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Fiscal Space for Social Protection and the SDGs:

Options to Expand Social Investments in 187 Countries

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Executive Summary

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

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

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

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

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

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

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Identifying fiscal space for the Sustainable Development Goals (SDGs) is increasingly recognized as a priority by UN agencies. This is why this paper is co-published by ILO, UNICEF and UNWOMEN, and translated into several languages.

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1. Introduction: Fiscal space exists in all countries

The argument that spending on social protection is unaffordable is becoming less common in international development forums. Finding fiscal space for critical economic and social investments is necessary for achieving the Sustainable Development Goals (SDGs), for sustained human development of children and women, and for realizing human rights, particularly during downtimes.

This paper presents eight financing alternatives, based on policy positions by the United Nations and international financial institutions, and shows that fiscal space for social protection and the SDGs exists even in the poorest countries. Of the eight options, six increase the overall size of a country's budget: (i) increasing tax revenues; (ii) expanding social security coverage and contributory revenues; (iii) lobbying for increased aid and transfers; (iv) eliminating illicit financial flows; (v) borrowing or restructuring debt, and (vi) adopting a more accommodative macroeconomic framework. The other two options are about redirecting existing resources from one area to another, in this case social protection: (vii) re-allocating public expenditures and; (viii) tapping into fiscal and foreign exchange reserves.

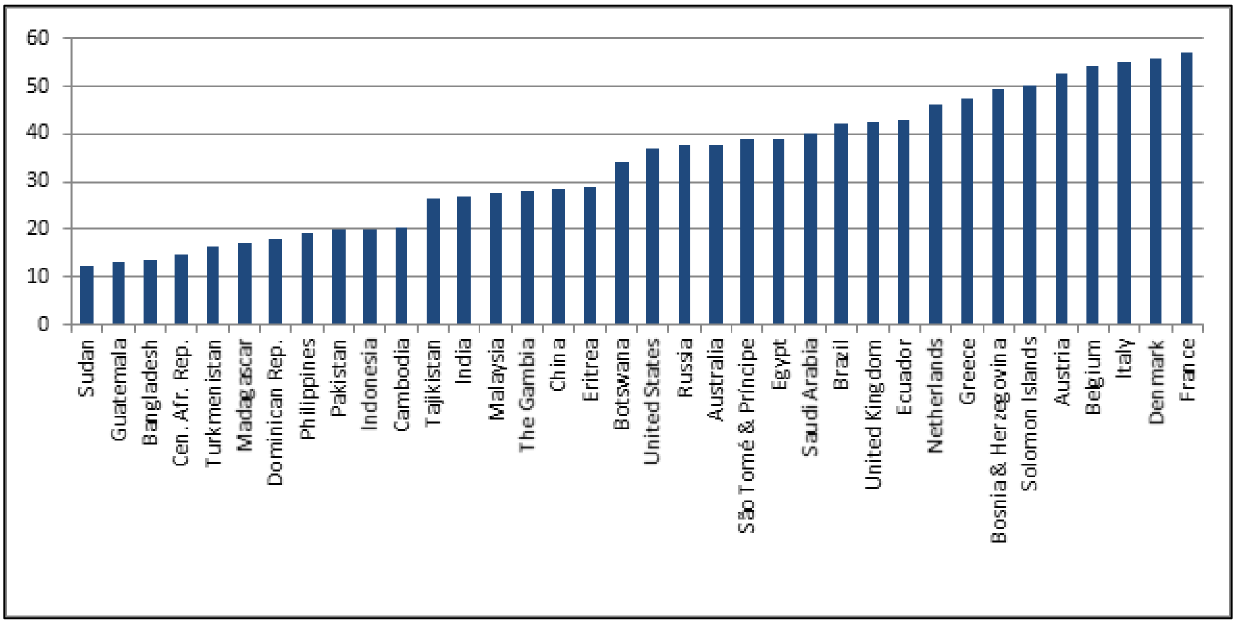
Fiscal space is normally defined as the 'room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy' (Heller, 2005) and "the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization" (Roy et al., 2007).

Today, at a time of fragile global recovery, austerity and slow growth, the need to create fiscal space has never been greater. Even the Managing Director of the International Monetary Fund (IMF), Christine Lagarde, has called repeatedly for the aggressive exploration of all possible measures that could be effective in supporting growth and development, making the best possible use of fiscal space [1]. Given the significance of public investments for human rights and the SDGs, it is indeed imperative that governments aggressively explore all possible alternatives to expand fiscal space to promote national socio-economic development with jobs and social protection.

To start, it is important to understand that government spending and revenue choices vary widely. A fundamental human right principle is that States must utilize all possible resources to realize human rights; however, many countries do not, they keep government revenues and public expenditures at lower levels – it is important to understand that this is a public policy choice. For example, total public expenditure in Sudan was 12 per cent of GDP in 2014 and 13 per cent in Guatemala, compared to 28 per cent in China, 37 per cent in the US, 42 per cent in Brazil, and more than 55 per cent in Denmark and France (figure 1). Some States opt to expend more and others less.

[1] For example, Financial Times, "Don't Let the Fiscal Brakes Stall Global Recovery", 15 August 2011; IMF Press Release "IMF Managing Director Christine Lagarde Calls for Bold, Broad and Accelerated Policy Actions", 27 February 2016.

Figure 1. Total government expenditure in selected countries, 2014 (percentage of GDP)



Source: IMF's World Economic Outlook (October 2014).

As in spending decisions, there is a similar disparity in how governments raise resources for social and economic development. While some governments utilize all possible options, others do not. Indeed, many countries have succeeded in mobilizing significant resources for public investments during downturns. By utilizing all possible options to maximize fiscal space, these countries have achieved a virtuous circle of sustained growth which, in turn, generates further resources; they serve as inspiring examples to others who have been trapped in limited fiscal space, low social spending and weak economic growth.

This working paper is intended to serve as an introductory guide to identify possible financing options to introduce and/or scale up social protection systems and implement the Social Protection Floors Recommendation, 2012 (No. 202), as well as other SDGs that have impacts in the lives of women, children and other social groups. It is not meant to be exhaustive, nor does it attempt to provide a detailed description of the distinct risks and trade-offs that are associated with each of the options. As such, this paper should be viewed as an overview of fiscal space-enhancing opportunities that are to be further explored at the country level.

The structure is straightforward: each section describes one of eight options that are available to governments to generate additional resources for social protection, as summarized below:

i. **Re-allocating public expenditures:** this is the most orthodox option, which includes assessing on-going budget allocations through Public Expenditure Reviews (PERs) and other types of thematic budget analyses, replacing high-cost, low-impact investments with those with larger socio-economic impacts, eliminating spending inefficiencies and/or tackling corruption.

ii. **Increasing tax revenue:** this is a main channel achieved by altering different types of tax rates – e.g. on consumption, corporate profits, financial activities, personal income, property, imports or exports, natural resource extraction, etc. – or by strengthening the efficiency of tax collection methods and overall compliance.

iii. **Expanding social security coverage and contributory revenues:** in existing social security systems, increasing coverage and therefore collection of contributions is a reliable way to finance social protection, freeing fiscal space for other social expenditures; social protection benefits linked to employment-based contributions also encourage formalization of the informal economy.

iv. **Lobbying for aid and transfers:** this requires either engaging with different donor governments or international organizations in order to ramp up North-South or South-South transfers.

v. **Eliminating illicit financial flows:** Given the vast amount of resources that illegally escape developing countries each year, estimated at ten times total aid received, policymakers should crack down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes are illegal and deprive governments of revenues needed for social and economic development.

vi. **Using fiscal and central bank foreign exchange reserves:** this includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in the central bank for domestic and regional development.

vii. **Managing debt – borrowing or restructuring existing debt:** this involves active exploration of domestic and foreign borrowing options at low cost, including concessional, following a careful assessment of debt sustainability. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening deprivations of vulnerable groups is high.

viii. **Adopting a more accommodating macroeconomic framework:** this entails allowing for higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability.

The uniqueness of each country requires that fiscal space options be carefully examined at the national level and alternatives fully explored in a social dialogue. Most countries adopt a mix of fiscal space policies as reflected in table 1. A good starting point for country level analysis may be a summary of the latest fiscal space indicators, which is provided in Annex 1 for 187 countries and offers a general overview of which funding possibilities may or may not be potentially feasible for a given country in the short run (see box 1).

Table 1. Matrix of fiscal space strategies, selected countries

	Bolivia	Botswana	Brazil	Costa Rica	Lesotho	Iceland	Namibia	South Africa	Thailand
Re-allocating public expenditures				X	X	X		X	X
Increasing tax revenues	X	X	X		X	X	X		X
Expanding social security contributions			X	X	X		X	X	X
Reducing debt/debt service	X	X	X	X	X	X		X	X
Curtailing illicit financial flows						X			
Increasing aid							X		
Tapping into fiscal reserves	X	X	X						
More accommodative macroeconomic framework	X		X			X			

Box 1
Identifying fiscal space: How to use Annex 1

Annex 1 provides a snapshot of different fiscal space indicators for 187 countries and can be used to carry out a rapid analysis of resource options that may be available to a particular government. It is important to note that Annex 1 only serves as a starting reference point; it excludes the more systematic undertaking of implementing a new or expanding an existing social security system. It is critical to acquire the latest available figures, as well as projections, for relevant indicators and to perform in-depth analysis and outcome assessments for all possible scenarios. Moreover, such exercises should be carried out in consultation with key stakeholders, including worker and employer representations, as well as development partners.

The data below are extracted from Annex 1 and represent examples of two developing countries from different continents: Guatemala and Pakistan. Examination of their different fiscal space indicators reveals numerous possibilities to boost social and economic investments today.

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Guatemala	13.3	2.4	2.9	0.4	11.2	10.8	10.4	0.6	2.7	13.0	32.0	2.4	-2.1	3.5
Pakistan	19.8	1.0	2.2	3.5	15.1	10.1	...	0.9	0.2	3.1	22.8	3.3	-4.7	8.6
World	**34.7**	**4.1**	**4.6**	**2.0**	**31.9**	**17.2**	**57.2**	**6.3**	**6.8**	**21.1**	**45.5**	**5.1**	**-2.8**	**4.4**

Source: Annex 1 (all figures in percentage of GDP, unless otherwise noted, for 2014 or latest available).

i. In terms of **government spending**, countries can consider reallocating expenditures from areas with limited development returns to social and economic investments that benefit poor households. For instance, military expenditures in Pakistan is 3.5 per cent of then budget, more than all investments in education and health; examination of the budget is required to understand the distributional impacts of current allocations – including identifying higher impact investments – as well as to address spending inefficiencies, with special emphasis on tackling leakages and corruption (see Section 2).

ii. On **tax revenue**, Guatemala and Pakistan rank among the lowest levels of tax intake as a per cent of GDP among the 187 countries with comparable data. The revenue fiscal indicator thus indicates that tax codes and collection methods should be reviewed in both countries, which should also be accompanied by analysis of strengthening other revenue streams and identifying potential new ones. It is generally advisable to rely less on consumer taxes, which tend to be regressive (e.g. VATs), and expand other types of taxation – on corporate profits, financial activities, personal income, wealth, property, tourism, trade, etc.– without jeopardizing employment-generating investments (see Section 3).

iii. Information on **social security contributions** is only available for Guatemala, 10 per cent of total social protection expenditures is raised through contributions, a low level that shows that Guatemala could expand fiscal space though extending social security coverage and collection of social contributions, linked to policies on formalization of informal sector workers (see Section 4).

iv. At less than one per cent of GDP, levels of **official development assistance (ODA)** point to ample scope to lobby for increased aid and transfers in both Guatemala and Pakistan. As a first step, these governments could develop an enhanced aid strategy to operationalize a social protection floor and tailor it to bilateral partners. Both countries could also explore enhancing South-South development cooperation with strategic emerging donors to gain both financial and technical support (e.g. China or United Arab Emirates in the case of Pakistan; Brazil, Mexico or Venezuela in the case of Guatemala) (see Section 5).

v. The estimated size of **illicit financial flows (IFFs)** is significant in Guatemala (2.7 per cent of GDP), more than its total health expenditure. It might therefore be strategic to carry out an in-depth assessment of IFFs to identify changes in policies and public finance practices that could capture these resources and re-direct them toward productive socio-economic investments, including social protection (see Section 6).

vi. In terms of **foreign exchange reserves**, central banks in Guatemala and Pakistan do not appear to be holding excessive levels, and other fiscal space options should be prioritized; limited data inhibits an assessment of fiscal reserves (see Section 7 for an analysis on how reserves can be used to foster socio-economic development).

vii. Regarding **debt**, Guatemala's annual service payments approach 2.4 per cent of GDP and Pakistan's 3.3 percent, which equals and surpasses the total spent on health and strongly suggests that the governments could review strategies to lower payments through debt restructuring (see Section 8).

viii. Although Pakistan appears to have limited scope for increasing its **budget deficit** (nearly five per cent of GDP), levels in Guatemala were relatively tame during 2014 (two per cent), suggesting that there may be room to allow for an increasing degree of deficit spending to support additional investments in social protection (see Section 9).

ix. In terms of **inflation**, Guatemala's 2014 levels amounted to 3.5 per cent, which is far below global norms and demonstrates that there might be some room for expansionary monetary policy. For Pakistan, with inflation nearing 9 per cent, it would be prudent to analyze other options (see Section 9).

In sum, a rapid fiscal space analysis based on macro indicators for Guatemala and Pakistan identifies a variety of areas that can be further examined to generate resources today for greater investments in social protection systems.

2. Reprioritizing public spending

Rethinking sector-specific allocations within existing budgets is one strategy to increase social expenditures. The re-prioritization of public spending is usually a contentious and therefore difficult approach. To be successful, there must be strong political will. Opposition to restructuring comes obviously from the fact that no extra resources are considered available and, therefore, other sectors or subsectors must be reduced in order to allow for increased social investments – these sectors often represent important vested interests in a country. In other words, this approach presumes that the overall budget is fixed and changes of its structure must obey the rules of a zero-sum game, there are winners and losers and the latter resist to budget reallocations.

The literature on public choice and public finance describes how different interest groups within and outside of government compete to influence public policies and budget allocations (e.g. Buchanan and Musgrave, 1999). In cases where labor and social sector ministries are not able to garner support, the result may be reduced allocations for labor-related policies or social investments. Very often, both in developed and developing countries, the debate is manipulated by vested interests and/or ideological posturing – for instance arguing that social expenditures are causing unmanageable deficits while not mentioning military or other non-productive expenditures that are much larger. Various studies have highlighted the risks of pro-poor budget items being the most affected during fiscal consolidation and adjustment processes (e.g. Cornia et al., 1987, Hicks, 1991, ILO, 2014, Ortiz et al., 2015, Ravallion, 2002, 2004 and 2006).

Despite this is a difficult strategy to achieve larger social budgets, there are ways of prioritizing socially-responsive expenditures even when overall budgets are contracting. This re-prioritization requires, first and foremost, that governments have their budget priorities in place. The political and technical challenges of identifying sectors/subsectors that can be reduced to promote fiscal space can be overcome in case of political agreement on the following strategies (see Ortiz, 2008a, Scholz et al., 2000, for further details):

- *Re-prioritizing through Public Expenditure Reviews (PERs) and Social Budgets.* These are well-developed approaches to public financial management that bring evidence and rationality to public policy-making by showing the impacts of current budgetary allocations.

- *Replacing high-cost, low-impact investments.* New public investments can be re-examined; for example, the social impacts of many large infrastructure projects or rescue of banking systems tend to be limited however require large amounts of public resources. Budget items with large recurrent costs but small social impacts should also be re-considered, for example, Costa Rica and Thailand reduced military spending to finance needed social investments (boxes 2 and 3). Currently, many countries are phasing-out energy subsidies, such as in Ghana and Indonesia (box 4), a great opportunity to develop social protection systems. Social dialogue that includes relevant stakeholders and public debates one strategic tool to replace high-cost, low-impact interventions, which can help to minimize the possible influence of powerful lobbying groups on public policy-making.

- *Eliminating inefficiencies.* Although linked to the previous point, deeper analysis of sector investments is required to eliminate inefficiencies. In particular, the overall cost-effectiveness of a specific program or policy should be impartially evaluated according to various factors, including: (i) coverage (beneficiaries and benefits); (ii) total cost (as a percentage of GDP, public expenditure and sector expenditure); (iii) administrative costs (as a percentage of total costs and how the costs compare with other programs – for example, means-testing targeting is typically expensive; (iv) long-term social benefits and positive externalities, and (v) opportunity cost (how this policy/program compares to alternatives). Making sector allocations more efficient also involves strengthening supervision and inspection as well as reducing corruption.

- *Fighting corruption.* Corruption can also be a significant source of fiscal space for socio-economic development, estimated at more than 5 per cent of global GDP (US$ 2.6 trillion); the African Union estimates that 25 per cent of the GDP of African states, amounting to US$148 billion, is lost to corruption every year; yet the problem is pervasive worldwide, including in higher income countries – e.g. the US healthcare programs Medicare and Medicaid estimate that 5 to 10 per cent of their annual budget is lost as a result of corruption (OECD, 2014a). Despite some efforts to return assets stolen by corrupt officials and moved to offshore accounts, only about US $420 million has ever been returned (Grey et al., 2014). Strengthening transparency and good governance practices, as well as fighting illicit financial flows (see later section) can increase the availability of resources for social and economic development [2].

The international financial institutions such as the IMF often advise reducing inefficiencies since it avoids political tensions; however, it must be noted that **expenditure reforms take time to advance** and are unlikely to yield significant, immediate resources. While the re-prioritization of public sector spending may be a good starting point to expand fiscal space, other options should also be examined.

Box 2
Thailand: Reallocating military expenditures for universal social protection

The 1997 Asian financial crisis severely hit the Thai economy and society. With the backing of the 1997 Constitution, civil society calls to address neglected social policies led the government to adopt the Universal Health Care Scheme in 2001. Given that approximately a third of the population was excluded from health coverage at that time, most of which belonged to the informal agricultural sector without regular income, achieving universal coverage through contributory schemes alone was not possible, it needed budget support. Most of the improvements in public health were financed through reduced spending on defense (from around 25 per cent of total expenditures in the 1970s to 15 per cent during the 2000s) and lower debt service payments. The government included the Universal Health Care Scheme as part of a more general fiscal stimulus plan, other measures increased the amount of money in the hands of people with a high propensity to spend, including the creation of a People's Bank, a debt moratorium for farmers and a village fund.

Source: Duran-Valverde and Pacheco (2012).

Box 3
Egypt: Reviewing Budget Priorities at the Economic Justice Unit of the Ministry of Finance

After the Arab Spring, an Economic Justice Unit was created at the Ministry of Finance, led by a Deputy Minister of Finance. The mission of the Economic Justice Unit is equitable fiscal policy. The unit reviews budget priorities, attending to three moral principles (participation, distribution, and redistribution) balanced with the 4 E's (economy, efficiency, effectiveness and equity). One of the main measures after the Arab Spring was the adoption of the minimum wage for government employees, ten per cent of which are considered poor. Tax avoidance is considered a major source of social injustice in Egypt and the Economic Justice Unit supports increasing tax collection while improving public services, so that taxpayers feel a return from the use of these services. Social justice is not considered to be only about helping the poor, but about providing good universal services to everybody, including the middle classes that are very low income in a country like Egypt.

Source: American University in Cairo 2014 and Ministry of Finance of Egypt.

[2] Specific strategies to address corruption are widely documented by international agencies and development partners. See, for example, the *United Nations*, *Transparency International* and the *World Bank*.

Box 4
Indonesia, Ghana: Lessons from using fuel subsidies for social protection systems

Since 2010, reducing subsidies is a common policy considered by 132 governments in 97 developing and 35 high-income countries; predominately they are eliminating subsidies on fuel, but also on electricity, food and agriculture. The reduction of fuel subsidies is often accompanied by the development of a basic safety net as a way to compensate the poor, such as in Ghana and Indonesia. However, when fuel subsidies are withdrawn, food and transport prices increase and can become unaffordable for many households. Higher energy prices also tend to slow down economic activity and thus generate unemployment. The sudden removal of fuel subsidies and consequent increases in prices have sparked protests and violent riots in many countries, such as Cameroon, Chile, India, Indonesia, Kyrgyzstan, Mexico, Mozambique, Nicaragua, Niger, Nigeria, Peru, Sudan and Uganda. There are several important policy implications that must be taken into account:

- *Timing:* While subsidies can be removed overnight, developing social protection programs takes a long time, particularly in countries where institutional capacity is limited. Thus there is a high risk that subsidies will be withdrawn and populations will be left unprotected, making food, energy and transport costs unaffordable for many households.
- *Targeting the poor excludes other vulnerable households:* In most developing countries, middle classes are very low income and vulnerable to price increases, meaning that a policy to remove subsidies allowing only targeted safety nets for the poor may punish the middle classes and low income groups.
- *Allocation of cost-savings.* The large cost savings resulting from reductions in energy subsidies should allow countries to develop comprehensive social protection systems: fuel subsidies are large, but compensatory safety nets tend to be small in scope and cost. For example, in Ghana, the eliminated fuel subsidy would have cost over US$1 billion in 2013, whereas the targeted LEAP programme costs only about US$20 million per year (where did the rest of savings go?).
- *Subsidy reforms are complex and their social impacts need to be properly assessed and discussed within the framework of national dialogue,* so that the net welfare effects are understood and reforms are agreed to before subsidies are scaled back or removed

Concluding, the reduction of energy subsidies is an excellent opportunity to develop social protection systems for all, including floors, and other SDGs. Fuel subsidies are generally large and should allow governments to develop comprehensive universal social protection systems for all citizens, not just the poor.

Source: ILO 2016, Ortiz et al., 2015.

3. Increasing tax revenues

Increasing tax compliance and/or raising tax rates are potential strategies to mobilize additional public resources without necessarily sacrificing other spending priorities. However, new taxes improve government revenues only when well designed and executed[3]. Aside from strengthening a country's overall fiscal position, new tax revenue can potentially support equity objectives, especially in situations of widespread disparities. For example, if income tax rates are increased among the richest groups of a country, additional revenues can be generated and invested in poor and vulnerable households, reducing poverty and inequality, and sustaining inclusive growth in the long run.

