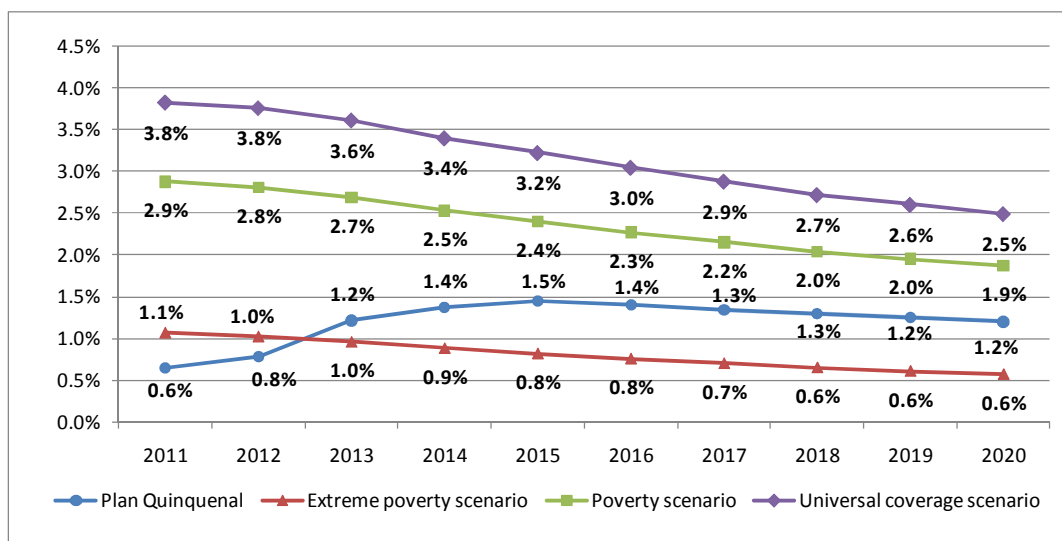
The El Salvador costing study focuses primarily on basic cash transfers and basic health care protection programmes as these are the areas which are part of the social protection floor. The study further offers some comments on the existing tax regimes in El Salvador and ideas to improve the coverage of contributory social security schemes (and thus reduce the cost of non-contributory schemes).

The study estimates the possible costs of three RAP-Scenarios (Extreme Poverty Focus of transfers, Poverty focus, and Universalism) and it simulates the projected costs of a fourth scenario, the current government strategy Plan Quinquenal. The three hypothetical RAP scenarios were designed based on the gaps identified in the current social protection system in El Salvador. In the three RAP scenarios, the SPF package was composed by 1) a targeted cash transfer to families with children, 2) a targeted cash transfer to pregnant women, 3) a non-contributory pension for the elderly, 4) a non-contributory pension for the disabled (which does not exist in the current Government package), 5) the PATI cash transfer (a temporary cash transfer to unemployed persons which includes a work/training component), and 6) the expansion of basic health care benefits. The three RAP scenarios only differ in terms of target population. The first scenario targets the extremely poor population, the second the poor population and the third scenario would ensure universal coverage of unemployment benefits, pensions and health care by covering those not covered by social insurance. The Plan Quinquenal, the fourth scenario, is a 5-year Development Plan (2009-2014) established by the current government which foresees the implementation of a "Universal Social Protection System", focused in particular on the poor and vulnerable.

The three RAP scenarios are hypothetical and are calculated without a phase-in process, contrary to and the current government's Plan Quinquenal strategy which starts at higher expenditure levels than the RAP scenarios. In case of a phase-in, the curves of the three RAP-Scenarios would behave much more like the Plan Quinquenal curve, with an increase during the coverage expansion period.