Most common taxes include: consumption or sales taxes (e.g. on goods and services or on any operation that creates value; typically applied to everybody), corporate taxes (applied to companies, including in the financial sector), income taxes (e.g. on persons, corporations or other legal entities), inheritance taxes (applied on bequest), property taxes (e.g. applied to private property and wealth), tariffs (e.g. taxes levied on imports or exports) and tolls (e.g. fees charged to persons traveling on roads, bridges, etc.).

In recent history, increasing progressive taxation from the richest income groups to finance social and pro-poor investments has been uncommon. This is largely the result of the wave of liberalization and de-regulation policies that swept across most economies beginning in the early 1990s. These led many countries to offer tax breaks and subsidies to attract foreign capital, as well as to scale back income taxes applied on wealthier groups and businesses to further encourage domestic investment. Moreover, to counter the revenue losses associated with these tax policies, many countries levied different consumption taxes.

The tax policy framework associated with liberalization and de-regulation continues to typify most governments today. Contrary to progressive, equity-based policies, many current tax regimes may be characterized as regressive in that they take a larger percentage of income from poor households than rich households. In particular, a large number of governments rely heavily on value-added taxes (VATs) for revenues, which tend to weigh most heavily on the poor since they spend a higher share of their income on basic goods and services when they are not exempted. In light of this reality, it is imperative that distributional impacts are at the forefront of tax policy discussions – across income groups, regions and other.

Given the urgency to increase fiscal space for equitable development many governments are working on increasing tax revenues. Efforts are being undertaken in developed as well as developing countries in order to close loopholes, develop collection capacities and broaden the tax base, including cracking down on corporate tax evasion, which has been estimated to result in annual revenue losses of US$189 billion for developing countries as a whole (Christian Aid 2008, EURODAD 2014).

The following considers six broad tax categories that governments can adjust to increase revenue streams, which include consumption/sales taxes, income taxes, corporate taxes, natural resource extraction taxes, import/export tariffs and other taxes that use more innovative approaches.

[3] It is important, however, to carefully scrutinize the risks of reforms involving changes to tax rates. Some of the main arguments against raising taxes include the potential of: (i) political risks (higher income or business taxes are unpopular and can reduce the support of influential voters and campaign contributions); (ii) inflation (higher taxes on products are often passed on to consumers); and (iii) increasing poverty (higher sales taxes, such as through VATs, absorb a higher percentage of the income of the poor).

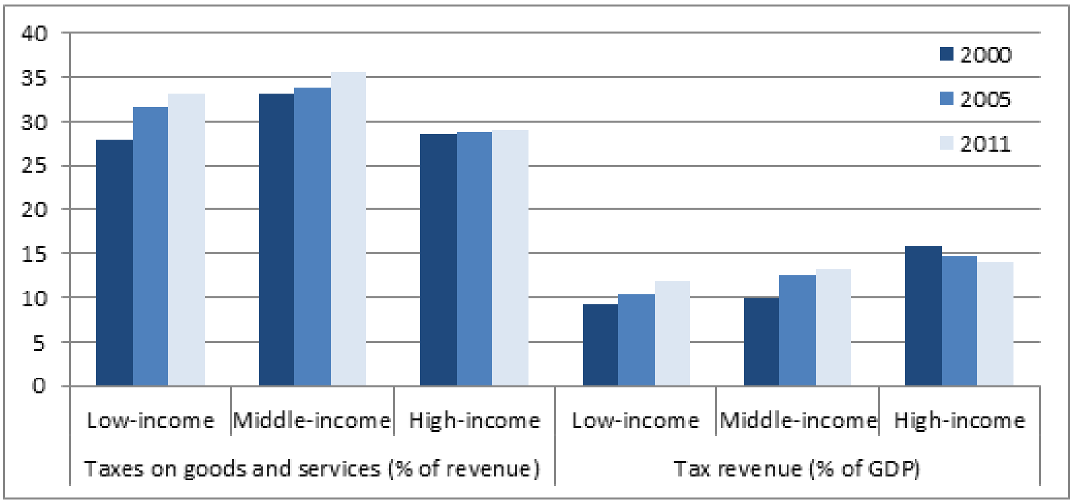
3.1. Consumption/sales taxes

Many developing countries have introduced higher consumption or sales taxes, such as VATs, over the past decade. According to the World Development Indicators, between 2000 and 2011, the overall share of consumer-related taxes increased by five percentage points in low-income countries and by two percentage points in middle-income countries, on average, in terms of total revenue, while this share remained stable in higher income economies (figure 2). Within the cohort of developing countries, it also appears that these new taxes have been a source of a steady increase in overall tax revenues [4]. While there is limited data for developing countries prior to 2000, which likely hides much of the marked increase, available data show that the contribution of new consumption taxes to overall revenue led to increases from around 10 per cent of GDP in 2000 to 13 per cent in 2009 for middle-income countries, on average, with a two per cent increase for low-income countries.

Further, a recent review of IMF policy discussions in 616 country reports shows that 138 governments in 93 developing and 45 high income countries are considering raising VAT or sales taxes (ILO 2014a, Ortiz et al., 2015). If the distributional impact of such a change in tax policy is not properly addressed, there is the risk of worsening income inequality given the disproportionate weight that consumption taxes place on the bottom income quintiles of society. Contrary to progressive taxes, universal taxes on goods, especially on basic food and household items, are regressive since they do not discriminate between high-income and low-income consumers.

Given their negative social impacts, raising VAT or consumption taxes on products that common households consume is not a recommended policy option. Levying or increasing consumption taxes can only be a prudent policy objective and strengthen fiscal space if targeted to the products that the better-off consume disproportionately more. For example, it is possible to exempt necessary basic goods that many low-income families depend on while setting higher rates for luxury goods that are principally consumed by wealthier families (e.g. luxury cars). In this manner, progressively designed consumption taxes can increase public resources and protect the most vulnerable (see Schenk and Oldman, 2001 for discussion).

Figure 2. Taxes on goods/services and overall tax revenue by income groups, 2000-11 *



Source: World Development Indicators (2015).

* Tax revenue refers to transfers to the central government for public purposes and does not include social security contributions; taxes on goods/services include general sales and value added taxes, selective excises on goods, selective taxes on services, and taxes on the use of goods or property, among others.

[4] This may reflect in part strengthened collection of existing taxes, the extent of which cannot be ascertained due to a lack of information.

Another type of consumption tax that can be used to increase fiscal space is excise tax, which is collected on goods such as beer, cigarettes and petroleum whose consumption creates negative externalities (e.g. the cost of the good does not factor in the negative side effects to third parties or society that result from its consumption). The advantage of increasing so-called “sin” taxes is that they may be more politically acceptable, especially if the revenue is directed toward social expenditure, their disadvantage is that by their nature they aim at reducing the underlying consumption. Based on current tax proceeds, WHO (2009a) estimates that a 5-10 per cent increase in the tobacco tax rate could net up to US$1.4 billion per annum in additional revenue in low-income countries and US$5.0 billion in middle-income countries; raising tobacco taxes by 50 per cent could cover nearly half of public health expenditures in a number of developing countries. Given the public health spillovers and revenue potential associated with new or higher “sin” taxes, many governments appear to be considering this option. Countries with high tobacco taxes include Algeria (box 8), Argentina, Bangladesh, Botswana, Brazil, Chile, Costa Rica, Ecuador, India, Indonesia, Madagascar, Mauritius, Nepal, Panama, Uruguay, Swaziland, Thailand, Venezuela and Zimbabwe (WHO, 2015).

3.2. Income taxes

In contrast to taxes on goods and services, income taxation is often progressive – that is, people in higher income brackets pay higher tax rates than those in the bottom. According to the World Development Indicators data, with the exception of countries in East Asia and the Pacific, developing countries have, on average, increased personal and corporate income taxes, as well as those levied on capital gains, since 2001. The rise in various income taxes is likely to have led to enhanced revenue streams for most developing country governments.

However, this progressive trend hides important disparities within income tax policies. In particular, a number of developing countries have reduced income tax rates on the wealthiest groups (table 2). In terms of individual income taxes, 34 of the 149 countries with data (or 22 per cent of the sample) had lowered the tax rates applied to the highest income earners in 2014 when compared to the 2010-13 period. Of the 146 countries that offer corporate income tax data, four had reduced the tax rate applied to the top income bracket in 2014 when compared to previous years. For these countries, expanding the income tax base through more efficient collection, especially through eliminating evasion, or by decreasing the income required to qualify for higher tax brackets, could increase available fiscal space over the short term.

Table 2. Developing countries that lowered income tax rates for the top income brackets, 2014

Individual income tax		Corporate income tax
Antigua and Barbuda	Mozambique	Sierra Leone
Ecuador	Netherlands Antilles	Albania
Fiji	New Zealand	Germany
France	Norway	Israel
Gibraltar	Pakistan	
Greece	Panama	
Guatemala	Samoa	
Hungary	Senegal	
Iceland	Sierra Leone	
Isle of Man	Sudan	
Jamaica	Swaziland	
Jordan	Syria	
Latvia	Tanzania	
Lebanon	Thailand	
Malawi	Tunisia	
Malta	United Kingdom	
Mauritius	Yemen	

Source: Authors’ calculations using data from KPMG extracted on 6 February 2015.

* A country is included if its highest marginal tax rate in 2014 was lower than the 2010-13 average rate.

Furthermore, there is an urgent need to introduce increasingly progressive income taxes to counter current trends in inequity. The large income inequalities that characterize most developing countries – especially middle-income countries – are being exacerbated during in recent years due to slow growth and persistently high unemployment, volatile food and fuel prices, and low government spending patterns, all of which have a disproportionate, negative impact on the bottom quintiles (Ortiz and Cummins, 2011:33-36). As a result, income taxes – which, among taxes, are the principal redistribution tool available to policymakers – should be examined on both fiscal space and equity grounds.

3.3. Corporate taxes and taxes to the financial sector

Increasing business taxes is another possible strategy to generate additional fiscal revenues. Developing countries across all regions except Latin America have decreased commercial tax rates between 2005 and 2014. Europe and Central Asia along with Sub-Saharan Africa underwent the largest reductions according to data from the World Bank (World Development Indicators, 2015). East Asia and the Pacific and Middle East and North Africa also lowered commercial tax rates by three per cent and six per cent respectively over the same time period [5].

The logic behind lowering corporate taxes and related license costs and fees was to encourage entrepreneurial risk-taking and generating new economic activity. However, the potential trade-off needs to be carefully balanced, to ensure that the short-term gains from increased business activity do not come at the expense of foregone essential investments for human and economic development. This may be particularly important in those countries that have undergone major reductions – e.g. Belarus, Georgia, Mauritania, Sierra Leone and Timor-Leste, all of which reduced commercial tax rates by more than 25 per cent between 2005 and 2010 – as well as those that have among the world’s lowest commercial tax rates – e.g. Georgia, Kosovo, Lesotho, Macedonia, Vanuatu, Timor-Leste and Zambia, all of which had commercial tax rates under 17 per cent as of 2014 [6].

The former logic is being questioned in many countries following the global financial crisis, particularly related to the financial sector. Different financial sector tax schemes may offer another possible revenue stream for stepped up social investments, provided that their impact on financial sector development is carefully evaluated. Many countries are considering special taxes on the profits and remuneration of financial institutions. For instance, Turkey taxes all receipts of banks and insurance companies, and, in the United Kingdom and France, all bonus payments in excess of €25,000 were taxed by 50 per cent (IMF, 2010a). Another example is a bank debit tax in Brazil, which charged 0.38 per cent on online bill payments and major cash withdrawals; before its discontinuation in 2008, it raised an estimated US$20 billion per year and financed healthcare, poverty alleviation and social assistance programs. And Argentina operates a 0.6 per cent tax on purchases and sales of equity shares and bonds, which, in 2009 accounted for more than ten per cent of overall tax revenue for the central government (Beitler, 2010).

At the international level, it has been estimated that applying a 0.005 per cent single-currency transaction tax on all four major currencies could yield up to US$33.0 billion per year for developing country assistance. And if applied more broadly to cover all financial transactions globally, a 0.01 per cent tax could raise over US$1.0 trillion annually (Leading Group on Innovating Financing for Development, 2010).

[5] Authors’ calculations using World Development Indicators (2015).

[6] Ibid.

Taxing financial sector transactions is a feasible option to fund social protection (box 5). A tax on financial transactions has several advantages. In the first place, it is relatively easy to implement and monitor because it works within supervised banking institutions that use electronic transactions/records. Secondly, it covers everyone, even those who evade payroll contributions. Thirdly, it is a fiscal control instrument that allows cross-checks to be made with information on financial transactions throughout the economy. Fourthly, it is highly progressive and allows resources to be channeled directly from the formal economy to those who need social protection. This is especially important considering that most developing countries have a highly regressive tax structure, which relies primarily on indirect taxes. The introduction of a tax on financial transactions to finance social spending should be considered a viable option to increase fiscal space for social investments.

Box 5
Brazil: A financial transaction tax to finance public health and social protection

The *Contribuição "Provisória" por Movimentação Financeira* (CPMF) tax was levied in Brazil from 1997 to 2007. The contribution took the form of deductions from accounts held by financial institutions. The maximum value of the CPMF quota reached 0.38 per cent of the value of financial transactions. For accounting purposes and because the CPMF was designed mainly to finance social protection expenditure, the mechanism was classified as a "social contribution." During the period in which the tax was applied, 42 per cent of the revenue collected was used for the public unified health system, 21 per cent for social insurance, 21 per cent for *Bolsa Família* and 16 per cent for other social purposes. By 2007, total revenue from CPMF amounted to 1.4 per cent of GDP, enough to cover the total cost of *Bolsa Família* and other non-contributory social protection programs. Although pressures from the financial sector led to its rescinding in 2007, a financial transaction tax was re-instated in 2009 at much higher levels (6 per cent) in order to help curb liquidity in international markets and fast capital inflows/outflows that disrupted Brazil's development. It was repealed once again in 2013, after leaving significant resources to the Brazilian government to implement social policies, a reason driving the ongoing calls from civil society to adopt financial transaction taxes as part of social justice.

Source: Duran-Valverde and Pacheco (2012) and Levinas (2014).

In addition to altering corporate tax rates, governments can also increase fiscal space by taking concerted actions to minimize tax evasion and/or aggressive avoidance of taxes on the part of large companies. Transnational corporations, in particular, commonly shift profits and losses around the world so that they are recorded in different jurisdictions in order to minimize overall tax liabilities. Such practices are difficult to track, but estimates suggest that total lost revenues could amount to US$50 billion per year among developing countries (Cobham, 2005). Proposals have been put forward to increase the transparency of transnational corporations and hold them accountable for their tax obligations, such as reporting profits, losses and taxes paid in each location where the company does business (see section 6 on illicit financial flows for details).

3.4. Natural resource extraction taxes

Developing countries that rely on non-renewable natural resources as a main source of wealth should consider ways of distributing effectively and equitably the mineral rent to the society to support social and economic development initiatives. There are also significant environmental and social externalities associated with natural resources, such as the impacts on local communities, which, if not adequately addressed, serve as a subsidy to extracting companies and further distort the true cost of development.

A government may raise revenues either by directly extracting the natural resources through a state-owned enterprise, joint-ventures or other forms of co-extraction, or by selling off the exploitation rights and taxing the profits, both of which can provide transitory revenues for social investments. Regarding the former, a number of countries have effectively managed their natural resources through public companies, including Botswana (diamonds), Brazil (oil), Indonesia (oil and gas) and Malaysia (forestry, tin, oil and gas) (Chang, 2007). In terms of the latter, ample care must be taken to find the right types of contracts, including licenses, joint venture, production-sharing arrangements, etc. (Radon, 2007) (box 6).

Box 6
Bolivia: Taxing hydrocarbons key for national social development

Natural resources, including gold, tin, petroleum and gas, are the main pillar of Bolivia's wealth and key to the country's national development. As a result of orthodox neoliberal policies in the 1980s, the majority of production was privatized, often through foreign companies. In the process, royalty taxes were cut down to 18 per cent, which led to extremely high profits for producers (82 per cent) and very low returns to the Bolivian population. The widespread dissatisfaction with this situation led to an activist campaign named "Hydrocarbons are No Longer Ours." After violent repression of this movement during the so-called "Gas Wars", President Sánchez de Lozada resigned, a national referendum led to a new regulation on the distribution of hydrocarbon wealth. The previous share of 82 per cent of oil revenues for the producers and 18 per cent for the state was equalized at a 50-50 split (and a reversed 82-18 split for the largest gas field). Renegotiation of former contracts led to an increase in oil and gas income for the state from US$558 million in 2004 to US$1.53 billion in 2006. Such significant revenue increases allowed the government to expand/sustain social policies such as *Renta Dignidad* (Dignity Rent), a non-contributory pension to all Bolivians over 60 years old, or the *Bono Juancito Pint*o, a cash transfer for all children in public elementary schools (from first through eighth grade), which offsets the costs of transportation, books and uniforms to increase school attendance.

Source: Duran-Valverde and Pacheco (2012), UNCTAD (2014a) and Vargas (2007).

While Norway's approach of taxing oil profits and storing the revenues in the Petroleum Fund (now called the Government Pension Fund Global) is perhaps the best-known case, developing countries offer several innovative examples of channeling natural resource revenue streams for social development. In Peru, for example, the government recently expanded taxes levied on the mining sector whose proceeds are being invested into health and education programs. The government is aware of the fact that the amount can every year vary substantially, because of mineral prices, operational costs and production levels[7]. Mongolia is financing a universal rights-based child benefit from taxation on copper exports; when copper prices dropped with falling demand in 2009, Mongolia was advised by the international financial institutions to target its universal child benefit, the government refused to do so and it was a correct decision as in 2010/11 copper prices rose again.

Given the volatile nature of primary commodity prices, some governments have created "stabilization funds" based on windfall taxes. Instead of spending all the revenue on social and other development programs, governments have kept savings in years of bonanza for "rainy days" when prices of commodity exports are lower, and hence ensuring that investments in social and economic development remain constant. Chile's Copper Stabilization Fund, Iran's Oil Stabilization Fund and Papua New Guinea's Mineral Resources Stabilization Fund stand as examples. During the recent economic downturn, a number of countries have accessed these "rainy day" funds to finance stimulus measures and increase social protection.

In many countries, however, the private sector takes the lead in exploiting natural resources. In these situations, the state is indirectly included in the rents since it receives a portion via taxes. This can include: (i) production-based taxation (per unit or ad valorem royalties, sales taxes, export and import duties, VAT, payroll tax, stamp duty, etc.); (ii) profit-based taxation (corporate income tax, resource rent taxes, taxes on windfalls, profit tax on dividends, royalty based on profit, etc.); and (iii) environmental taxes to compensate

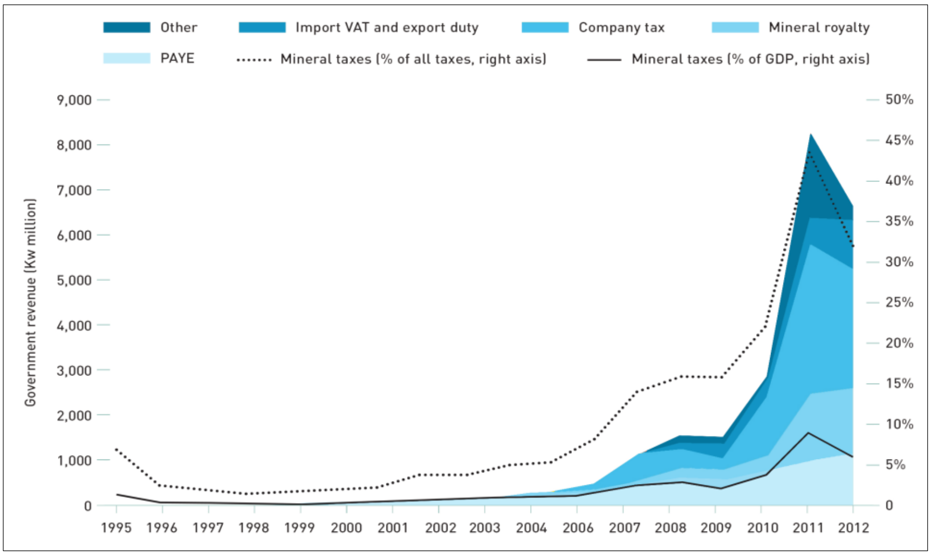
[7] See Peruvian Times, "Peru Organization Says New Mine Tax to Make Important Dent in Social Breaches", 30 August 2011.

for negative environmental externalities caused by the activities of mining companies (e.g. Zambia in box 7).

Box 7
Zambia's revenues from its recent mining fiscal regime

Zambia is another prominent example of a country having raised various taxes on mineral resources and thus significant revenues since 2005, as shown in figure 3. Zambia also introduced institutional reforms, such as the creation of a large taxpayers' office, and it gradually strengthened the revenue collection framework. Government revenues have improved considerably, from less than Kw 1.0 billion per year before 2008 to Kw 6.6 billion in 2012, which is over 30 per cent of total tax collection. Among mining countries (excluding petroleum) world-wide, Zambia's mining receipts are the second highest after Botswana, but higher than revenues of the Chile, Democratic Republic of Congo or Guinea (Chamber of Mines of Zambia, ICMM, 2014).

Figure 3. Fiscal revenues from the mining sector in Zambia



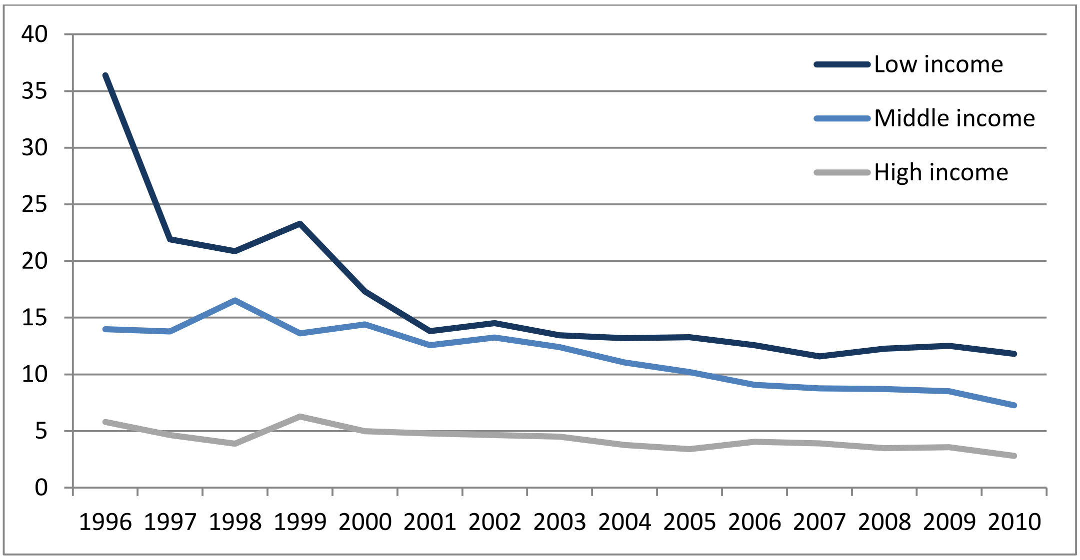
Source: ICMM (2014) based on original data from the Zambia Revenue Authority.

3.5. Import/export tariffs

Tariffs have been a source of development finance for centuries. In the 1950s, import substitution industrialization policies used import tariffs to protect national industry, sometimes combined with tariffs on primary exports, with the goal to reduce foreign dependency, promote domestic markets and national development. These structuralist policies were abandoned in the 1980s with the structural adjustment programs. Current multilateral and bilateral free trade agreements have further limited/reduced tariffs, so this is hardly an option to expand fiscal space.

Indeed, developing countries have steadily reduced tariff rates since the 1990s, implying lowered capacity to generate revenues from trade. The financial implications of this trend are likely greater for low-income countries, which sliced tariffs by more than half from 36 to 12 per cent between 1996 and 2010, on average, compared to a seven per cent average cut in middle-income countries (figure 4). Some countries stood out, with India's average tariff rate falling from 71 to 13 per cent between 1994 and 2009 and Brazil's from 51 to 14 per cent between 1987 and 2009 (WTO, 2010).

Figure 4. **Tariff rates by country income groupings, 1996-2010 *** (in percentage points)



Source: World Development Indicators (2015).

* Values reflect unweighted average of applied rates for all traded products subject to tariffs.

Such declines in tariff revenue is associated with trade liberalization. In theory, the overall gains to free trade were supposed to outweigh the loss of tariff revenues, but, in practice, less developed countries tend to have limited ability to recover foregone revenues, which results in net revenue losses. For example, Baunsgaard and Keen (2005) find that while rich countries have been able to offset reductions in tariff revenues by increasing their domestic tax revenues, this has not occurred in most developing countries. Middle-income countries were found to recover only up to 60 cents of each dollar of tariff revenue lost, and low-income countries recovered no more than 30 cents.

Consequently, in many developing countries there may be a good rationale to examine current tariff levels, at least until domestic tax collection mechanisms are strengthened, to sustain or increase levels of revenue. In countries such as Brazil and India, there may be ample scope to raise tariffs since prevailing levels are far below the WTO-bound tariff rate ceilings agreed to in the 1995 Uruguay Round of trade negotiations (Gregory et al., 2010). Countries like Algeria impose high taxes to pharmaceutical imports if the same medicine is produced by at least three manufacturers in Algeria in quantities satisfying the market demand – a way to sustain jobs and national industry (box 8).

Moreover, for countries undergoing export-driven commodity booms, fiscal space could be enhanced for social investments by introducing or raising export tariffs. In many Latin American countries, for instance, special funds and laws have been created to govern the use of revenue derived from price increases in commodities exports (Gallagher and Porzecanski, 2009). One of the most well-known examples is Venezuela, where an increasingly progressive windfall tax is levied on oil exports to fund social development projects. To highlight the overall potential of commodity export taxes, a 2-5 per cent tax on oil exports from nine largest petroleum-exporting developing countries could generate anywhere from US$10 billion to US$26 billion in additional resources to support economic and social investments in 2016 [8] .

[8] Estimates reflect the 2013 average barrels per day of oil exported from Algeria, Angola, Iran, Iraq, Kazakhstan, Mexico, Nigeria, Russia and Venezuela (combined total of 20.2 million barrels/day) along with the forecasted price oil in 2016 (US$70/barrel of WTI Crude Oil), as reported by the *United States Energy Information Administration*.

The above five broad tax categories (consumption/sales taxes, income taxes, corporate taxes, natural resource extraction taxes and import/export tariffs) can be introduced/adjusted increase government revenues. The optimal mix changes country to country: the advantages and disadvantages of each tax must be well understood (UNCTAD, 2014a-b and Commonwealth Secretariat, 2009) as well as the social impacts on different household groups assessed.

Box 8
Algeria: Taxes on tobacco, alcohol and on pharmaceutical imports to achieve universal social protection

Algeria has achieved near universal social protection coverage, financed mostly through social security contributions. Social security contributions are 35 per cent of salaries; all employers must remit the workers' contribution withheld at source at the rate of 9 per cent, together with the employers' contribution at the rate of 26 per cent. Social security contributions fund pensions, family allowances, maternity, unemployment, work injury and health care for the majority of Algerians. However, additional funding is needed for social assistance and schemes to cover the informal sector. A way to supplement funding by the Algerian Government is through taxes on tobacco, alcohol and pharmaceutical imports.

- *Taxes on Pharmaceutical Imports*: On 30 November 2008, Algeria introduced measures restricting imports of drugs in order to protect jobs in the local pharmaceutical industry and increase tax revenues. A foreign-manufactured medicine cannot be imported if the same medicine is produced by at least three manufacturers in Algeria in quantities satisfying the market demand. A new order of 8 May 2011 provides a list of 257 imported medicine that are taxed upon entry because they are produced in sufficient quantities by national and foreign pharmaceutical companies in Algeria – a way to sustain jobs and national industry.
- *Taxes on Cigarettes and Alcohol*: According to WHO, taxation on cigarettes was 50 per cent of the price in 2014; in subsequent years, the Ministry of Finance introduced new legislation placing additional taxes on alcohol and all tobacco products, a way to raising funds as well as fighting unhealthy practices, such as drinking and smoking.

Source: Government of Algeria, WHO 2015.

3.6. Other taxes

A miscellaneous set of other taxes is presented in this section. Some are very important sources of income in the majority of world countries, such as property taxes; others are new alternative sources of development finance. Most of these involve taxing luxury activities or those that have negative social or environmental externalities (Atkinson, 2004).

- *Property and inheritance taxes:* Higher real estate and inheritance taxes are a form of progressive levies that require large landowners and wealthier generations to contribute more to government revenues. There are many advantages to such taxes, including fairness and evasion difficulties. In many developing countries, higher property taxes could transform into a robust source of funding for local governments. For example, a 2.5 per cent property tax in Thailand has been estimated to be able to finance all local government spending (Hall, 2010:41). According to the latest IMF country reports, many countries appear to be considering introducing or increasing property or real estate taxes in the current policy environment, including Costa Rica, Kosovo, Russia and St. Lucia. Land taxes are another example, which are a broader form of property tax applied to all land, not just buildings. Campaigns for land taxes have surfaced in many developing countries recently. In Latvia, for instance, a group of economists and other activists argued for the introduction of a land tax as an alternative to deep public spending cuts (Strazds, 2010), and there are similar discussions in parts of Southern Africa.

- *Airline and hotel taxes, taxes on tourism:* Many developing countries have recently increased taxes charged at airports or on the sale of airline tickets. As demonstrated in recent IMF country reports, this has been most commonly observed in small island states, like Antigua and Barbuda and the Maldives, as well as in emerging tourist destinations, such as Dubai, Ghana and Liberia – the latter which increased taxes on airlines and hotels by 3.0 per cent in fiscal year 2012 [9] . A number of countries have implemented an air ticket solidarity levy that is charged to all passengers taking off from their national airports. In France, for example, this raised €160 million for additional development assistance in 2009 (Leading Group on Innovating Financing for Development, 2010).

- *International transportation taxes:* Taxing fuel emissions for cargo transports could raise between US$2.0-19.0 billion a year in maritime receipts and US$1.0-6.0 billion a year in aviation receipts (Institute for Policy Studies, 2011).

- *Linking taxes to social programs:* Another strategy to enhance fiscal space for economic and social development is to tie the revenues raised from new or existing tax measures to the financing of specific social programs, which can help to secure resources and make them less volatile, as well as ensure wider public support. For example, Ghana has also introduced links between taxes and public services: 2.5 per cent of the VAT is reserved for education, another 2.5 per cent of the VAT is allocated for social health insurance, and 20 per cent of a communication service tax is directed to a national youth employment scheme (Hall, 2010:40-41).

- *Remittance taxes:* Some countries have introduced taxes on remittance inflows to support economic and social development. Such tax schemes vary widely. For instance, remittances were subjected to a 0.004 and 0.1 per cent tax rate in Colombia and Peru, respectively; a 12 per cent VAT was applied to remittances in Ecuador; Georgia and Poland imposed income tax rates on remittance inflows; and, in the Philippines, banks deducted withholding taxes for interest earned on deposited remittances (de Luna Martinez, 2006). However, a wide body of literature suggests that lowering transaction costs and even subsidizing remittances may do more social good than taxing inflows and directing the revenue to specific development uses (see, for instance, Inter-American Dialogue, 2007, Ratha, 2007, Rosser, 2008, Barry and Øverland, 2010). This conclusion is generally attributed to the following factors: (i) migrants have already paid income and sales tax in the host country on money remitted; (ii) taxes reduce incentives to remit; (iii) taxes lower the value of funds received by poor households; (iv) remittance taxes encourage informal transfers and financial exclusion; (v) countries with overvalued official exchange rates already implicitly tax remittances by requiring recipients to convert at uncompetitive official exchange rates; (vi) remittance tax policies are difficult to administer, and (vii) remittance taxes are regressive. As a result, developing countries should look to other options to create fiscal space before considering remittances taxes.

- *Carbon taxes:* Charging a flat fee for every ton of CO2 emitted could lead to up to US$10.0 billion a year in development financing (Institute for Policy Studies, 2011).

- *Arms trade taxes:* A ten per cent tax on the international arms trade could accrue up to US$5.0 billion annually in new development revenue (WHO, 2009b).

- *National lottery:* National lottery is an old method to fundraise for public projects, in the 15th century, European cities held public lotteries to raise money for defense, urban development and to help the poor. National lotteries fundraise billions of dollars annually, examples include China Welfare lottery, Italy's Lottomatica, Brazil's Caixa Econômica Federal; Ghana's National Lottery Authority; Mexico's Lotería National

[9] See IMF country report *No. 11/174*, July 2011.

para la Asistencia *Pública*; Morocco's *La Marocaine des Jeux*; Spain's ONCE (National Organization of the Blind), to mention a few (box 9).

Box 9
Spain: ONCE Lottery for the social inclusion of the blind and visually impaired

The National Organization of Spanish Blind People (Organización Nacional de Ciegos Españoles, or ONCE) is a charity founded in 1938 to create decent jobs, raise funds for services, ensure the self-reliance and full social integration of people with severe visual impairments. A special Spanish lottery serves as the primary funding source for ONCE's activities. The popular ONCE lottery tickets are sold by persons with disabilities in authorized kiosks in cities and towns throughout Spain, providing major (tax-exempt) cash prizes. In the 1993, the ONCE Corporate Group (CEOSA) was created to maximize profits for persons with disabilities through investments in a wide range of sectors, including service companies, hotels and food companies. ONCE provides 71.000 blind and visually impaired people living in Spain with assistance, decent jobs, financial support, rehabilitation, specialized education and sports activities. Additionally, ONCE has important international programs, and it is most committed to the development and operation of the World Blind Union, representing 285 million blind and partially sighted persons in 190 member countries. Today, ONCE's management model has been copied by many charities across the world.

Source: ONCE.

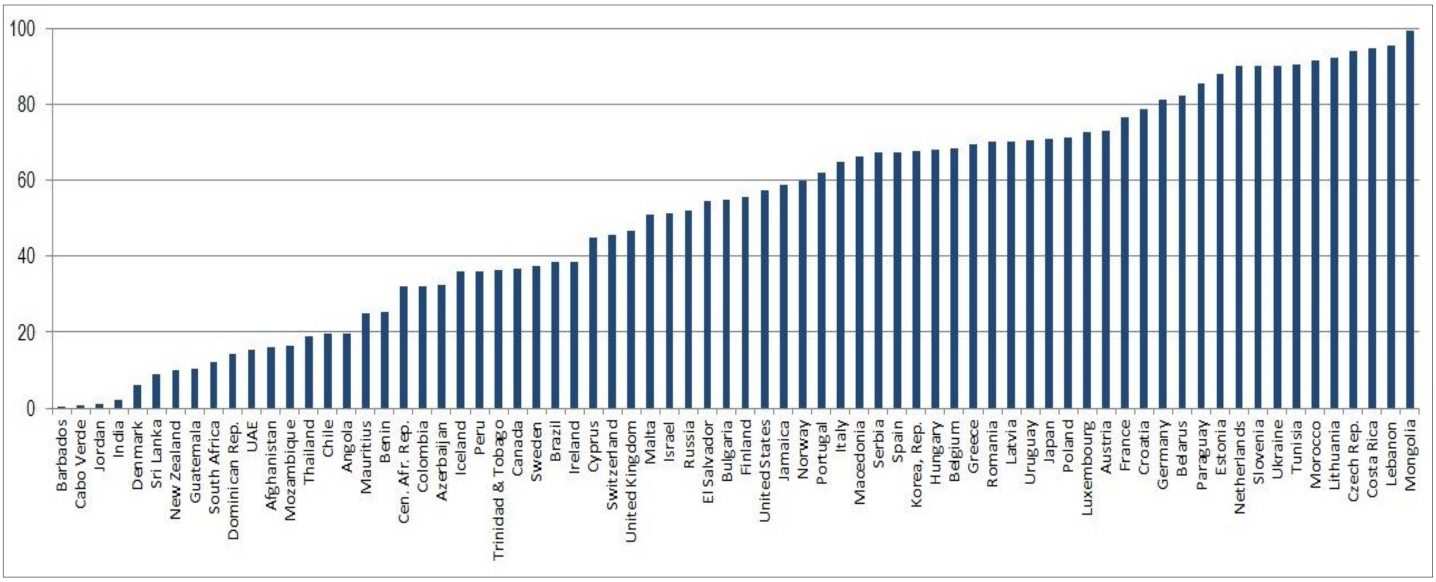
4. Expanding social security coverage and contributory revenues

Social protection has been traditionally financed through employee and employer contributions to social security, such as through health insurance, workers' compensation insurance, unemployment insurance and pensions. These social security contributions are levied mainly on the wages of workers in the formal sector. The first social protection system, introduced in Germany in 1889, relied on such contributions and served as reference for other countries in introducing their own systems.

Financing social protection through social security contributions is predictable and reliable and relieves the burden on government finances, especially in countries with low tax revenues or urgent competing investment needs. Additionally, as workers and their families contribute to social security, they are less prone to fall into poverty in case of illness, unemployment, maternity or when they retire, therefore fewer households will be in need of social assistance.

Nearly all advanced economies have taken advantage of social contributions as a way to create fiscal space. In the developing world, many countries like Argentina, Brazil, China, Costa Rica, Thailand or Tunisia have increased coverage and collection of social security contributions (Duran-Valverde and Pachecho, 2012), often as part of their national development strategies (box 10). As demonstrated in figure 5, the degree that governments finance their social protection systems using employer and employee contributions could be substantial and varies widely. Some countries finance nearly all their social protection expenditures by contributions, which show how important this option is for additional fiscal space.

Figure 5. Ratio of social security contributions to public social protection expenditure
(in per cent of GDP, latest year available)



Source: Authors' calculations using data from World Development Indicators (2015), OECD (2015) and ILO (2014a).

Box 10
Brazil: Increasing coverage and collection of social security contributions

Social investment plays an important role in the national development of Brazil. Social protection (health, social insurance and social assistance programs) is the largest component of social spending in Brazil and has increased considerably since the 2000s. Brazil's gross tax burden also rose from 27 per cent in 1996 to almost 31 per cent in 2006. The remarkable expansion of tax collection, which constitutes nearly half of all fiscal revenue at the state level, is largely due to social insurance payments. The expansion in social contributions is directly associated with the significant extension of coverage of contributory social security (social insurance) during the decade of the 2000s. Between 2000 and 2008, coverage rates jumped from 45 to 55 per cent of the economically active population, an important case of expansion of social security as well as a success in formalizing those in the informal economy.

Source: Duran-Valverde and Pacheco (2012).

In virtually all countries with social security programs, the contribution rate is set at a specific level for all employees and for all employers and is usually stated as a percentage of wage or payroll. Social security contributions are usually collected on gross wages; employers pay at least half, as promulgated by ILO Convention No. 102, supplemented by normally a smaller contribution by employees, automatically deducted from their salary and taxable as part of the wage. Many countries provide a central budget subsidy, especially in the earlier years of operation (Cichon et al., 2004). For reference, Annex 2 presents aggregate employee and employer shares in different countries. Generally, employers contribution is much larger than workers' – as a world average, employer contribute 14 percent and workers 7 percent of covered earnings. Note that employers' social security contributions are a *deferred wage*, workers get this part of their salary when they retire, fall sick, etc.

While the accepted level of contributions is often a result of collective bargaining, the level of contributions is relatively low in some countries. As the level of required financing from social security contributions needs to be set by actuarial valuations that reflect the ageing pattern, the labor market composition and other macro-economic variables for any given country [10], it is crucial to recognize that in most countries the level of revenues from social security should be expected to rise. Raising contribution levels tends to find the objection of employers, who prefer labor cost low to promote investment, and tends to have the support of workers, who have experienced stagnation or decline of their real wages in most countries, resulting in lower consumption and therefore growth (ILO, 2014c). It is important to strike the right balance between wages and social security contributions, to ensure optimal development outcomes.

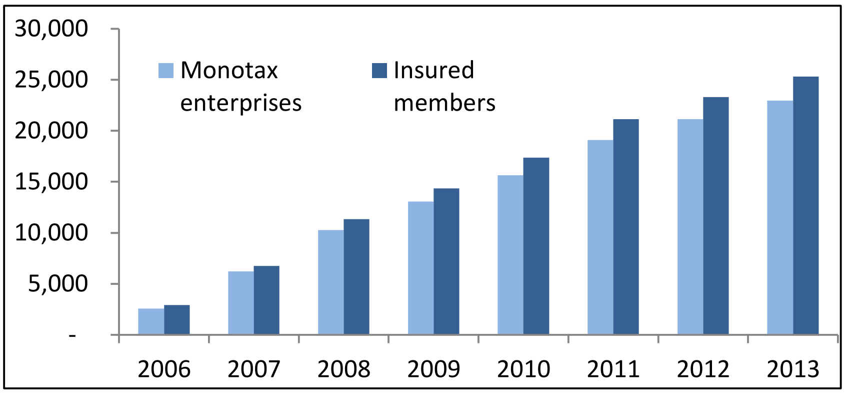
Generating funding through contributions is by its nature associated with the extension of social security. Much of the scope for increasing social security contributions depend on the efforts of social security administrations and labor inspectorates to enforce the legal provisions and ensure compliance of employers and workers to register, on the one hand, and to pay fully their contribution dues, on the other hand. Investments into social security collection mechanisms is important. In countries like Brazil, Costa Rica and Uruguay, social contributions are closely associated with the introduction of innovations to encourage the formalization of the labor market (box 11). The formalization of employment and enterprises goes hand in hand with the extension of social security. This creates a virtuous cycle, as more companies go within formality, the collection of taxes and social contributions simultaneously are increased as well.

[10] For more details on actuarial estimations, see Plamondon et al., 2002.

Box 11
Monotax in Uruguay: Extending social protection to the informal economy

Monotax is a simplified tax collection/payment scheme for small contributors in Uruguay. The micro-entrepreneurs who join the scheme are automatically entitled to the benefits of the contributory social security system (except for unemployment protection). Monotax contributions are collected by the Uruguayan Social Security Institute (BPS), and the share corresponding to tax payments is transferred by the BPS to the fiscal authority. The remaining share is then used by the BPS to finance social security benefits for social insurance members affiliated through the scheme and their families. Monotax has proven to be an effective tool to formalize micro- and small enterprises, as well as to extend social security coverage to independent workers, especially women. Argentina, Brazil and Ecuador are developing schemes similar to Monotax (figure 6).

Figure 6. Number of registered monotax enterprises and insured members



Source: ILO (2014b).

5. Lobbying for aid and transfers

Governments have three main options for increasing net international transfers in order to support national socio-economic investments today: (i) lobby for further North-South aid flows; (ii) lobby for additional South-South transfers and development assistance and, (iii) curtail South-North financial flows, such as illicit financial flows – dealt with in section 7.

5.1. More North-South transfers: Official Development Assistance (ODA)

In principle, ODA is a first option for expanding fiscal space for low-income countries in particular. However, there is significant uncertainty surrounding future aid flows in a climate of fiscal consolidation that is increasingly taken hold of many traditional donor countries since 2010. There is also concern over aid commitments more generally. In particular, current aid levels remain far below the 0.7 per cent of gross national income (GNI) threshold that was first agreed to by wealthy countries in 1970 and which has been repeatedly re-endorsed at the highest levels, most recently at the G8 Gleneagles Summit and the United Nations World Summit in 2005.