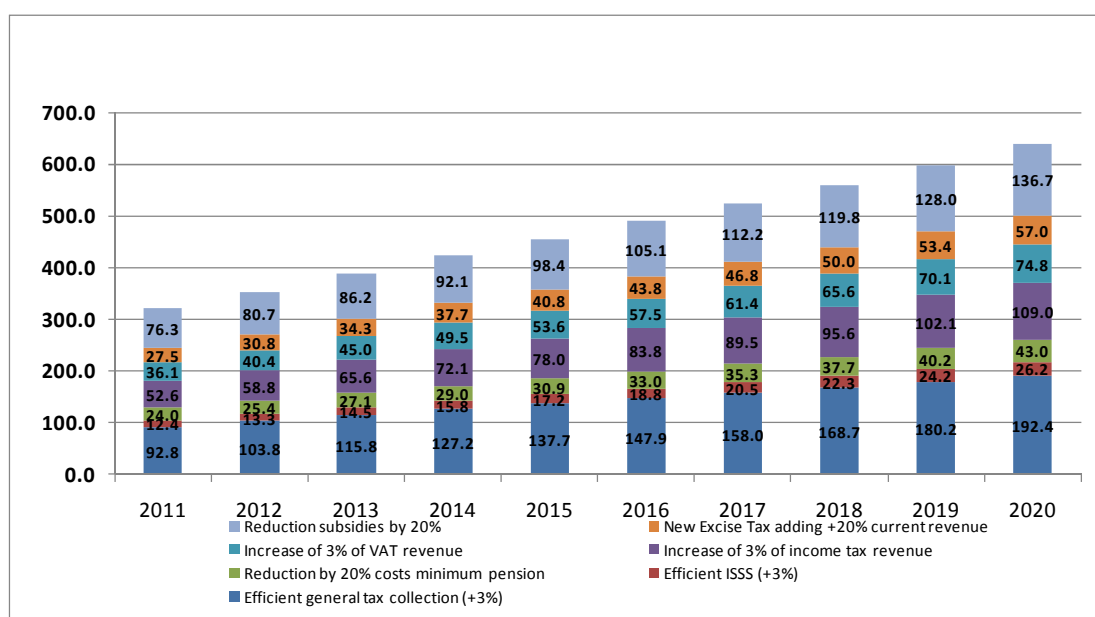
Figure 5 below compares the preliminary cost estimates for the four scenarios.