The justification for meeting the 0.7 per cent GNI aid target has never been greater. Global inequality is staggering: the top 20 per cent of the global population enjoys more than 70 per cent of total world income, contrasted by two per cent for those in the bottom population quintile (Ortiz and Cummins, 2011) [11]. Given the stark disparities at the global level, ODA serves as the main redistributive channel to ensure equity. However, current international redistributive flows are simply insufficient. As of 2012, net ODA amounted to only three per cent of total GDP in Sub-Saharan Africa and below one per cent of GDP in all other developing regions [12]. Moreover, as an outflow, OECD countries contributed a meager 0.23 per cent of their GDP to developing countries [13]. In short, meeting aid targets is a matter of global justice, and the failure of donors to provide additional development support indicates that globalization continues to benefit a privileged few.

In its current form, foreign aid is characterized by problems of size, transaction costs, limited predictability, macroeconomic impacts ("Dutch disease"), tied aid, lack of policy coherence, fungibility and conditionality (see Ortiz, 2008b for further details). Concentration of ODA is another major problem, which has direct implications for fiscal space. Given limited development resources and increasing bilateralism, donors oftentimes pick their favorite allied developing countries and those in which they perceive to have strategic interests. When measuring average global aid flows between 2008 and 2012, the list of "darlings" includes Afghanistan, Democratic Republic of Congo, Ethiopia, Iraq, Nigeria, Pakistan, Sudan, Tanzania, Vietnam, and West Bank and Gaza (table 3). Overall, 14 countries receive more than 30 per cent of all international assistance. On the other end of the spectrum, many of the neediest countries are virtually left out of aid flows (the "orphans"). Table 3 also shows that 13 of the world's poorest countries received a combined

[11] Estimates are based on PPP constant 2005 international dollars. See Ortiz and Cummins (2011) for further discussion.

[12] Authors' calculations using World Development Indicators (2015).

[13] These estimates differ from those of the OECD due to differences in the base value year of the US dollar as well as those between GDP and GNI – OECD (2011) estimates total net aid outflows to be 0.31 per cent of GNI in 2009.

total of only five per cent of all ODA; indeed, there is a strong case for the so-called "orphans" to lobby for increased North-South assistance.

Table 3. Aid concentration and neglect, 2008-12 (average values)

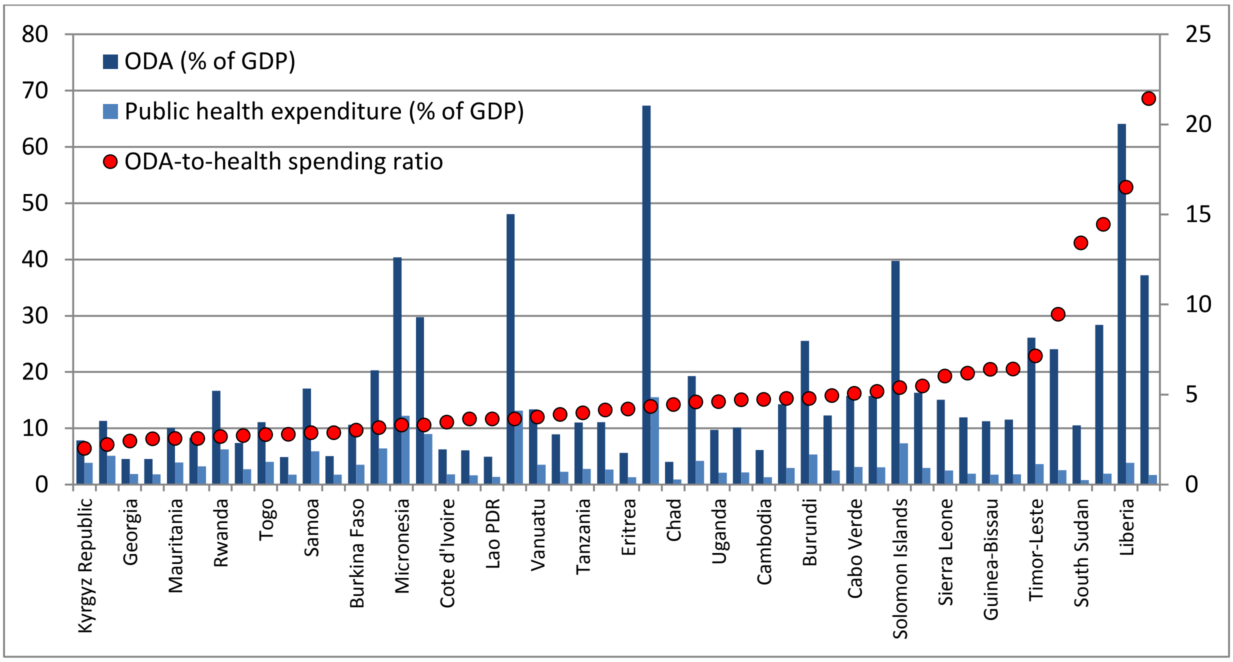
	Country	% of global aid	Aid volume * (billions)	Aid per capita **	GDP per capita **	Infant mortality rate†	Aid as % of GDP	Public health spending as % of GDP
Significant aid flows	Afghanistan	4.7	6.2	218.7	538.1	75.3	41.9	1.8
	Iraq	2.7	3.6	119.8	5.025.6	30.1	2.6	2.5
	Ethiopia	2.7	3.5	40.2	376.6	51.2	10.9	2.2
	Vietnam	2.6	3.4	38.9	1.405.8	20.6	2.8	2.8
	Congo, Dem. Rep.	2.4	3.2	51.0	365.1	92.5	13.9	3.3
	Tanzania	2.0	2.7	60.0	534.3	41.8	11.6	3.1
	Pakistan	2.0	2.6	14.8	1.098.7	73.4	1.4	0.9
	India	1.9	2.5	2.0	1.329.8	46.5	0.2	1.1
	West Bank / Gaza	1.9	2.4	645.0	2.321.0	20.2	29.0	…
	Mozambique	1.5	2.0	84.7	500.0	71.1	17.2	2.9
	Kenya	1.5	2.0	48.0	999.4	52.1	4.8	1.8
	Turkey	1.5	1.9	26.8	1.0081.4	19.6	0.3	4.7
	Sudan	1.4	1.8	51.7	1.443.2	55.0	3.1	2.1
	Nigeria	1.3	1.7	10.8	2.005.5	82.0	0.6	2.0
	Total/average	**30.1**	**2.8**	**100.9**	**2 .001.8**	**52.2**	**10.0**	**2.4**
Limited aid flows	Burundi	0.4	0.6	61.0	219.8	61.1	28.3	4.5
	Malawi	0.7	0.9	62.4	327.6	52.3	19.6	6.3
	Liberia	0.7	0.9	231.3	330.2	60.9	76.8	3.8
	Niger	0.5	0.7	42.2	370.5	66.4	11.4	2.6
	Eritrea	0.1	0.1	24.8	380.6	39.5	7.0	1.5
	Guinea	0.2	0.3	24.0	451.2	71.6	5.3	1.7
	Central African	0.2	0.3	57.8	474.0	102.4	12.2	1.9
	Sierra Leone	0.3	0.4	75.1	485.0	114.5	15.7	2.3
	Rwanda	0.8	1.0	93.1	540.8	44.0	17.4	5.9
	Togo	0.3	0.4	64.1	543.2	60.5	11.9	3.5
	Gambia, The	0.1	0.1	72.9	552.4	51.9	13.3	2.7
	Guinea-Bissau	0.1	0.1	76.6	578.4	84.5	13.4	1.7
	Nepal	0.6	0.8	30.0	590.6	36.4	5.2	2.4
	Total/average	**5.0**	**0.5**	**72.3**	**379.87**	**71.1**	**22.0**	**3.1**

Source: Authors' calculations using World Development Indicators (2015).

* Billions of current US dollars, ** in current US dollars, † per 1,000 live births.

There is also the issue of where bilateral assistance is actually invested. Figure 7 reflects the three-year average values of ODA flows alongside health spending during 2010-12 in a selected group of developing countries, many of which rank among the aid "darlings." The striking feature is that health spending tends to pale in comparison to overall aid volumes, thus suggesting that the social sectors are not a major priority area for foreign assistance in many countries. This is perhaps best illustrated by Afghanistan and Liberia. Although these countries rank among the worst in the world in terms of infant mortality rates and public health expenditures, the average aid that they received during 2010-12 was not utilized for public health, actually, ODA was more than 16 and 21 times, respectively, the size of overall public investments in the health sector.

Figure 7. ODA and health spending in selected developing countries, 2010-12 (average values)



Source: Authors' calculations using World Development Indicators (2015).

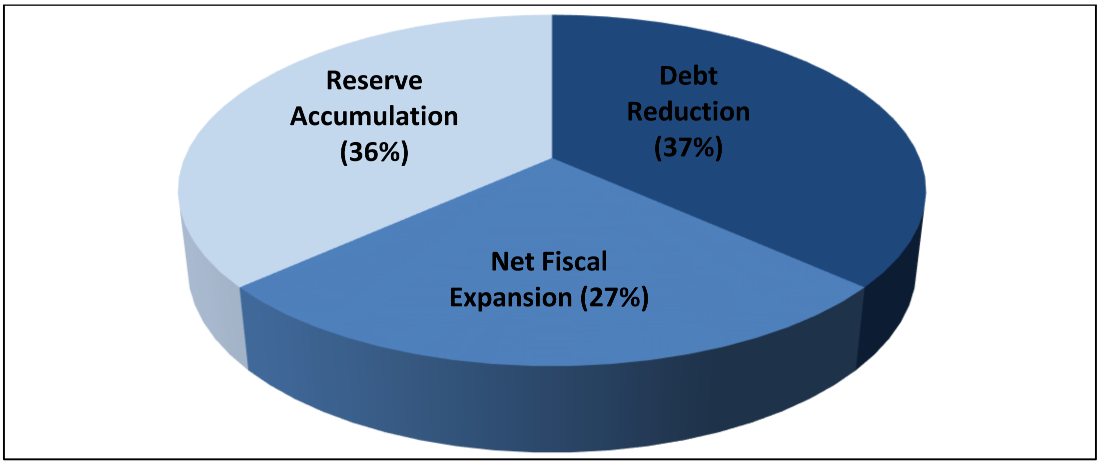
But where is the ODA directed when it actually reaches recipient countries? Following a comprehensive study of aid in Sub-Saharan Africa, the IMF's Independent Evaluation Office found that nearly three-quarters of aid given to poor countries between 1999 and 2005 was used to accumulate reserves and pay off debt rather than invest in much needed economic and social programs (figure 8). Such a strategy implies high human development opportunity costs, as vulnerable groups in Sub-Saharan Africa suffer from food insecurity, poor basic services and nutritional deprivations.

For developing countries not among the "darlings" or "orphans", donor resources tend to move in and out together, causing herd-like behavior (see, for instance, Khamfula et al., 2006, Desai and Kharas, 2010, and Frot and Santiso, 2011). Poverty Reduction Strategy Papers (PRSP) and Country Policy and Institutional Assessments (CPIA) [14], which are performed by international financial institutions (IFIs), function like rating signals for donors – similar to international credit rating agencies for private investors. Sometimes there are good reasons for donor withdrawal, such as when the policy-making process is captured by an interest group that benefits disproportionately from public policies rather than ensuring development for the majority of the population. On other occasions, however, the IFIs base

[14] The CPIAs are the base of the World Bank's International Development Association (IDA) Resource Allocation Index for IDA eligible countries (concessional loans). Countries are ranked against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. Designing a universal rating system for allocating resources is very correct, but criticisms naturally accompany criteria. For instance, macroeconomic criteria measure whether aggregate demand policies are consistent with macroeconomic stability, whether monetary and exchange rate policies ensure price stability, and whether private sector investment is crowded out. In terms of trade, criteria include measuring tariff levels, which need to be less than 12 per cent, on average, and never exceed 20 per cent, as well as evaluating internal tax policies to ensure that they do not discriminate heavily against imports (World Bank 2010a). Many argue that these criteria are based on contractionary policies that, combined with trade liberalization, are obstacles to inclusive growth and job generation in developing countries. Even the Independent Evaluation Group questions whether these criteria lead to growth and has recommended a series of revisions (2010:59-64).

their ratings on compliance with orthodox conditionality (e.g. fiscal and monetary austerity measures), which do not always allow for policy flexibility.

Figure 8. Use of ODA in Sub-Saharan Africa, 1999-2005 (in per cent of anticipated aid increase)



Source: IMF (2007:42).

In addition, only about half of traditional donor aid actually reaches developing countries. Data from the OECD shows that just 54 per cent of ODA is country programmable aid (CPA), which could be potentially directed toward development investments (Benn et al., 2010)[15]. Given that some donors deliver more CPA than others, it may be strategic for governments to target those donors with better records in providing higher amounts of CPA.

A final important point on North-South transfers is that ODA needs to be more predictable and longer term, and less discretional and volatile, so that the recipient countries could better plan and invest in future socio-economic development. Budget support according to the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action is a donor initiative which goes in this direction[16].

5.2. South-South transfers

For governments, South-South transfers are a clear avenue to tap into regional and cross-regional resources for social and economic development. South-South transfers are becoming increasingly important and take place through three main channels of cooperation: (i) bilateral aid; (ii) regional integration and, (iii) regional development banks.

As a first major channel of South-South transfers, bilateral aid (non-OECD donors) is led by Brazil, China, India, Kuwait, Saudi Arabia, South Africa, United Arab Emirates and Venezuela (in alphabetical order). Data on South-South transfers are disparate and unreliable, and further difficult to compare in the absence of a universally-agreed definition of ODA. Nevertheless, estimates suggest that total worldwide ODA provided by non-OECD DAC countries has increased significantly in recent years, and represents about 8.4 per cent of total global development cooperation (OECD, 2014). If such estimates are at all indicative of actual flows, South-South aid offers a fast-growing opportunity for developing countries to finance social investments.

[15] The rest is spent on humanitarian aid (11 per cent), in-donor costs (10 per cent), debt relief (10 per cent), and NGOs and local government (3 per cent), with another 12 per cent simply unallocated.

[16] For country analysis on budget support, see for example, Caputo et al. (2011).

Two examples underscore the potential of South-South transfers. Given the magnitude of its investments in developing countries, especially in Sub-Saharan Africa and neighboring East Asian countries, the case of China must be highlighted. The Export-Import Bank of China, in particular, plays a strategic role, lending mostly to large infrastructure projects.

Another case is oil-rich Venezuela, which has funded numerous economic and social investments in neighboring countries, such as under the Petrocaribe Initiative. One of the largest projects, Project Grand National, was launched in 2007 and supports everything from literacy programs, regional universities and radio/TV media with indigenous content to energy generation and distribution.

Box 12
South-South bilateral cooperation in Guinea-Bissau

Traditionally, the main development partners of Guinea-Bissau have been the European Union (EU), European bilateral donors, and multilateral organizations such as the World Bank, the African Development Bank, the United Nations and the Economic Community of West African States (ECOWAS). During 2000-09, among donors that report to the OECD Development Assistance Committee (DAC), the EU (US$294 million), Portugal (US$132 million), the World Bank (US$125 million), Italy (US$78 million) and Spain (US$55 million) provided the most development assistance to Guinea-Bissau.

Not captured in these figures, however, is development assistance from key providers of South-South cooperation, including China, Angola and Brazil. China has realized several large projects in Bissau, including a 20,000-seat stadium, the National Assembly building (US$6 million), a new government office (US$12 million) that will house 12 ministries and a hospital (US$8 million). China has also provided technical assistance to improve rice production. Angola provided a US$12 million (about 1.3 per cent of GDP) grant in February 2011, which the authorities intend to use to finance roads and agriculture projects and to pay previous years' arrears to the private sector. In October 2010, Angola announced that it would open a US$25 million line of credit to support entrepreneurs from both countries who want to invest in Guinea-Bissau. In 2008, Angola provided US$10 million in budget support. Brazil has cooperated with Guinea-Bissau across several sectors. It has provided technical assistance to increase agricultural production; established training centers for the military, the police, teachers, and ex-combatants; and helped build capacity to combat HIV/AIDS. UNDP estimates that Brazil's bilateral assistance to Guinea-Bissau totaled US$6.2 million during 2006-09.

Source: IMF country report No. 11/119, May 2011, pp. 7.

A second channel is regional integration, which is a major form of South-South cooperation. Regional trading strategies can be an effective means of protecting, promoting and reshaping a region's division of labor, trade, production and consumption. Regional integration can also help to redress social asymmetries and raise living standards through regional transfers focused on social-economic investments. The European Union is the best existing example of how regional solidarity may be articulated, but there are increasing experiences in developing countries. In fact, virtually every country in the world belongs to a regional block: the Bolivarian Alliance of the Peoples of the Americas (ALBA), the Association of South East Asian Nations (ASEAN), the African Union (AU), the Andean Community (CAN), the Caribbean Community (CARICOM), the League of Arab States (LAS), the South Asian Association for Regional Cooperation (SAARC) or the Southern Africa Development Community (SADC), to name a few. In terms of fiscal space, regional formations can offer a means of "locking in" finance for the development of member countries, which can be achieved through regional transfers or through regional development banks.

Box 13
ALBA South-South regional transfers in El Salvador

ALBA was created in 2006 to address the "social debt" of Latin America, that is, address the needs of those who have lost out in the process of globalization, and as an alternative to the Free Trade Agreement of the Americas. Through regional transfers and policy support, ALBA promotes a new set of public policies to redress social asymmetries and raise living standards, based on social spending, public investment and policies geared towards employment and the expansion of national markets. An example of how ALBA regional transfers work can be found in El Salvador. In 2014, El Salvador became a member of ALBA. In a few months, the country was receiving $90 million to support rural development (subsidizing seeds and fertilizer, providing soft credit and technical assistance to farmers, building rural infrastructure); $14 million for a low-cost national airline, VECA, connecting San Salvador with other Central American capitals (in 2013, the only low-cost flight was to Florida); $2.7 million for education (3,700 grants for secondary and university education, rebuilding public schools, supporting sports to avoid *mara* delinquency); in late 2014, ALBA Petróleos El Salvador also started supporting subsidies to domestic cooking gas consumption.

Source: ALBA Petróleos El Salvador and media coverage.

In summary, there are ample opportunities for developing countries to increase fiscal space through strategies to increase North-South and South-South transfers, as well as to capture and re-direct illicit funds to support development objectives. Similarly, there is an array of innovative sources of development financing available to donor countries, which means that there are no longer any excuses for falling short on aid commitments.

6. Eliminating illicit financial flows

6.1. Curtailing South-North transfers

The earlier section focused on North-South and South-South transfers. However, a look at the net financial flows between the South and North shows a different picture: debt interest payments, profit remittances and public/private investments in capital markets in developed economies largely offset net financial inflows to developing countries. According to United Nations (2015), net financial flows out of developing economies totaled $970 billion in 2014 (table 4). Most of this goes to the United States, which accounts for two-thirds of global savings, followed by other developed countries like the United Kingdom, Spain and Australia. In sum, poor countries are transferring resources to rich countries, not vice versa[17].

Table 4. Net transfer of financial resources to developing economies, 1998-2010
(in billions of US dollars)

Developing regions	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014**
Africa	-9.9	-20.6	-38.5	-85.0	-102.3	-97.0	-97.7	14.6	-44.9	-44.2	-37.0	-3.7	37.1
Sub-Saharan Africa*	4.9	6.1	5.6	1.2	-6.0	-3.5	1.4	39.3	15.1	8.1	24.9	35.0	38.4
East and South Asia	-152.2	-185.5	-194.7	-293.3	-415.3	-557.6	-535.9	-458.0	-503.6	-455.7	-454.8	-567.9	-622.1
Western Asia	-25.9	-50.1	-70.9	-142.3	-173.3	-132.8	-224.7	-53.6	-125.3	-305.5	-371.3	-311.8	-372.8
Latin America	-35.1	-66.6	-87.2	-111.4	-137.0	-102.9	-67.0	-68.8	-49.6	-60.1	-27.5	6.3	-12.9
All developing economies	-223.1	-322.7	-391.3	-632.1	-827.8	-890.2	-925.3	-565.9	-723.4	-865.5	-890.5	-877.1	-970.7

Source: United Nations (2015).

* Excludes Nigeria and South Africa; ** partly estimated.

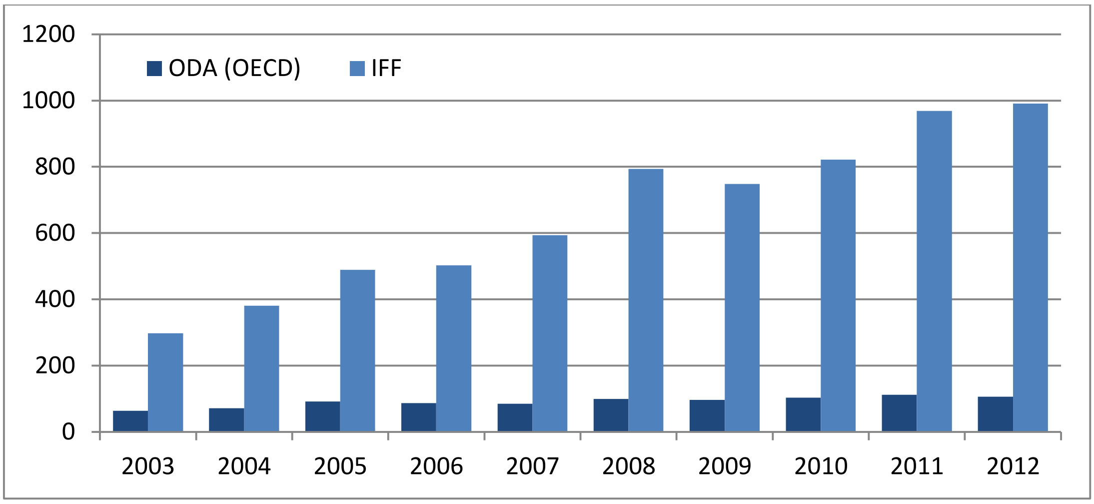
6.2. Fighting illicit financial flows

In addition to legal financial flows, curtailing Illicit Financial Flows (IFFs) could also free up additional resources for critical economic and social investments in many developing countries. IFFs involve capital that is illegally earned, transferred or utilized and include, inter alia, traded goods that are mispriced to avoid higher tariffs, wealth funneled to offshore accounts to evade income taxes and unreported movements of cash. Almost US$1 trillion in IFFs are estimated to have moved out of developing countries in 2012, mostly through trade mispricing. Nearly two-thirds ending up in developed countries (Kar et al., 2010). Overall, the average annual outflow of illicit capital is estimated to surpass ten per cent of GDP in 30 developing countries – a truly staggering amount, especially when compared to health spending (table 5) and more than five per cent of GDP in 61 developing countries. Moreover, as of 2012, IFFs amounted to almost ten times the total aid received by developing

[17] Indeed, some of these flows are private or public savings in developing countries that are chasing safe investment returns in capital markets in developed countries. Nevertheless, global savings are flowing in the wrong direction, and countries need to ensure that more of their savings are directed toward domestic and regional development objectives rather than being exported to rich countries. Reversing the outflow of financial resources may require an overhaul of the financial system to provide greater banking stability and foster confidence in financial institutions.

countries (figure 9). To put this in perspective, the net effect would be that for every one dollar that developing countries receive in ODA, they are giving back about seven dollars to wealthy countries via illicit outflows.

Figure 9. **Illicit Financial Flows (IFFs) versus Official Development Assistance (ODA), 2003-12 ***
(in billions of current US$)



Source: Kar and Spanjers (2014) and World Development Indicators (2015).

* Only includes ODA given by OECD countries.

Table 5. **Exporting illicit capital and health spending in developing countries, latest year available**
(in per cent of GDP)

Country	IFF (2009-12 avg annual value)	Public health spending (2012)	Country	IFF (2009-12 avg annual value)	Public health spending (2012)
1. Togo	60.0	4.4	16. Panama	18.9	5.2
2. Liberia	57.1	4.6	17. Samoa	17.8	6.0
3. Costa Rica	40.3	7.6	18. Guyana	17.7	4.3
4. Djibouti	35.3	5.3	19. Lesotho	17.3	9.1
5. Brunei Darussalam	31.3	2.1	20. Paraguay	17.1	4.3
6. Dominica	30.4	4.2	21. Comoros	15.4	2.5
7. Vanuatu	26.3	3.1	22. Malawi	15.2	7.0
8. Equatorial Guinea	24.1	2.6	23. Zambia	14.9	4.2
9. Bahamas	23.0	3.5	24. St. Vincent	14.6	4.3
10. Trinidad and Tobago	22.1	2.7	25. Suriname	13.1	3.4
11. Nicaragua	21.8	4.5	26. Ethiopia	12.1	1.9
12. Honduras	21.1	4.3	27. Chad	12.0	0.9
13. Solomon Islands	20.7	7.7	28. Armenia	11.5	1.9
14. Malaysia	19.1	2.2	29. Iraq	11.0	1.9
15. Belarus	18.9	3.9	30. Sao Tome	11.0	2.5

Source: Authors' calculations using Kar and Spanjers (2014) and World Development Indicators (2015).

Given the vast amount of resources that illegally escape developing countries each year, policymakers should crack down on IFFs. Tax evasion, money laundering, bribery, trade mispricing and other financial crimes are illegal and deprive governments of revenues needed for social and economic development. To limit IFFs, there are several broad areas that policymakers can focus on, which include:

- *Curtailing trade mispricing*: This can be achieved through strengthening legal institutions and attacking corruption, while, at the same time, empowering regulatory agencies to exercise adequate oversight over the financial system, the customs authorities, multinational and domestic companies, and the collection of direct and indirect taxes. Here, one concrete policy goal is to ensure that customs officials are able to effectively check the declared price of goods being transacted against international benchmark prices.

- *Reducing bribery in public contracts*: To this end, policy measures should focus on enhancing the transparency and accountability of contracting processes according to international best practices.

- *Reducing tax evasion:* At the national level, efforts must aim to widen the tax base and maximize compliance while also reducing indirect taxes; at the international level, consensus is needed to counter tax havens and forge global tax cooperation (see *OECD's Centre for Tax Policy and Administration* and Kar, 2011 for a detailed discussion on policy options) (box 14).

Box 14

Fighting tax evasion – The US Foreign Account Tax Compliance Act (FATCA)

The Foreign Account Tax Compliance Act (FATCA) is a federal law enacted in 2010 that requires all US taxpayers (individuals and companies) to report on their financial accounts held outside of the US and requires all foreign financial institutions/banks to search their records for US persons and report their assets and identities to the US Internal Revenue Service (IRS). An initiative of the Obama Administration in their efforts to promote economic recovery after the financial crisis, FATCA was a game changer. Failure to report results in an initial penalty of $10,000, and up to $50,000 for continued failure following IRS notification. In addition, FATCA requires foreign financial institutions/banks to report information directly to the IRS about financial accounts held by US taxpayers; for this, in early 2015 nearly 60 countries have signed intergovernmental agreements with the United States regarding the implementation of FATCA, including traditional tax heavens like Cayman Islands, Gibraltar, Isle of Man, Liechtenstein, Luxemburg, Malta, Switzerland and Virgin Islands, among other countries.

Source: OECD 2014c, US Internal Revenue Service, US Department of Treasury.

7. Using fiscal and foreign exchange reserves

Fiscal reserves and central bank foreign exchange reserves (also known as international reserves) offer other potential sources of financing for investments in poor households. Fiscal reserves are accrued through government budget surpluses, profits of state-owned companies, privatization receipts or other government net income (the classic example is export revenues from natural resources, such as oil). Foreign exchange reserves, on the other hand, are accumulated through foreign exchange market interventions by central banks within the context of current account surpluses and/or capital inflows. It is important to note the conceptual difference between fiscal reserves and central bank reserves. While fiscal reserves provide additional fiscal resources for the government and can be spent without incurring debt, central bank reserves are financed by issuing bonds or currency and do not constitute "free fiscal assets" since they have counterpart liabilities (i.e. currency or bonds). Regarding the latter, it follows that if a government wishes to "spend" central bank reserves, it must borrow to cover its new liabilities or otherwise create new monetary liabilities (Park, 2007).

7.1. Fiscal reserves

For most developing countries, it is difficult to identify the overall levels of fiscal reserves, largely due to transparency issues as well as differing central bank and government accounting methods. However, given that many governments channel at least a part of their fiscal reserves into special funds, the most popular being sovereign wealth funds (SWFs), we are able to broadly identify certain countries that could potentially access such resources for social and economic development. SWFs are state-owned investment funds, which are established to serve different objectives: stabilization funds, savings/future generations funds, pension reserve funds and strategic reserve funds. They are composed of different financial assets that seek to maximize returns according to the different respective levels of risk. SWFs have existed since the 1950s, but have grown rapidly over the past decade, reaching a record US$5.2 trillion in assets in 2013 (figure 10) [18].

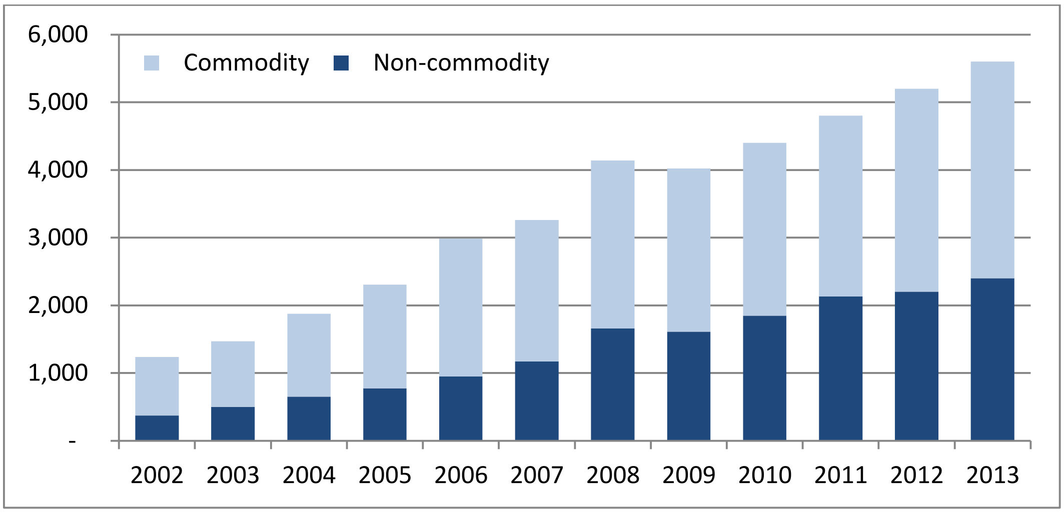
There are two main types of SWFs: commodity and non-commodity. About two-thirds of all assets in SWFs from developing countries are funded by commodities exports (oil, gas, copper, phosphates, etc.), which is why they are oftentimes referred to as oil or natural resource funds. The two largest commodity-based SWFs are Norway's Government Pension Fund Global (US$893 billion) and the Abu Dhabi Investment Authority (US$773 billion) [19]. Non-commodity SWFs, in contrast, can be funded through government budget surpluses, balance of payments surpluses, profits of state-owned companies, official foreign currency operations, the proceeds of privatizations and/or foreign aid. Singapore is home to two of the most well-known non-commodity SWFs (Temasek Holdings and Government of Singapore Investment Corporation) which managed US$497 billion in combined assets as of June 2014 [20].

[18] An additional $7.7 trillion was held in other sovereign investment vehicles (e.g. pension reserve funds and development funds).

[19] According to SWF Institute (2014).

[20] Ibid.

Figure 10. Assets under management by Sovereign Wealth Funds, 2000-13
(in billions of current US$)



Source: TheCityUK (2013).

As evidenced by recent and projected trends in SWFs, 29 developing countries appear well endowed with fiscal reserves. Some of the more notable candidates are identified in table 6 below, with China and Russia topping the list followed by Kazakhstan, Algeria, Libya, Malaysia and Azerbaijan, all of which had more than US$30 billion as of 2014. Importantly, three least developed countries (LDCs) also appear on this list – Kiribati, Mauritania and Timor-Leste.

The logic behind SWFs [21] is to maximize financial returns, normally in international capital markets and to sterilize foreign currency inflows to avoid an appreciation of the national currency. A great deal of attention has been devoted to the fact that SWFs from the South are buying assets, real state, sovereign and corporate debt, private equity, hedge funds and commodity stocks in the North.

[21] An overview of all natural resource funds is provided at: http://www.resourcegovernance.org/natural-resource-funds.

Table 6. Sovereign Wealth Funds based on fiscal reserves, June 2014

Country	Fund name	Assets *	Inception	Origin
China	China Investment Corporation	652.7	2007	Non-Commodity
China	SAFE Investment Company	567.9	1997	Non-Commodity
China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	400.2	1993	Non-Commodity
China	National Social Security Fund	201.6	2000	Non-Commodity
Russia	Reserve Fund	88.9	2008	Oil
Russia	National Welfare Fund	79.9	2008	Oil
Kazakhstan	Samruk-Kazyna JSC	77.5	2008	Non-Commodity
Algeria	Revenue Regulation Fund	77.2	2000	Oil and Gas
Kazakhstan	Kazakhstan National Fund	77.0	2000	Oil
Libya	Libyan Investment Authority	66.0	2006	Oil
Iran	National Development Fund of Iran	62.0	2011	Oil and Gas
Malaysia	Khazanah Nasional	40.5	1993	Non-Commodity
Azerbaijan	State Oil Fund	37.3	1999	Oil
Iraq	Development Fund for Iraq	18.0	2003	Oil
Timor-Leste	**Timor-Leste Petroleum Fund**	**16.6**	**2005**	**Oil and Gas**
Chile	Social and Economic Stabilization Fund	15.2	2007	Copper
Russia	Russian Direct Investment Fund	13.0	2011	Non-Commodity
Peru	Fiscal Stabilization Fund	7.1	1999	Non-Commodity
Chile	Pension Reserve Fund	7.0	2006	Copper
Botswana	Pula Fund	6.9	1994	Diamonds Minerals
Mexico	Oil Revenues Stabilization Fund of Mexico	6.0	2000	Oil
Brazil	Sovereign Fund of Brazil	5.3	2008	Non-Commodity
China	China-Africa Development Fund	5.0	2007	Non-Commodity
Angola	Fundo Soberano de Angola	5.0	2012	Oil
Kazakhstan	National Investment Corporation	2.0	2012	Oil
Nigeria	Nigerian Sovereign Investment Authority	1.4	2012	Oil
Panama	Fondo de Ahorro de Panamá	1.2	2012	Non-Commodity
Senegal	Senegal FONSIS	1.0	2012	Non-Commodity
Palestine	Palestine Investment Fund	0.8	2003	Non-Commodity
Venezuela	FEM	0.8	1998	Oil
Kiribati	**Revenue Equalization Reserve Fund**	**0.6**	**1956**	**Phosphates**
Vietnam	State Capital Investment Corporation	0.5	2006	Non-Commodity
Ghana	Ghana Petroleum Funds	0.5	2011	Oil
Gabon	Gabon Sovereign Wealth Fund	0.4	1998	Oil
Indonesia	Government Investment Unit	0.3	2006	Non-Commodity
Mauritania	**National Fund for Hydrocarbon Reserves**	**0.3**	**2006**	**Oil and Gas**
Mongolia	Fiscal Stability Fund	0.3	2011	Minerals
Equatorial Guinea	Fund for Future Generations	0.1	2002	Oil
Total		**2,543.9**		

Notes: Developing countries only; LDCs are shown in bold.
Source: SWF Institute (2014).
* In billions of current US dollars.

Many have questioned the logic of investing earned public income for capital market growth in order to spend at some future point in time when those resources could be invested in needed social and economic goods and services at home today. Venezuela, for example, has used its fiscal reserves to finance a number of development objectives both domestically and internationally. Domestically, the government has fostered local development since 2001 through the Bank for Economic and Social Development of Venezuela (BANDES), which offers concessional rates to public and social enterprises (such as state-owned and community/family enterprises as well as cooperatives), supporting everything from milk producers to health services. And in neighboring Latin American countries, Venezuela has channeled its fiscal reserves in support of economic and social development through the Petro-Caribe and Petro-Andes Initiatives. Thus, it is also important to understand limitations to SWFs, in particular the capacity issues that underlie a government's ability to spend fiscal reserves today, as evidenced by the case of Timor-Leste (box 15).

Box 15
When resources and poverty abound: The paradox of Timor-Leste

A number of countries are sitting atop abundant natural resource funds, yet social indicators and progress toward development objectives remain dismal. One such case is Timor-Leste. For example, the share of people living in poverty increased from 36 to 50 per cent between 2001 and 2007, levels of underweight children and maternal mortality remain unacceptably high, and it ranks in the bottom 30th per centile of all countries in terms of the human development index (HDI). Yet, at the same time, Timor-Leste has an estimated US$6.3 billion stored in a SWF. If these funds were simply divided up amongst the population, they could, in effect, increase the average Timorese per capita income by more than 11-fold, to US$5,500 per person. So why isn't the government using the available resources to ramp up investments in its people?

Timor-Leste's government faces many development challenges. In addition to rampant poverty and unemployment, infrastructure remains dilapidated following years of conflict, and, despite vast petroleum reserves, it is the most oil dependent country in the world. Perhaps the biggest challenge, however, is the lack of institutional capacity, which makes it difficult for the government to effectively deliver public goods and services, especially to the poorest groups. As a result, present spending levels have stretched administrative capacities and created bottlenecks in the economy. The government has recognized the existing constraints and developed a plan to address budget under-execution and to build administrative capacities; possibilities for procuring external capacities are also being explored for areas that are locally unavailable. With capacity development – especially "investing in investing"– now at the fore of the government's agenda, further tapping into available fiscal reserves could lead to a big return on socio-economic investments in the near future.

Source: World Bank (2010) and Gomes and Hailu (2009) [22].

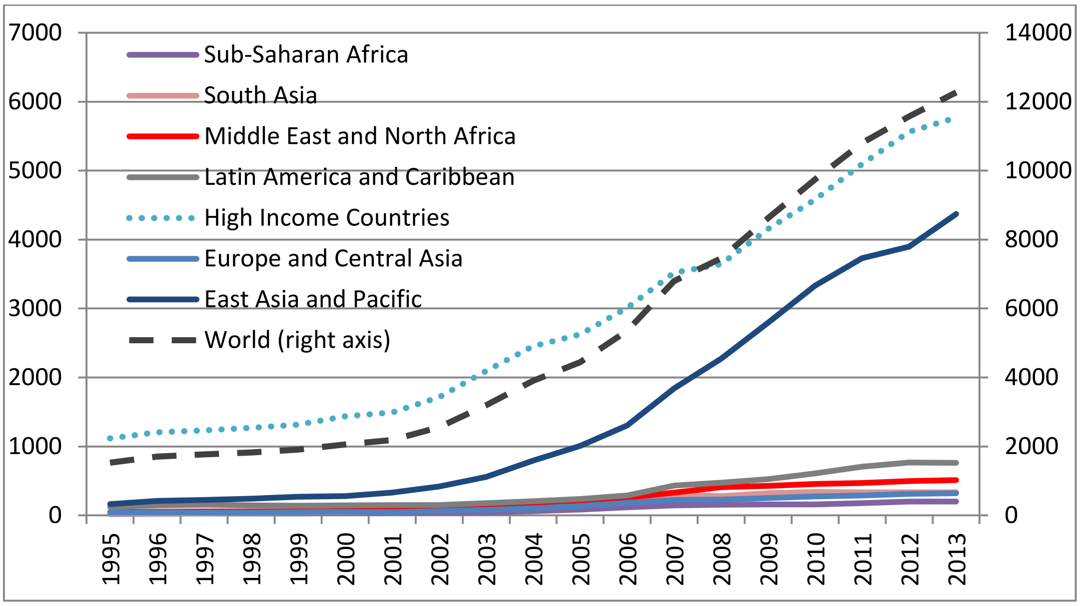
7.2. Central bank foreign exchange reserves

Foreign exchange reserves accumulated at central banks have increased dramatically in many developing countries over the past decade and offer creative possibilities to finance social and economic investments. On a global level, the accumulation of foreign exchange reserves increased more than six-fold between 2000 and 2013, reaching 17 per cent of global GDP as of 2013 [23]. Several developing regions, however, experienced massive growth. For example, total foreign exchange reserves leaped by six-fold in Europe and Central Asia, by 16-fold in East Asia and the Pacific, and by more than eight-fold in South Asia and the Middle East and North Africa, on average, over the same time period (figure 11).

[22] See also IMF country report *No. 11/65*, February 2011 and United Nations News Centre, "Timor-Leste's Economy at 'Turning Point,' Says Top UN Envoy", 7 April 2010.

[23] Authors' calculations based on the World Bank's Global Economic Monitor database (2014).

Figure 11. Foreign exchange reserve accumulation by developing region, 1993-2013
(in billions of current US dollars; excluding gold)



Source: World Bank's Global Economic Monitor database (2014).

The massive accumulation of foreign exchange reserves is largely attributed to two strategies. First, some countries build up large stocks of reserves to self-insure against economic and financial shocks, notably capital flight and/or severe external imbalances (Aykuz, 2014). While this trend is most obvious in emerging market economies, especially in Asia, it is increasingly applicable to a number of low-income countries. In Sub-Saharan Africa, for example, more than one-third of foreign aid received between 1999 and 2005 was used to accumulate reserves (IMF, 2007:42). Second, countries also stockpiled foreign exchange reserves as part of broader efforts to stabilize the macro-economy, especially exchange rates. This is most commonly linked to export-led growth strategies based on exchange rate regimes with de jure or de facto pegs to the US dollar or currency baskets.

The strategy of reserve accumulation as self-insurance has been questioned by many, from the United Nations to the IMF. However, until better international solutions are put in place, some basic indicators point to the need to explore the use of foreign exchange reserves for economic and social development. For instance, according to the most popular gauge – the number of months for which a country could support its current level of imports if all other capital flows were to suddenly stop – 52 developing countries with recent reserves data boasted more than one-and-a-half times the three-month safe level benchmark (i.e. more than 4.5 months) as of 2013. Using another standard indicator – the ratio of short-term debt to foreign exchange reserves – 43 developing countries had short-term debt-to-reserve levels that were under 25 per cent as of 2013, which far exceeds the so-called Greenspan-Guidotti rule of thumb that advises countries to hold enough foreign reserves to cover total short-term external debt obligations. When combining these indicators, 24 developing countries with corresponding data exceed both of the safe level benchmarks (table 7).

Table 7. Foreign exchange reserve adequacy in selected developing countries, 2013 (excluding gold)

Country	Reserves in months of imports	Short-term debt as % of reserves	Country	Reserves in months of imports	Short-term debt as % of reserves
Algeria	42.1	0.7	Cote d'Ivoire	5.5	4.8
Angola	20.1	0.5	Guatemala	4.6	9.8
Azerbaijan	9.5	5.6	Guinea-Bissau	6.0	17.8
Bangladesh	5.2	8.1	Haiti	5.4	0.0
Belize	4.5	1.6	Lebanon	21.3	9.5
Bolivia	18.4	4.9	Lesotho	6.7	0.0
Botswana	14.4	5.8	Niger	6.8	14.1
Brazil	18.6	9.3	Peru	19.1	9.8
Burundi	4.7	9.5	Philippines	16.1	13.5
Cabo Verde	6.8	0.3	Samoa	6.2	0.0
China	22.0	16.1	Sri Lanka	5.5	0.1
Comoros	10.1	0.9	Uganda	7.8	0.8

Source: Authors' calculations using World Development Indicators (2015) and World Bank's Global Economic Monitor database (2015).

So what are developing countries doing with their vast arsenals of foreign exchange reserves? In practice, most governments invest their reserves in Treasury Bills issued by the US government due to their safety (they were considered the least risky investment available) and high liquidity (they have maturity dates as short as four weeks). However, given the extremely low yields that are offered on these investments, there is definitely room for central banks in some developing countries to re-assess their current risk portfolios. It is also important for developing countries to question the logic of investing excess foreign reserves overseas when social and economic investments are needed at home [24].