**Figure 5. Cost estimates and projections for the 4 scenarios in % of GDP, 2011-2020**

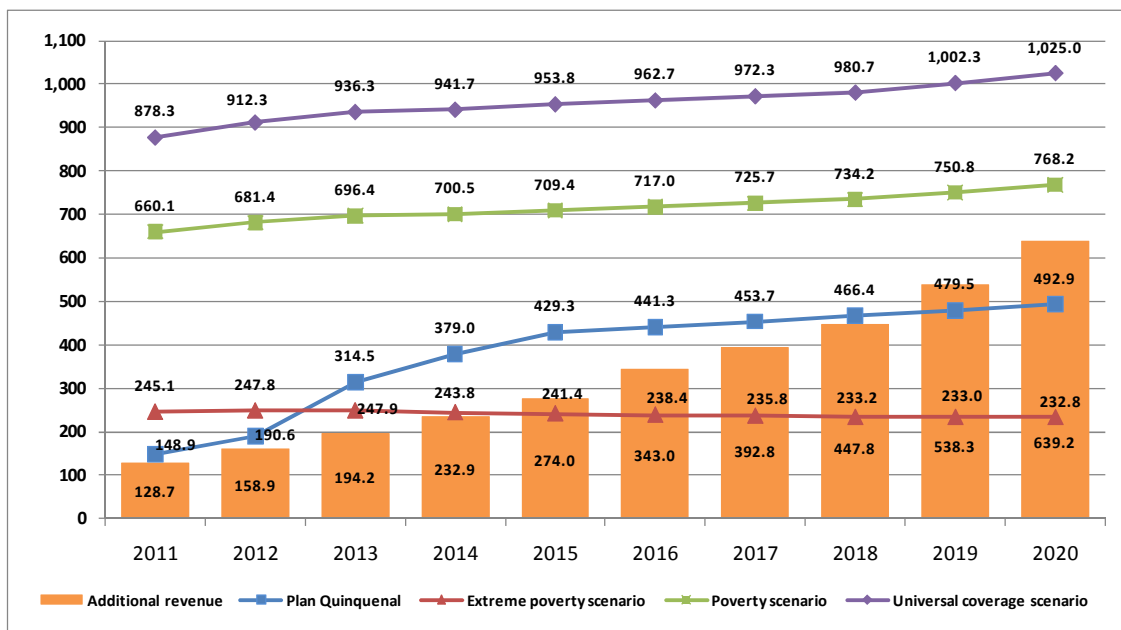


The costs of several scenarios were estimated and two scenarios, the Plan Quinquenal and the Extreme Poverty scenario came out as the most viable of the alternatives analyzed (see figure 6 and 7). A gradual phasing in of these two scenarios would be the most feasible approach, which would also be in line with regional practices and enable significant learning processes.

**Figure 6. Possible funding composition of SPF scenarios (in millions of USD)**



**Figure 7. Gradual phase-in of funding and comparison of SPF scenarios (in millions of USD)**



The study further analyses the reasons why the costs of the minimum pension guarantees in El Salvador are high. It shows that the transition cost triggered by pension privatization is very high and recommends, amongst others, the re-introduction of a public pillar that is actuarially balanced and well managed, which could reduce the transition cost. Other recommendations are made concerning the future role of the ISSS in the provision of floor-level benefits and making use of its experience in cash benefits that could be exploited for a relatively low cost delivery of basic pensions and non-contributory unemployment insurance.



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### 3. Conclusions and lessons learned

The discussion on affordability of the Social Protection Floor has technically advanced beyond the earlier costing exercises conducted by the ILO and others (UNICEF, UNDP, WHO) some years ago. The methodology of the pilot case studies that ILO has conducted in cooperation with the IMF is now more detailed and country-specific.

The pilot country case studies have reinforced the view that social protection floors are possible even in resource-constrained low-income countries by demonstrating that core elements of the package of basic social protection measures can be implemented at a reasonable cost, with the rest to be progressively introduced. The pilots have also illustrated the importance of a country-specific approach – whereas the analysis identified several measures that could be introduced immediately in one country, in another, more work is necessary to identify the required financing; and in the third, more reflection is needed to integrate the social protection floor measures into the authorities' own social protection program.

From a technical and policy perspective, the exchange and discussions on the costs and possible financing sources for SPF benefits is fruitful and should be continued. Moreover, the information provided by the IMF allowed for more in-depth analysis of the availability of fiscal space and the assessment of the long-term fiscal sustainability on the basis of sound macro-economic and public expenditure and revenue scenarios.

A consolidated One-UN or a joint ILO-IMF assessment with regard to the feasibility of national social protection floor policies increases the viability and credibility of country-based policy recommendations. For example in Mozambique, the results of the SPF study conducted were useful both from a technical as well as political perspective in building arguments that the Ministry of Women and Social Affairs (MMAS) used in negotiations with other ministries, including the Prime Minister Office and the Ministry of Finance. The MMAS specifically observed that having a one UN-IMF message supporting their arguments strengthened their position considerably when discussing budget allocations. The result was the decision to increase social protection expenditure by about 40 per cent.

In terms of next steps, the individual case study approach can be extended to other countries, drawing on the results of the first three pilots. The experience of other countries in designing and financing social protection measures in a sustainable manner, including the use of innovative financing mechanisms, will be of particular interest as more countries introduce elements of the social protection floor or seek to extend the coverage of measures already in place.

It will also be important to demonstrate empirically both the feasibility and the impact of social protection floors, especially in low-income contexts – their effectiveness in enhancing individual resilience and their capacity to play a counter-cyclical stabilizing role in the overall economy in times of shocks and crisis; and their contribution to enhancing productive capacity and deepening social equity, among other social objectives, in more normal times. This will help to build awareness acceptance of the role of social protection, both in national development strategies and as part of the arsenal of economic instruments available to deal with exogenous shocks of all sorts, and contribute to building the political consensus needed for implementation. The necessary analytical and empirical work will require refined indicators of progress and effectiveness, as well as strengthened statistical capacity in many countries.



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