One strategy to foster local development using surplus foreign exchange reserves is to finance domestic projects. India stands as an innovative example, as it strategically uses a portion of its foreign reserves – without the risk of monetary expansion – to support one of the country's biggest development needs: infrastructure investment (Park, 2007:21-22). To do so, India's government created two subsidiaries that borrow foreign exchange reserves from the central bank. The foreign exchange is then directly on-lent to Indian companies for capital expenditures outside India, used to co-finance the external commercial borrowings of Indian companies, or invested in highly rated collateral securities to enhance the credit ratings of Indian companies that raise funds in international capital markets. The central government plays an important role by guaranteeing the loans from the central bank, which, in turn, is assured a higher return on domestic highways, for instance, than would otherwise be achieved on short-term US government bonds. In addition to more traditional productive sectors, such as infrastructure, India's approach could also be applied to facilitate private sector borrowing for different social investments, such as education and health facilities.

In addition to financing domestic projects, developing countries can also seek to achieve longer-term investment returns on their excess foreign exchange through regional South-South cooperation. Such South-South transfers are often mediated through the setting up of regional development banks. The earliest South-South multilateral banks were founded in the Arab and Islamic world, where institutions were established in the 1970s in a time of high oil prices as vehicles to transfer resources from the oil-rich countries to poorer countries (Ortiz, 2008b). One such example is the Islamic Development Bank, whose objective is to

[24] While central bank reserves are not "free" resources, they could be used as foreign currency liquidity guarantees to lower costs of external borrowing for financing domestic development projects or strategic businesses.

foster the economic development and social progress of Muslim communities in accordance with the principles of Islamic law (shari'ah). In 2006, it announced a major funding operation in support of MDG-related expenditures among its member states. The second-largest regional development bank is the Arab Fund for Economic and Social Development (AFESD), which provides soft lending for Arab League countries, again mostly for infrastructure projects.

There are also many successful cases outside of the Islamic world, such as the Andean Development Corporation (CAF), whose portfolio of $30 billion, mostly in infrastructure, has largely surpassed investments by the World Bank and the Inter-American Development Bank in the South American sub-region. Also in Latin America, countries are collaborating to create alternative regional development banks, such as the Bank of the Bolivarian Alliance for the People of the Americas (ALBA) and the Bank of the South to channel excess foreign exchange reserves to support regional investments. Following this trend, the five BRICS countries, Brazil, Russia, India, China and South Africa, announced at their Sixth Annual Summit in 2014, the launch of a new BRICS Development Bank, with US$50 billion in initial capital to fund mostly infrastructure projects.

In addition, they also launched the US$100 billion Contingent Reserve Arrangement (CRA) to help countries manage balance-of-payment and exchange rate crises through provision of short-term liquidity. This builds on the Chiang Mai Initiative (CMI) started in 2010 in Asia, with the 10 countries of the Association of South-East Asian Nations (ASEAN) plus China, Japan and Korea (10+3) contributing US$120 billion, later increasing to US$240 billion, to serve as a reserve-pooling mechanism to help manage short-term liquidity problems in the region. The Fondo Latinoamericano de Reservas (FLAR) also serves a similar purpose (Griffith-Jones, 2014).

While the investment focus of these multi-lateral South-South initiatives has been on infrastructure development, sustainable long-term strategies for economic growth come from investments in both tangible capital as well as human capital. Therefore, social infrastructure should constitute a key part of investments. In addition, these multi-lateral initiatives, by funding the large unmet infrastructure needs of developing countries and reducing their need for self-insurance through accumulation of excessive foreign exchange reserves, could help to free up national resources for expanding social protection systems.

In sum, fiscal and foreign exchange reserves present creative possibilities for governments to enhance fiscal space for social protection, although a careful assessment of their potential impact on monetary expansion or public debt impact is warranted.

8. Managing debt: Borrowing and debt restructuring

Sound debt management is a key principle of a good macroeconomic policy framework. Studies have shown that high debt distress or even debt crisis could lead to a loss of capital market access, a disruption of financial intermediation and hindering of economic activities. Yet for countries that have some scope for additional borrowing, this offers another source of financing for social and economic investments. For those countries that may have very high levels of sovereign debt, it may also be possible to restructure existing debt either by debt re-negotiation, debt relief/forgiveness, debt swaps/conversion or debt repudiation, especially when the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening social outcomes is high.

8.1. Borrowing

Many developing countries, having strengthened their local financial markets, show potential capacity to engage in further borrowing, both domestically and externally. These may include loans, either from commercial or development banks or funds, or through issuing government securities, such as bonds. Although international commercial bank loans are a least preferred option for governments due to associated fees and higher interest rates, developing countries are increasingly accessing these resources when faced with financing gaps. Tanzania stands as one recent example, as its government borrowed US$1.5 billion from local and foreign banks to boost its 2011 budget and cover a deficit left by an unexpected withdrawal of donor support [25].

Loans from development banks and funds, as well as bilateral loans from donors, may be at commercial or concessional interest rates. If debt is perceived as a strategic option to boost social and economic spending, concessional loans are a much better option than loans with commercial rates since they offer beneficial conditions to developing countries. For example, the World Bank's International Development Association (IDA) lends money to the poorest countries without interest along with long grace periods (usually ten years) and 35- to 40-year repayment periods. Concessional borrowing is generally available from regional development banks (e.g. the African, Asian, Inter-American and Islamic Development Banks), specialized funds (e.g. the OPEC Fund for International Development or the Arab Fund for Economic and Social Development) and from bilateral loans from donor countries.

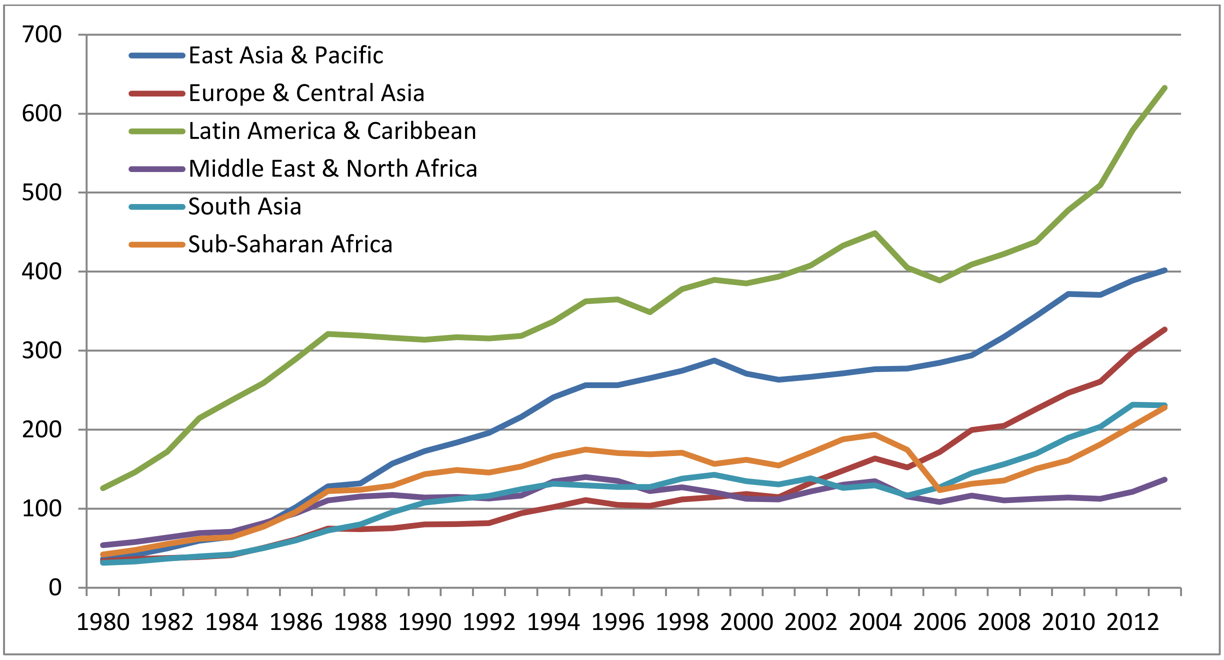
Government bonds are another market-based borrowing option and generally cheaper when compared to regularly priced commercial bank loans. While European governments have been issuing bonds to support public spending since the dawn of modern history, financial liberalization coupled with the rise of creditworthiness among emerging markets has made the issuance of governments bonds increasingly popular since the 1990s. Total public bonds issued annually by developing country governments increased markedly during the 1990s, reaching close to US$1,956 billion in 2013 (figure 12). Latin America is the region that has experienced the largest growth, issuing nearly 60 per cent more debt than the next highest region, East Asia and Pacific as of 2013. Although bonds appear less common in other regions, they are still viable options for many developing countries. For example, Zambia and Ghana each raised US$750 million by issuing a 10-year Eurobond in 2012 and 2013, respectively, the former which received more than US$11 billion of orders demonstrating the strong demand from international capital markets for public debt from developing countries [26]. In addition to bonds at the national level, municipal or sub-national bonds are another alternative for local governments, which are typically issued for specific

[25] See The Citizen, "Tanzania: World Bank Faults Govt's Borrowing Plan", 5 June 2010.

[26] See Reuters, "Zambia has Raised $750 Million in a Debut 10-year Eurobond", 13 September 2012 and Reuters, "Ghana Pays a Premium as it Raises $750 Million in 10-year Eurobond", 25 July 2013.

purposes, such as for developing an urban area or expanding school, water supply or transportation systems (Ortiz, 2008b) (box 16). Recently, a few countries have launched social impacts bonds, an innovative public-private partnership (PPP) (box 17).

Figure 12. Public bonds by developing regions, 1980-2013 * (in billions of current US dollars)



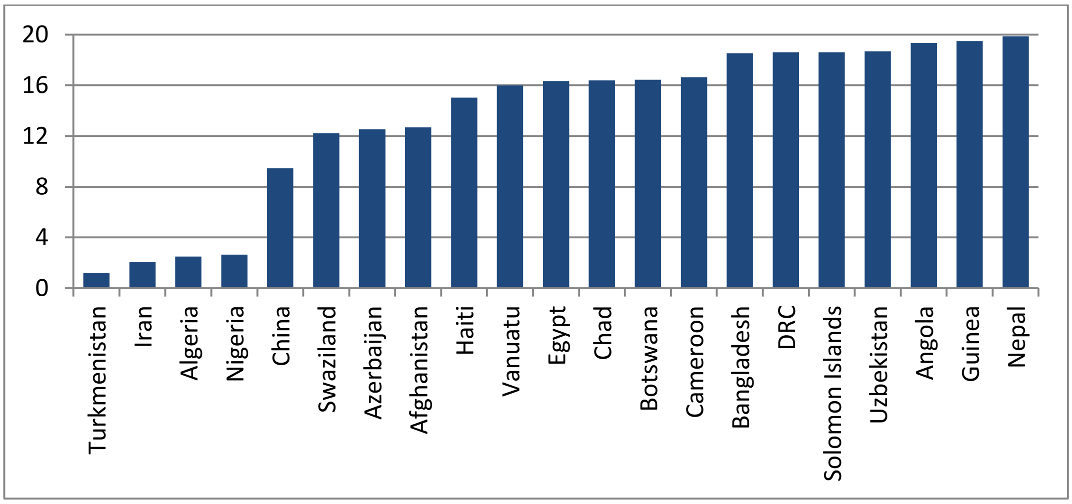
Source: World Development Indicators (2015).

* Includes public and publicly guaranteed debt from bonds that are either publicly issued or privately placed.

How much public debt is unsustainable? The IMF (2010b) uses a 40 per cent long-term debt-to-GDP ratio as the ceiling that developing countries should not exceed in order to ensure fiscal sustainability and macroeconomic stability. Others suggest a higher threshold (e.g. 60 per cent according to Reinhart and Rogoff, 2010). Still, another approach is to view an optimal debt-to-GDP ratio as arbitrary since public debt can be beneficial over the long term if interest payments are less than the annual increase in nominal GDP (see UNCTAD, 2011 Chapter 3).

So which countries might have room to borrow? Applying even the most conservative parameters, a number of developing countries could consider borrowing. Figure 13 lists 21 countries that had total external debts under 20 per cent of GDP through 2013.

Figure 13. Possible borrowing candidates, 2013 (total external debt as a per cent of GDP)



Source: Authors' calculations using World Development Indicators (2015).

However, to determine the feasibility of increasing public debt for a given country, it is important to carry out a comprehensive and dynamic analysis, such as the IMF-World Bank debt sustainability assessments (DSA) framework. DSAs seek to determine, going forward, if a country's overall debt level would be too big to be serviceable under a given set of assumptions, which includes the projected fiscal and GDP growth paths [27]. However, findings of DSAs reflect the underlying assumptions, and depending on how conservative or ambitious the underlying assumptions are, a rather different picture on the level of debt distress may emerge. Another key limitation of DSAs is that GDP growth projections only take into account returns from investments in physical capital (roads, airports, etc.) but not returns from investments in human or social capital (spending on primary/secondary education, health, and social protection), which are vital to sustained growth in the longer run. Thus, while current DSA frameworks can be viewed as a starting point of analysis, they should be enhanced by relaxing certain assumptions and accounting for both social and economic returns.

Box 16
South Africa: Subnational Bonds Finance Basic Urban Infrastructure and Services

Municipal bonds are issued for specific purposes, many of importance for social development. Since the 19th century, Europe and North America started using bonds for local public investments. Issuers could be cities, school districts, fire departments, water supply agencies or publicly owned airports and seaports. These entities issued specific bonds dedicated to urban development or the expansion of school systems, among others. Although municipal bonds do not have a longstanding precedent in developing countries, their use has been generalized in recent years in major countries in Latin America, Eastern Europe, the former Soviet Union and Asia. Cities, municipalities, districts and regions in these areas have issued bonds both in local and international currencies to have more fiscal space. Municipal bonds normally cater to the domestic market, but they may be part of the portfolio of investment funds provided they are rated investment grade ("BBB") by a rating agency as most international investors cannot invest in sub-investment grade rated financial instruments. This could become an important source of finance for social development given the increasing demand for ethical investment funds among investors. Municipal bonds also have limitations. They mobilize private capital to support social policies, but they are not redistributive instruments; they build local and national debt (if central government guarantees), therefore creating fiscal stress that could collapse other necessary investments. Additionally, subnational bonds are difficult to develop in poor municipalities/regions in low-income countries.

South Africa is one example where subnational bonds have generated greater social investments. In the post-apartheid era, local governments are responsible for the provision of basic utilities and basic services for all citizens, requiring large investments in order to upgrade outdated and insufficient municipal infrastructure. During the apartheid regime, municipalities focused on white communities, while black townships and homelands were served by national public entities and by Black Local Authorities. The post-apartheid regime combined the previous Black Local Authorities with White Local Authorities. This process led to major financial distress because it increased the population municipalities served without a significant increase in the tax base. In 2000, the South African government published its "Policy Framework for Municipal Borrowing and Financial Emergencies", which endorsed the use of municipal bonds. Today, municipal bonds are issued by city councils for development projects with tenors typically longer than one year; municipal bond issues are not guaranteed by the central Government. Other African countries are now following suit, with municipal bonds issued in Nigeria in 2012 and Zambia in 2013 to finance urban infrastructure.

Source: Ortiz, 2008b, Platz, 2009, media sources.

[27] The DSA approach includes four steps: (i) a five-year forecast of variables that impact external debt (e.g. the primary account, GDP, interest rates, exchange rates and inflation); (ii) an examination of the evolution of debt as a percentage of GDP over the next five years; (iii) different stress tests to evaluate the impact of adverse shocks on the different forecasted variables in step i, and (iv) evaluation of whether current debt loads are sustainable based on the stress tests.

Box 17
Colombia's *Social Impact Bond*: An innovative public-private-partnership (PPP)

In March 2017, the Department of Social Prosperity of the government of Colombia launched the first Social Impact Bond (SIB) in a developing country. SIBs have existed since 2010, mostly in the UK and the US. SIBs are a kind of debt-based, public-private-partnership (PPP), in which investors put funds upfront into a program and get paid when results are achieved within a pre-determined period of time. The Colombian SIB program's objective is to improve urban employment: it will support skills training and labour services for job placement and retention of 500 poor unemployed persons, 18-40 years old, in the cities of Bogotá, Cali, and Pereira. The investors are a number of Colombian foundations, who pay for the services upfront. The *Fundación Corona* serves acts as an intermediary and manages the contracts with several service providers. In the first year of the SIB, the Department of Social Prosperity will repay investors for the successful job placement and retention of beneficiaries for at least three months; in the second and third year. Repayments will come from the Swiss Secretariat for Economic Affairs (SECO) and the Inter-American Development Bank (IDB). The outcome funds total US$765,000, and the maximum return is 8 per cent (nominal). The consulting firm Deloitte will provide independent verification of the outcomes achieved.

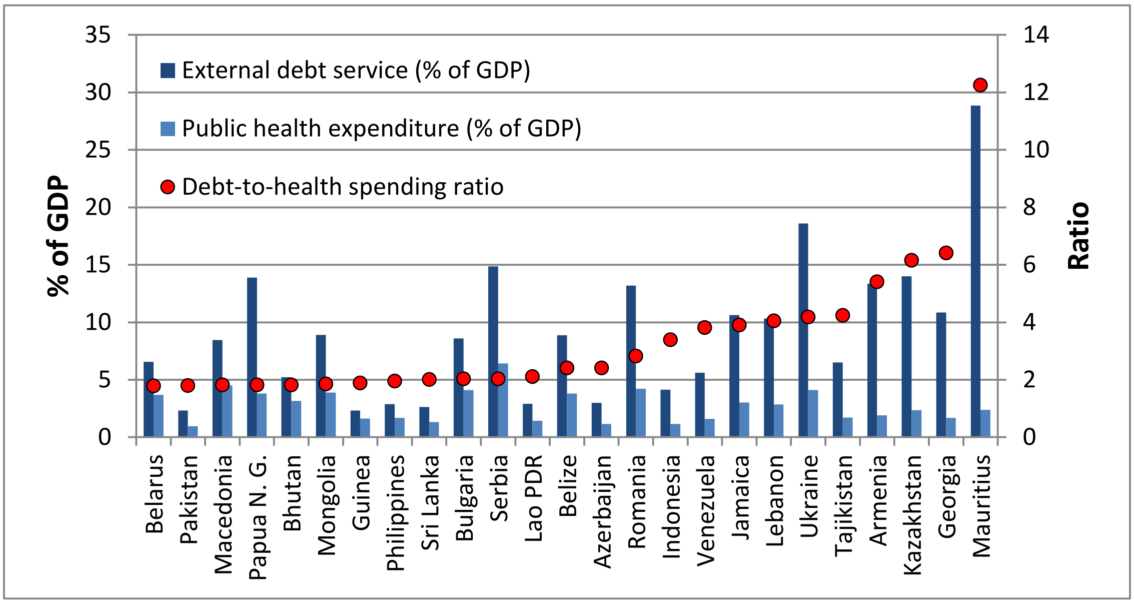
The first SIB was implemented in 2010 in the UK for the purpose of reducing prison recidivism among short-term male prisoners. This was also the purpose of the first SIB in the US. The majority of SIBs worldwide are focused on employment (26 SIBs), child welfare (8 SIBs) and education and health (6 SIBs). A positive trait of SIBs is that, if service providers do not achieve the outcome objectives, the government does not incur losses. SIBs are still experimental and, in higher income countries, have not always led to successful outcomes, leading to investor losses, such as the SIB intended for 10,000 beneficiaries in Rikers Island Prison in New York which did not result in a statistically significant reduction in recidivism by Year 3 of the intervention, leading to a $7.2 million investor loss. Additionally, a number of challenges have been flagged about SIBs in developing countries, including: (i) the number of willing investors tends to be less; (ii) public opinion often regards SIBs as equivalent to the privatization of government services and thus projects may face resistance; (iii) intermediation, impartial monitoring and data availability are crucial in a SIB and these are costly.

Source: De la Pena, 2014, Gustafsson-Wright et al., 2015, media sources.

8.2. Debt restructuring

Debt restructuring is the process of reducing existing levels of debt or debt service. While some developing countries have space for additional borrowing, the majority are indebted. Further, seven years after the global financial crisis, economic imbalances continue to boost external debt and developing economies are increasingly vulnerable (Aykuz, 2014 and Ellmers and Hulova, 2013). Debt restructuring has become an increasingly common strategy to alleviate fiscal pressures for other countries, especially those suffering from exorbitant sovereign debt levels. Figure 14 highlights the gravity of the external debt burden facing some developing countries. All of the 25 countries listed have a three-year average external debt-to-public health spending ratio greater than 1.75; in other words, debt payments in each of these countries is nearly double or more than the amount of public funds invested in the health, with Mauritius spending a staggering 12 times more on external debt than on health. When sovereign debt payments crowd out essential social expenditures, there is a strong case for countries to explore restructuring options with their creditors.

Figure 14. Debt and health spending, 2011-13 * (average values, based on current US dollars)



Source: Authors' calculations using World Development Indicators (2015).

* This figure only includes external public debt (see footnote for figure 12).

In recent years, many – including some official creditors such as Norway – have raised the issue of creditor co-responsibility as a way of promoting responsible lending practices. The Monterrey Consensus additionally opened up the debate on the issue of creditor co-responsibility for what is termed "illegitimate debt", as well as the need to find a fair and durable solution to the debt crisis. In particular, the United Nations Secretary-General and the United Nations Independent Expert [28] note that creditor and debtor countries are both equally responsible for preventing and resolving unsustainable debt situations.

As former President Julius Nyerere of Tanzania demanded publicly during the 1980s debt crisis, "Must we starve our children to pay our debts?" The concept of illegitimate debt refers to a variety of debts that may be questioned, including: debt incurred by authoritarian regimes; debt that cannot be serviced without threatening the realization or non-regression of basic human rights; debt incurred under predatory repayment terms, including usurious interest rates; debt converted from private (commercial) to public debt under pressure to bail out creditors; loans used for morally reprehensible purposes, such as the financing of a suppressive regime; and debt resulting from irresponsible projects that failed to serve development objectives or caused harm to the people or the environment (United Nations, 2009a).

In practice, there are five main options available to governments to restructure sovereign debt, which include: (i) re-negotiating debt; (ii) achieving debt relief/forgiveness; (iii) debt swaps/conversions; (iv) repudiating debt and; (v) defaulting. These are described below:

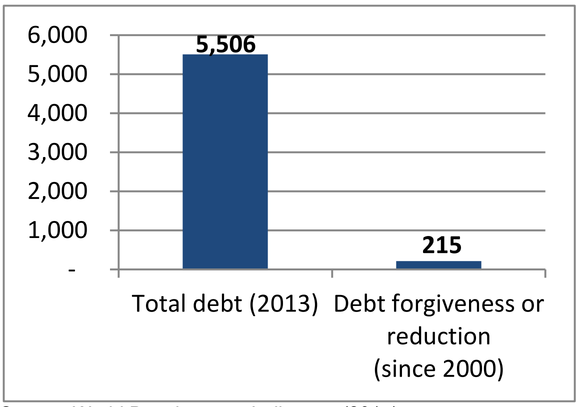
- *Debt re-negotiation:* A first option is to restructure debt via voluntary negotiations and collective action clauses. Voluntary negotiations have mostly applied to bank loans, as demonstrated by the more than 60 countries that have successfully re-negotiated terms between 1990 and the early 2000s (Bai and Zhangy, 2010). These processes, however, take an average of five years, which carry a high re-negotiation cost since governments cannot resume international borrowing during that time. Collective action clauses are most commonly used to restructure government bonds and take much less time than voluntary

[28] The United Nations Independent Expert on the effects of foreign debt and other related international financial obligations of States on the full enjoyment of all human rights, particularly economic, social and cultural rights.

negotiations (about one year on average); through collective action clauses included in bond contracts, many countries have successfully reached agreements with commercial creditors to lengthen the maturity and lower the coupon of outstanding bonds.

- *Debt relief/forgiveness*: A second option is to negotiate debt forgiveness. This has happened through creditor-led forums, such as the Paris and London Clubs, which are used to restructure or cancel bilateral and commercial debt, respectively, as well as the Heavily Indebted Poor Countries Initiative (HIPC) executed by the IMF and World Bank. HIPC has been the most prominent option for debt relief. Launched in 1996, 32 low-income countries had reached their completion points as of mid-2011 by meeting debt relief criteria. While earlier these countries were spending more on debt service than on health and education combined, on average, social spending now accounts for roughly five times their amount of debt-service payments (IMF, 2011). However, debt forgiveness has been slow to deliver (figure 15), and the benefits of agreed debt reduction have proven far less than hoped for in most cases (UNCTAD, 2008:139-141).

Figure 15. Poor country debt at a glance
(in current US$ billions)



Source: World Development Indicators (2015).

- *Debt swaps/conversions:* A debt swap or debt conversion is the sale of a debt by a creditor to an investor (usually a non-profit organization) who purchases the debt at a discounted price and then exchanges it with the indebted government for shares in a state-owned company or for domestic currency to finance a specific project. More than 50 developing countries have undertaken debt swaps with different aims. They emerged in the 1980s as a strategy to improve the fiscal solvency of governments, mostly in Latin America, and to give them access to new international finance. Countries such as Argentina and Chile carried out debt-for-equity swaps, exchanging external private debt for shares in state-run companies. Debt-for-nature swaps soon followed in which a portion of a developing country's foreign debt was exchanged for investments in environmental conservation measures. During the 1990s, UNICEF facilitated several private debt swaps to support child-related aid programs. Although most swaps have been conducted within the framework of the HIPC initiative, there are a variety of swap options available to governments to enhance fiscal space. The *Debt2Health* initiative of the Global Fund is a recent debt swap initiative, which converts debt repayments into health expenditures in countries that are ineligible for debt relief [29]. For smaller island states, there are debt conversions for climate change adaptation (Hurley, 2010). There are also opportunities to negotiate other types of swaps/conversions to enhance fiscal space, including: debt-for-children/education/health/environment, debt-for-equity, debt-for-exports, debt-for-offsets and even debt-for-debt (Ruiz, 2007).

- *Debt Repudiation:* Another option is repudiation. History shows examples of governments repudiating debt, such as the United Kingdom after the Boer War or the United States' repudiation of Cuban debts owed to Spain following the Spanish-American War. Given that the high cost of debt servicing limits public investments in

[29] See Global Fund's *Debt2Health.*

essential social and economic goods and services, repudiation is increasingly considered by developing countries in recent years. Christian Aid (2007) outlines a number of practical steps that debtor countries can follow to determine if debt repudiation is a sensible option: (i) assess the impact that debt servicing has on the financing of basic services; (ii) carry out a full debt audit to identify which parts are odious or illegitimate; (iii) identify what portion of the legitimate debt can be serviced without jeopardizing essential public services; (iv) hold a moratorium on servicing illegitimate debt and discuss with creditors; (v) depending on the progress of discussions, examine the possibility of withholding payments in order to increase investments in basic services; and (vi) open debt contraction processes to full democratic scrutiny. Referendums, such as in Iceland (box 18), and public debt audits, such as in Ecuador (box 19), underscore the idea that citizens have concerns about illegitimate sovereign debt and the high social costs.

Box 18
Debt repudiation: Iraq and Iceland

Two recent examples of sovereign debt repudiation are Iraq and Iceland. Iraq's 80 per cent debt cancellation was a result of international political pressure; the United States was at the forefront of negotiating for a full-scale write-off of loans undertaken by foreign creditors to the Saddam Hussein regime after its overthrow in 2003.

In Iceland, a national referendum was held in March 2010 that allowed its citizens to vote on whether and how the country should repay a nationalized private debt, claimed by the Netherlands and the United Kingdom. This was not a sovereign debt issue; private Icelandic banks held €6.7 billion in deposits from British and Dutch banks, and, when they collapsed, the government decided to make public this private debt. According to the IMF, this debt was a result of privatization and deregulation of the banking sector, facilitated by easy access to foreign funding; the growing imbalances were not detected by Iceland's financial sector supervision. In the referendum, Icelandic voters delivered a resounding "no" (more than 90%) to reimburse the Dutch and British banks and the orthodox policies that would have accompanied the debt repayment plan.

After massive international pressure, a second referendum was called in April 2011; Icelanders again rejected a proposed repayment plan. Despite pressures and threats because of Iceland's heterodox policies -debt repudiation, capital controls, and currency depreciation-, Iceland is recovering well from the crisis, It has regained access to international capital markets while preserving the welfare of its citizens, with support from the IMF – In 2012, Iceland credit rating is much higher than Greece.

Source: IMF, 2010 and 2012, De Bruijn et al., 2010, media coverage.

Box 19
Debt audits: The case of Ecuador

Some developing countries have re-examined their accumulated debt from the 1970s in order to decrease outstanding obligations. In 2008, Ecuador became the first country to hold an official audit to assess the legitimacy of its sovereign debt. The government-commissioned, two year-long investigation concluded that some of its foreign debts had broken multiple principles of international and domestic law and were therefore deemed "illegitimate". These were mostly private sector debts that had been nationalized by former governments.

While Ecuador respected all of the debt that had contributed to the country's development – the so-called "legitimate" debt – it defaulted on its alleged illegitimate debt in November 2008 and bought this back at 35 cents to the dollar just a few weeks later. The public resources freed up in Ecuador by this method were invested in human development, which included doubling education spending, nearly doubling housing assistance programs for low-income families and expanding its main social protection program, the cash transfer Bono de Desarrollo Humano (human development bond). The results are impressive: poverty fell from a recession peak of 36.0 per cent to 28.6 per cent, unemployment dropped from 9.1 per cent to 4.9 per cent and school enrolment rates rose significantly.

Based on the experience of Ecuador, as well as Norway, a special United Nations Commission of Experts on Reforms of the International Monetary and Financial System came out in support of public debt audits as a mechanism for transparent and fair restructuring of debts (United Nations, 2009b:125). Debt audits are ongoing in several other countries, such as Bolivia, Brazil, Greece, Ireland and the Philippines.

Source: Fattorelli, 2013, Ray and Kozameh, 2012, UN 2009b.

- *Default*: Overall, some 20 countries have defaulted on their sovereign debt since 1999, which includes debt denominated in both local and foreign currencies[30]. At US$82 billion and US$73 billion, Argentina and Russia, respectively, stand as the largest sovereign defaulters in history. The widely used term "haircut" refers to investor losses as a result of debt restructuring. While this was an estimated 75 per cent in the case of Argentina in 2005 and 55 per cent for Russia in 1999-2000, the average haircut in more recent forced restructurings has been 25-40 per cent (Sturzenegger and Zettelmeyer, 2005). Outright default may be viewed as disorderly debt restructuring since the immediate aftermath can be severe as foreign investments flee and capital inflows cease, which could hurt domestic employment and economic activities, the extent of which depends on the openness of the economy. However, history shows that countries that defaulted have been able to regain capital market access, achieve stable macroeconomic conditions and increase fiscal space for social and economic development after a relatively short period (Lora and Olivera, 2006, Weisbrot and Sandoval, 2007).

Box 20
The need for an international debt work-out mechanism

In practice, all of the different sovereign debt restructuring options are politically difficult, as governments that initiate such processes are often under enormous pressure by creditors. This reality, coupled with the increasing prevalence of sovereign debt crises, underscores the pressing need for an international judicial body that can resolve issues between sovereign borrowers and their lenders. Since the pioneering proposals for an International Chapter 9 Insolvency by Raffer (1993), the IFIs, the United Nations and different civil society organizations have been advocating for an international debt-work out mechanism. More recently, the IMF proposed a Sovereign Debt Restructuring Mechanism, which would have created a process for "sovereign bankruptcy" to give states a new beginning, much like a corporation or individual who files for bankruptcy. The Jubilee Campaign (Pettifor 2002) and Eurodad (2009) have identified principles for a sovereign debt work-out procedure, many of which are supported by the United Nations. In September 2014, the United Nations General Assembly adopted by vote the crucial resolution of the Group of 77 and China, "A/68/L.57/Rev2: Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes." Under the auspices of UNCTAD, a Sovereign Debt Workout Roadmap is being established in 2015.

[30]According to Standard & Poor's (2011) and Moody's (2008), this list includes: Antigua (2006), Argentina (2001), Belize (2006), Dominican Republic (1999, 2005), Ecuador (2008), Gabon (1999, 2002), Grenada (2004), Indonesia (1999, 2000 and 2002), Ivory Coast (2000), Jamaica (2010), Moldova (2002), Pakistan (1999), Paraguay (2003), Peru (2000), Russia (1999), Seychelles (2008), Ukraine (2000), Uruguay (2003) and Venezuela (2005).

9. A more accommodating macroeconomic framework

The goals of macroeconomic policy are multiple, from supporting growth, price stabilization or inflation control, to smoothing economic cycles, reducing unemployment and poverty, and promoting equity. In the last decades, macroeconomic frameworks have placed a strong emphasis on short-term stabilization measures, such as controlling inflation and fiscal deficits, as part of broader efforts aimed at economic liberalization, integrating into global markets and attracting investment. While these macroeconomic objectives are not necessarily problematic, there is an increasing risk in many developing countries that other important objectives, such as employment-generating growth and social development, become secondary and underemphasized.

Many of these orthodox approaches have since been questioned, including through the broader advocacy efforts of the United Nations to advance human development and human rights since the 1990s. Others (e.g. Chowdhury and Islam, 2010) have argued that higher fiscal deficits do not necessarily lead to higher interest rates, inflation rates or current account deficits if there is unemployment or spare capacity in an economy. As the multiple shocks of the global economic crisis unfolded and intensified, support shifted from restrictive and narrow macroeconomic frameworks to a more accommodating one. In practice, this means that the conditions for more maneuverability in policy-making and resources could be achieved through both fiscal and monetary policy, both of which are described in the following.

9.1. More accommodative fiscal policy

The first channel to achieve a more accommodative macroeconomic framework is through expanding government expenditures to influence the economy. As part of the crisis response, there has been a growing recognition of the need to ease budget constraints and allow for an increasing degree of deficit spending, especially to support social investments (IMF 2009). By doing so, more resources can be allocated to address the impacts of the crisis and support poverty-reducing and employment-generating economic growth.

To demonstrate the potential size of resources that could be freed up for social protection spending through larger – albeit reasonable – fiscal deficits, consider Sub-Saharan Africa. Of the 46 countries in the region for which there is fiscal balance data, 38 are forecasted to have run fiscal deficits in 2014 (table 8). If each of these countries increased the size of their current deficit by two percentage points, public health spending could jump by more than four per cent, on average, in terms of their current health budget (Column C). Some countries, however, could experience vast increases in available resources for public health. For example, a two per cent increase in the fiscal deficit in Eritrea, Guinea and South Sudan during 2014 – all countries with high infant mortality rates – could have resulted in a more than six per cent increase in health spending (Column C).

Table 8. Real fiscal deficits and health spending in 38 Sub-Saharan African countries, 2014

Country	(A) Fiscal balance, including grants (% of GDP)		(B) Health expenditures (2010-12 avg.)		(C) 2% real increase of deficit (in % of health budget) *	(D) Under-5 mortality rate, 2013 (per 1,000 live births)
	Actual	Proposed	% of GDP	% budget		
Eritrea	-11.6	-11.8	1.3	3.6	17.3	36.1
Liberia	-10.4	-10.6	3.9	16.5	5.4	53.6
Cabo Verde	-9.6	-9.8	3.1	8.6	6.2	21.9
Mozambique	-9.2	-9.4	3.0	9.0	6.2	61.5
South Sudan	-9.0	-9.1	0.8	4.0	22.9	64.1
Ghana	-7.8	-8.0	3.0	11.7	5.2	52.3
São Tomé	-6.3	-6.5	2.5	5.6	5.0	36.7
Kenya	-6.0	-6.1	1.8	5.9	6.8	47.5
Namibia	-6.0	-6.1	5.0	13.9	2.4	35.2
Guinea	-5.9	-6.0	1.7	6.8	6.8	64.9
Niger	-5.7	-5.8	2.5	10.6	4.6	59.9
Zambia	-5.2	-5.3	3.9	16.4	2.6	55.8
Togo	-5.0	-5.1	4.0	15.4	2.5	55.8
Cameroon	-5.0	-5.1	1.7	8.5	5.9	60.8
Malawi	-5.0	-5.1	6.4	17.8	1.6	44.2
Sierra Leone	-5.0	-5.1	2.5	12.1	4.0	107.2
Senegal	-5.0	-5.1	2.7	9.6	3.7	43.9
Tanzania	-5.0	-5.1	2.8	10.2	3.6	36.4
South Africa	-4.9	-5.0	4.1	12.7	2.4	32.8
Uganda	-4.8	-4.9	2.1	10.4	4.5	43.8
The Gambia	-4.6	-4.7	3.0	11.2	3.1	49.4
Mali	-4.3	-4.4	2.7	12.4	3.2	77.6
Angola	-4.1	-4.2	2.1	5.8	3.9	101.6
Burkina Faso	-2.9	-2.9	3.5	13.3	1.6	64.1
Mauritius	-2.8	-2.8	2.5	10.2	2.2	12.5
Ethiopia	-2.7	-2.8	2.2	12.0	2.5	44.4
Côte d'Ivoire	-2.3	-2.3	1.8	8.3	2.5	71.3
Congo, Dem. Rep.	-2.1	-2.1	3.0	13.1	1.4	86.1
Madagascar	-2.1	-2.1	2.3	13.6	1.8	39.6
Rwanda	-2.0	-2.0	6.3	23.2	0.6	37.1
Guinea-Bissau	-1.9	-2.0	1.8	8.9	2.2	77.9
Lesotho	-1.8	-1.9	8.7	14.1	0.4	73.0
Nigeria	-1.7	-1.7	1.8	6.3	1.9	74.3
Burundi	-1.7	-1.7	5.3	13.6	0.6	54.8
Benin	-1.4	-1.4	2.3	10.5	1.2	56.2
Sudan	-1.0	-1.0	1.9	10.7	1.0	51.2
Swaziland	-0.9	-0.9	5.9	17.2	0.3	55.9
Comoros	-0.8	-0.8	1.8	7.5	0.9	57.9
Average	**-4.5**	**-4.6**	**3.1**	**11.1**	**4.0**	**55.2**

Notes: Column (A) shows the actual fiscal balance in 2014 and the proposed increase of two percentage points to finance additional health expenditure (column (C)) expressed in terms of the current health budget.

Sources: IMF's World Economic Outlook (October 2014) for fiscal balance, GDP and inflation estimates; World Development Indicators (2015) for health expenditure and under-5 mortality data.

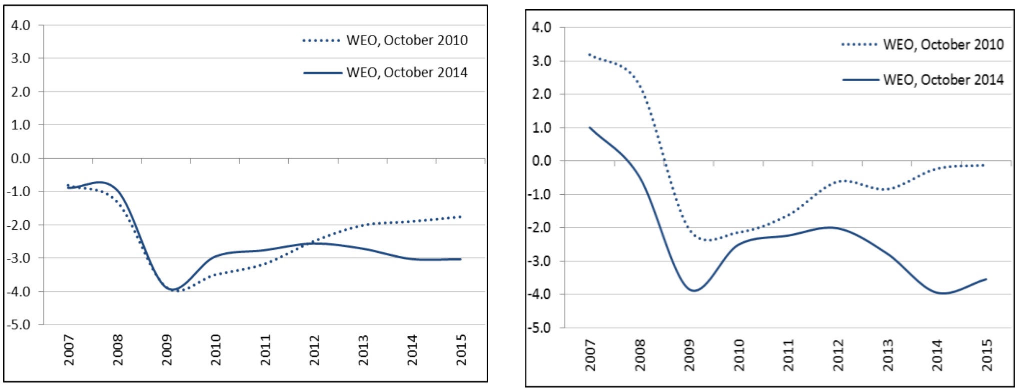
* Estimate based on the real value (local currency value/average consumer price) of fiscal balance and health expenditures.

Box 21
More accommodative macroeconomic frameworks: Developing countries' deficit spending during the Global Recession 2007-2015

Governments are committed to reduce fiscal deficits, however, multiple development pressures often result in the adoption of flexible macroeconomic frameworks. A review of recent trends among developing countries offers interesting insights. Figure 16 shows the projected and actual fiscal balances of this group of countries over the 2007-15 time period based on IMF revenue and expenditure estimates contained in the October 2010 and October 2014 WEO databases. In 2010, the average values underestimated the fiscal costs of navigating the first phase of the global crisis (2008-10), which included the widespread implementation of fiscal stimulus plans (note the median values show a more adjusted initial path). More interesting are projections for the second phase of the crisis, starting in 2010. Although major fiscal deficit reductions were predicted -- and advised by IMF surveillance missions -- to take hold by 2015, the latest estimates confirm that most developing countries did not pursue this policy stance; in reality, most governments chose to increase deficit-financed spending in order to attend to pressing demands at a time of low growth and support social and economic recovery efforts.

Figure16. Projected and actual fiscal deficits in developing countries, 2007-15
(percentage of GDP)

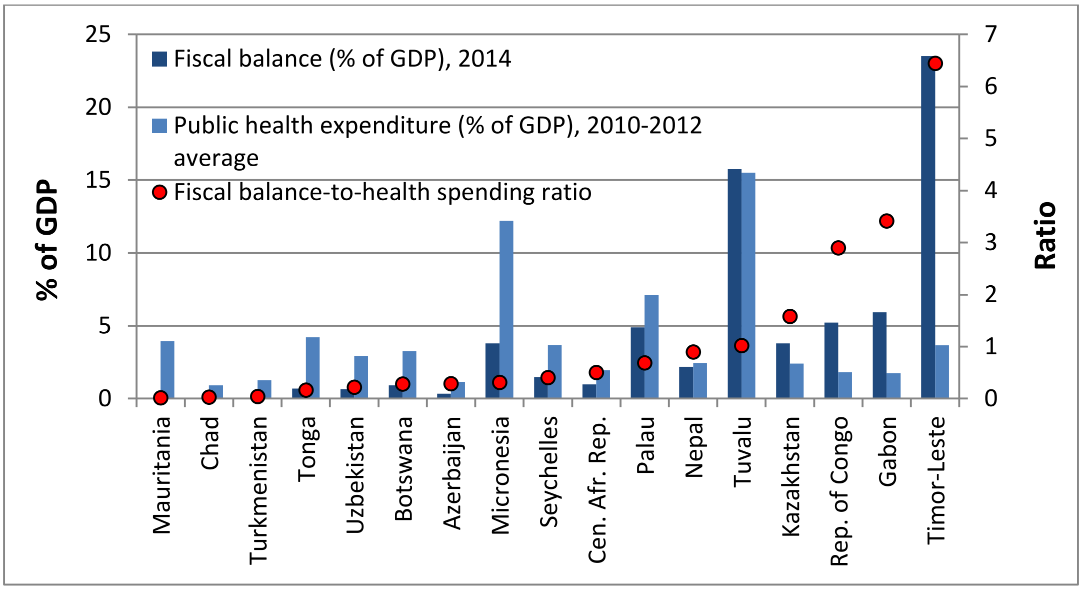
(a) Average values (b) Median values



Source: IMF's World Economic Outlook (WEO), October 2010 and October 2014.

While many developing countries are already running deficits, a number of others are forecasted to have fiscal surpluses in 2014 (figure 16). In these cases, allocating surplus funds to public health could lead to extraordinary gains. In the Republic of Congo, for example, significant progress in health outcomes could be made if even a small portion of surplus funds was directed to the health sector together with appropriate reforms to strengthen service delivery institutions. And for the 17 developing countries that are projected to benefit from a positive fiscal balance during 2014, surplus budget funds could double current health spending levels, on average (figure 17).

Figure 17. Fiscal surplus and health spending, 2014 (average values)



Sources: Authors' calculations using IMF's World Economic Outlook (October 2014) for GDP and fiscal balance data and World Development Indicators (2015) for health expenditure.

The analysis of Sub-Saharan African countries serves to illustrate the potential of any government's fiscal position – deficit or surplus – to impact essential social and economic spending. However, it is important to carry out a rigorous assessment of fiscal sustainability within a country, taking into account not only economic aspects such as debt burden, revenue generation capacity and likely GDP growth trajectory, but also the potential opportunity cost of foregoing social spending.

9.2. More accommodative monetary policy

The second channel to achieve a more accommodative macroeconomic framework is through expansionary monetary policy. There are two schools of thought regarding how authorities should control a country's money supply.

On the one hand, some argue that the ultimate aim of monetary policy should be to achieve low inflation[31]. Here, since high inflation creates uncertainties about the future and depresses investment, low inflation is viewed as a key ingredient to macroeconomic stability and growth, and becomes a goal in itself. Moreover, high levels of inflation erode disposable incomes, making it more difficult for poor households to purchase essential goods and services. In particular, for those who rely on social transfers, inflation poses a continuous threat to their purchasing power. And even when a country's social protection scheme includes inflation-adjustment mechanisms that are regularly applied, in practice benefits are only adjusted after a significant delay – commonly up to six months – due to administrative procedures. It is also important to recognize that volatile inflation has the potential to overwhelm the financial structure of a social protection system, such as what happened to many countries that experienced inflation levels above 30 per cent between the 1970s and late 1990s.

On the other side of the spectrum are those who view excessive inflation control as a danger to poverty and economic growth. This camp argues that certain measures, such as

[31] This view is more controversial, as it has been found that a certain amount of inflation (moderate inflation, not high inflationary episodes) may be necessary to generate additional economic activity.

higher interest rates or reserve requirements, can lead to increasing unemployment, lower aggregate demand and weaker growth. High interest rates are especially bad for small producers and those who already have limited access to finance, including women and persons with limited assets. The resulting declines in output and employment can also weaken workers' bargaining positions and depress wages, therefore indirectly increasing poverty. All of these, in turn, weaken the capabilities of households to provide for and invest in children. Acknowledging the potential risks of low inflation on growth and poverty, the IMF advised governments to raise inflation above the standard five per cent benchmark during 2009 in order to respond to the food, fuel and financial shocks (IMF 2009). However, it is important to underscore that there are diverse views on what constitutes an "acceptable" level of inflation. Table 9 shows that this value can vary between 3 and 40 per cent.

In general, flexibility to pursue expansionary monetary policy is strongly related to the extent to which wages and incomes are "indexed" – in other words, automatically adjusted to changes in overall prices, at least to some extent. In developing countries, where most incomes, including wage incomes, tend to move along with prices, there can be social tolerance of fairly high rates of inflation, especially if it still allows people to continue to consume essential goods and services. But in other developing countries, where wage incomes and the earnings of the self-employed do not increase much when overall price levels rise, even relatively low rates of inflation can cause social havoc, especially if the inflation is not accompanied by higher employment.

Table 9. Safe inflation thresholds for developing countries

	Author(s)	**Inflation threshold (%)**
Academic papers	Fischer (1993)	15-30
	Bruno (1995)	20
	Barro (1996)	10-20
	Bruno and Easterly (1998)	40
	Gylfason and Herbertsson (2001)	10-20
	Rousseau and Watchel (2002)	13-25
	Burdekin et al.. (2004)	3
	Gillman et al. (2004)	10
	Sepehri and Moshiri (2004)	5-15
	Pollin and Zhu (2006)	14-16
	Li (2006)	14
	Vaona and Schiavo (2007)	12
	US GAO (2009)	5-12
	Bick (2010)	12
	Kremer et al. (2011)	17
IMF papers	Sarel (1996)	8
	Ghosh and Phillips (1998)	>5
	Kochar and Coorey (1999)	5
	Khan and Senhadji (2001)	11-12
	Selassie et al. (2006)	5
	Espinoza et al. (2010)	10
	Blanchard et al. (2010)	4

Source: Authors' literature review.

Ultimately, this means that inflation thresholds are arbitrary policy choices based on particular conditions in different societies, and monetary policies should be designed to encourage employment creation. Bearing this in mind, the IMF estimates that 77 developing countries had inflation rates below five per cent during 2014, half of which exercise independent monetary policy (table 10). In such cases, an expansionary monetary policy could be explored as a potential option to support increased social and economic investments among the poorest and most disadvantaged populations. For other developing countries that are also experiencing low inflation rates but belong to monetary unions – such as the Eastern Caribbean Currency Union, the Economic and Monetary Community of Central Africa, and the West African Economic and Monetary Union – there may be scope to discuss the loosening of monetary policy as a block of countries.

Table 10. Developing countries with low inflation rates, 2014 forecasts
(in per cent change of average consumer prices)

Country	Inflation rate	Country	Inflation rate
Guinea-Bissau	-1.3	Kiribati	2.5
Samoa	-1.2	Rwanda	2.6
Bulgaria	-1.2	Guyana	2.6
Niger	-1.1	Suriname	2.6
Greece	-0.8	Chad	2.8
Montenegro	-0.6	Azerbaijan	2.8
Senegal	-0.5	Colombia	2.8
South Sudan	0.2	Malaysia	2.9
Zimbabwe	0.3	Jordan	3.0
Hungary	0.3	Comoros	3.0
Dominica	0.6	Palau	3.0
Côte d'Ivoire	0.6	Maldives	3.0
Cabo Verde	0.8	Ecuador	3.1
Kosovo	1.0	Djibouti	3.2
Macedonia	1.0	Cameroon	3.2
Bosnia and Herzegovina	1.1	Algeria	3.2
Morocco	1.1	Panama	3.2
St. Vincent and the Grenadines	1.2	Peru	3.2
Fiji	1.2	Mauritania	3.3
El Salvador	1.2	Tuvalu	3.3
Romania	1.5	Micronesia	3.3
Mali	1.5	Costa Rica	3.4
Burkina Faso	1.5	Guatemala	3.5
Togo	1.5	Lebanon	3.5
Grenada	1.6	Dominican Republic	3.6
Tonga	1.6	Seychelles	3.6
Benin	1.7	Mauritius	3.7
Vanuatu	1.7	Sri Lanka	3.8
Marshall Islands	1.7	Mexico	3.9
Armenia	1.8	Haiti	4.0
Belize	1.8	Philippines	4.5
Albania	1.8	Cambodia	4.5
Thailand	2.1	Georgia	4.6
St. Lucia	2.1	Mozambique	4.6
Republic of Congo	2.2	Iraq	4.7
China	2.3	Gabon	4.7
Serbia	2.3	Botswana	4.8
Dem. Rep. of the Congo	2.4	Paraguay	4.8
Timor-Leste	2.5	Libya	4.8

Source: IMF's World Economic Outlook (October 2014).

10. Concluding: Social dialogue on fiscal space options

This paper has demonstrated that there is national capacity to finance social protection and other Sustainable Development Goals worldwide, even the poorest countries. There are eight options, presented in the earlier sections: (i) re-allocating public expenditures; (ii) increasing tax revenues; (iii) expanding social security coverage and contributory revenues; (iv) lobbying for increased aid and transfers; (v) eliminating illicit financing flows; (vi) using fiscal and foreign exchange reserves; (vii) borrowing or restructuring debt and; (viii) adopting a more accommodating macroeconomic framework.

All of the financing options described in this paper are supported by policy statements of the United Nations and international financial institutions. Governments around the world have been applying them for decades, showing a wide variety of revenue choices. Each country is unique, and all options should be carefully examined – including the potential risks and trade-offs associated with each opportunity – and considered in social dialogue of alternatives to promote national socio-economic development with jobs and social protection.

National social dialogue is best to articulate optimal solutions in macroeconomic and fiscal policy, and investments to promote jobs, social protection, support women and children, and human rights. While in some countries, national development strategies and their financing sources have been shaped though social dialogue, in many other countries this has not been the case. Public policy decisions have often been taken behind closed doors, as technocratic solutions with limited or no consultation, resulting in reduced social investments, in lack of public ownership, adverse social impacts, and often civil unrest. National tripartite dialogue, with government, employers and workers as well as civil society, academics, UN agencies and others, is fundamental to generate political will to exploit all possible fiscal space options in a country, and adopt the optimal mix of public policies for inclusive growth and social justice.

Questions to consider on fiscal space options include:

i. ***Reprioritizing Public Spending: Can government expenditures be re-allocated to support social investments that empower vulnerable households?*** Are, for example, current military, infrastructure or commercial sector expenditures justified in light of existing poverty rates? Has a recent study been conducted to identify measures to enhance the efficiency of current investments, including steps to tackle and prevent corruption and the mismanagement of public funds?

ii. ***Increasing tax revenues: Have all tax codes and possible modifications been considered and evaluated to maximize public revenue without jeopardizing private investment?*** Are personal income and corporate tax rates designed to support equitable outcomes? What specific collection methods could be strengthened to improve overall revenue streams? Could minor tariff adjustments increase the availability of resources for social investments? Is natural resource extraction adequately taxed? Can tax policies better respond to "boom" and "bust" cycles? Have financial sector taxes been considered to support productive and social sector investments? Has there been any attempt to earmark an existing tax or introduce a new one to finance specific social investments – taxes on property, inheritances, tourism, tobacco, lotteries, etc.?

iii. ***Expanding social security coverage and contributory revenues: What is the percentage of workers contributing to social security?*** Can contributions to social security be extended to more workers? Are current contribution rates adequate? Is there scope to introduce innovations like the Monotax to encourage the formalization of workers in the informal sector?

iv. ***Lobbying for increased aid and transfers: Has the government delivered a convincing case to OECD countries for increased aid, including budget support, to support the scaling up of social investments?*** Has there been any formal or informal attempt to lobby neighboring or friendly governments for South-South transfers?

v. ***Eliminating illicit financial flows: Has a study been carried out or a policy designed to capture and re-channel illicit financial flows for productive uses?*** What can be done to curb tax evasion, money laundering, bribery, trade mispricing and other financial crimes are illegal and deprive governments of revenues needed for social and economic development?

vi. ***Using fiscal and foreign exchange reserves: Are there fiscal reserves, for example, sitting in sovereign wealth funds that could be invested in poor households today?*** Are excess foreign exchange reserves being maximized and used to foster local and regional development?

vii. ***Borrowing or restructuring debt: Have all debt options been thoroughly examined to ramp up social investments?*** What are the distributional impacts of financing government expenditures by additional borrowing? Or is the country too indebted? If so, is debt service high compared to public investments and social expenditures? Have different maturity and repayment terms been discussed with creditors? Has a public audit been carried out to examine the legitimacy of existing debts?

viii. ***Adopting a more accommodating macroeconomic framework: Is the macroeconomic framework too constrictive for national development?*** If so, at what cost macroeconomic stability? Could increasing the fiscal deficit by a percentage point or two create resources that could support essential investments for the population? Are current inflation levels unduly restricting employment growth and socio-economic development?

ix. ***Have all possible options been carefully examined – including the potential risks and trade-offs associated with each opportunity – and discussed in an open social dialogue***? Have all possible fiscal scenarios been fully explored? Is there any assessment missing from the national debate? Are all relevant stakeholders, government, employers, workers, civil society, academics, UN agencies and others, being heard and supportive of an agreement that articulates an optimal solution in macroeconomic and fiscal policy, the need for job and income security, investments for women and children, and human rights?

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Annex 1. Selected fiscal space indicators for 187 countries

Country	(i) Government expenditure Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	(ii) Revenue Total 2014	Tax 2012[a]	(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a] Ext. stocks	Total service	(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
Afghanistan	28.1	1.8	...	3.6	27.7	7.5	16.1	33.1	0.0	...	12.3	0.1	-0.5	6.1
Albania	32.8	2.8	...	1.5	26.1	...	...	2.8	1.4	21.8	60.1	3.2	-6.7	1.8
Algeria	38.9	4.4	...	4.6	34.4	...	...	0.1	0.7	91.6	2.5	0.3	-4.5	3.2
Angola	41.6	2.2	...	3.6	37.5	18.8	19.8	0.2	0.8	26.4	22.0	4.3	-4.1	7.3
Antigua and Barbuda	21.9	3.9	...	...	20.5	18.6	...	0.2	0.5	16.9	...	...	-1.3	1.1
Argentina	39.9	5.9	6.3	0.8	35.4	...	...	0.0	0.5	5.0	22.7	2.3	-4.5	...
Armenia	25.3	1.9	3.1	3.8	23.6	18.7	...	2.7	12.1	21.6	79.4	18.5	-1.7	1.8
Australia	37.6	6.1	5.1	1.7	34.3	21.4	...	...	...	3.3	...	...	-3.3	2.7
Austria	52.7	8.7	5.8	0.8	49.7	18.3	73.0	...	...	3.0	...	...	-3.0	1.7
Azerbaijan	39.7	1.2	2.4	4.7	40.0	13.0	32.5	0.5	3.5	19.1	13.3	3.6	0.3	2.8
Bahrain	31.5	2.8	...	3.1	26.8	...	...	...	0.7	16.3	...	...	-4.8	2.5
Bangladesh	13.5	1.2	...	1.2	10.8	...	...	1.5	0.8	11.2	19.5	1.0	-2.7	7.2
Barbados	43.7	4.1	...	...	34.6	...	0.1	...	0.9	16.1	...	...	-9.1	1.7
Belarus	45.2	3.9	4.8	1.2	41.8	15.1	82.2	0.2	20.1	6.9	56.7	6.7	-3.3	18.6
Belgium	54.1	8.2	6.5	1.0	51.5	24.9	68.5	...	...	3.6	...	...	-2.6	0.7
Belize	30.1	3.8	...	1.0	28.4	22.6	...	1.6	8.0	24.9	80.5	9.0	-1.7	1.8
Benin	22.2	2.3	...	1.0	20.8	15.6	25.4	6.8	1.0	8.4	28.7	1.4	-1.4	1.7
Bhutan	31.0	3.2	4.7	...	27.2	...	...	8.1	3.7	49.9	83.6	4.5	-3.8	10.2
Bolivia	39.3	4.1	6.9	1.5	38.9	...	...	2.4	3.0	46.8	27.5	1.9	-0.4	6.0
Bosnia Herzegovina	49.2	7.0	...	1.2	45.1	20.9	149.2	3.4	0.0	27.6	60.9	6.2	-4.1	1.1
Botswana	34.2	3.0	...	2.3	35.1	27.1	...	0.5	6.9	52.2	16.6	1.3	0.9	4.8
Brazil	42.1	4.3	...	1.5	38.2	15.4	38.4	0.1	1.5	16.0	21.9	3.8	-3.9	6.3
Brunei Darussalam	35.4	2.1	3.7	2.4	55.8	...	...	...	12.2	21.1	...	...	20.4	0.4
Bulgaria	39.0	4.2	...	1.5	36.3	19.0	54.8	...	2.8	37.3	104.9	9.5	-2.7	-1.2
Burkina Faso	27.5	3.4	3.4	1.4	24.7	16.3	...	10.5	6.6	5.2	23.2	0.7	-2.9	1.5
Burundi	29.9	4.8	6.0	2.4	28.3	...	...	20.8	4.1	12.1	23.5	1.2	-1.7	7.0

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Cabo Verde	34.4	3.0	5.0	...	24.8	17.8	0.7	14.0	2.9	25.5	80.9	2.2	-9.6	0.8
Cambodia	20.5	1.3	...	1.5	17.7	11.6	...	5.7	0.3	29.1	44.4	1.1	-2.8	4.5
Cameroon	23.3	1.7	3.2	1.3	18.2	...	...	2.3	2.6	...	17.1	0.7	-5.0	3.2
Canada	44.0	7.7	5.4	1.1	41.5	11.7	36.7	...	...	3.9	...	...	-2.6	1.9
Central African Rep.	14.6	1.9	1.2	...	15.6	9.5	32.0	10.5	1.7	...	37.4	0.4	1.0	7.4
Chad	20.5	0.9	2.3	...	20.6	...	...	3.9	12.0	...	17.2	0.8	0.0	2.8
Chile	24.3	3.5	4.1	2.1	22.5	19.0	19.7	0.0	2.3	14.7	...	...	-1.8	4.4
China	28.4	3.0	...	2.0	27.4	...	...	0.0	2.7	40.5	9.5	0.4	-1.0	2.3
Colombia	29.6	5.2	4.4	3.2	28.1	13.2	32.2	0.2	0.3	11.5	25.3	2.8	-1.5	2.8
Comoros	25.5	2.5	...	...	24.7	...	...	11.5	17.3	26.3	22.3	0.1	-0.8	3.0
Costa Rica	19.7	7.6	...	...	13.4	13.6	94.7	0.1	43.9	14.8	35.9	6.2	-6.3	3.4
Côte d'Ivoire	23.1	1.9	...	1.5	20.8	14.2	...	9.5	6.5	13.2	37.9	4.2	-2.3	0.6
Croatia	44.8	5.6	...	1.7	40.1	19.6	78.5	...	1.7	31.0	...	...	-4.7	-0.3
Cyprus	46.7	3.2	...	1.8	42.3	25.5	45.0	...	...	1.7	...	...	-4.4	0.0
Czech Republic	42.5	6.5	4.5	1.1	41.3	13.4	94.1	...	...	28.3	...	...	-1.2	0.6
Congo, Dem. Rep.	19.6	2.9	...	1.0	17.5	...	...	10.4	0.7	5.6	21.9	1.1	-2.1	2.4
Denmark	55.7	9.6	...	1.4	54.3	33.4	6.0	...	...	26.0	...	...	-1.4	0.6
Djibouti	42.7	5.3	...	...	35.4	...	...	10.8	37.6	29.2	...	...	-7.3	3.2
Dominica	34.2	4.2	...	...	31.6	21.8	...	5.2	32.9	17.5	59.4	3.7	-2.6	0.6
Dominican Republic	17.8	2.8	...	0.6	14.9	...	14.3	0.4	2.9	7.7	41.2	4.9	-2.9	3.6
Ecuador	43.2	2.9	4.5	3.0	38.9	...	...	0.2	1.6	4.7	22.9	3.4	-4.3	3.1
Egypt	39.0	2.0	...	1.7	26.8	13.2	...	0.7	1.7	6.3	16.7	1.3	-12.2	10.1
El Salvador	22.5	4.2	3.4	1.1	18.3	14.5	54.4	1.0	2.7	11.3	57.1	4.7	-4.2	1.2
Equatorial Guinea	40.1	2.6	...	...	33.3	...	...	0.1	21.9	...	...	...	-6.8	3.9
Eritrea	29.0	1.2	...	...	17.4	...	...	4.3	...	...	27.7	2.6	-11.6	12.3
Estonia	38.7	4.7	5.2	1.9	38.3	16.3	87.9	...	...	1.3	...	...	-0.3	0.8
Ethiopia	18.4	1.9	...	0.9	15.7	...	...	7.7	13.3	...	26.8	1.4	-2.7	7.7
Fiji	31.1	2.6	4.2	1.5	29.0	...	...	2.8	6.6	23.3	20.7	1.2	-2.1	1.2

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Finland	56.6	6.9	6.8	1.2	54.2	20.0	55.5	...	...	3.5	...	...	-2.4	1.2
France	57.1	9.0	5.7	2.2	52.7	21.4	76.5	...	...	1.8	...	...	-4.4	0.7
Macedonia	34.8	4.6	...	1.2	31.4	16.7	66.1	1.6	5.8	0.4	69.5	9.1	-3.5	1.0
Gabon	21.0	1.8	...	1.4	27.0	...	...	0.4	3.7	...	25.0	6.5	5.9	4.7
Georgia	30.0	1.7	2.7	2.9	27.1	24.1	...	4.2	1.6	17.5	86.4	11.2	-2.9	4.6
Germany	44.2	8.6	...	1.3	44.4	11.5	81.0	...	...	1.9	...	...	0.3	0.9
Ghana	26.3	3.0	8.1	0.3	18.5	...	...	4.3	1.3	10.8	33.8	2.0	-7.8	15.7
Greece	47.3	6.3	...	2.4	44.6	22.4	69.6	...	...	0.6	...	...	-2.7	-0.8
Grenada	31.0	3.0	...	...	24.9	18.7	...	1.0	8.6	18.5	72.6	4.4	-6.0	1.6
Guatemala	13.3	2.4	2.9	0.4	11.2	10.8	10.4	0.6	2.7	13.0	32.0	2.4	-2.1	3.5
Guinea	29.8	1.8	3.1	...	23.9	...	...	6.0	5.7	2.8	20.8	1.1	-5.9	10.1
Guinea-Bissau	20.3	1.3	...	1.7	18.4	...	...	8.2	8.9	19.3	32.3	0.2	-1.9	-1.3
Guyana	32.0	4.3	3.6	1.1	28.4	...	...	4.0	17.7	26.2	74.9	2.6	-3.6	2.6
Haiti	25.2	1.5	...	...	19.5	...	...	16.2	1.0	20.5	14.9	0.1	-5.6	4.0
Honduras	30.3	4.3	...	1.0	24.3	14.7	308.2	3.1	21.4	16.1	39.6	5.4	-6.0	6.1
Hong Kong	18.2	...	3.4	...	20.8	...	...	...	...	113.6	...	...	2.6	3.9
Hungary	51.2	5.0	4.7	1.0	48.3	22.9	67.8	...	0.9	35.2	...	99.0	-2.9	0.3
Iceland	46.9	7.3	...	0.1	48.7	22.3	35.9	...	...	28.5	...	...	1.9	2.5
India	26.7	1.3	3.4	2.5	19.5	10.7	2.1	0.1	4.6	15.8	23.0	2.2	-7.2	7.8
Indonesia	20.1	1.2	2.8	0.9	17.6	...	...	0.0	2.4	11.4	30.8	4.8	-2.5	6.0
Iraq	45.3	1.9	...	2.8	42.3	...	...	0.6	9.9	33.2	...	...	-3.0	4.7
Ireland	38.1	5.2	6.2	0.5	33.8	22.0	38.6	...	...	0.6	...	...	-4.2	0.6
Iran	15.2	2.7	4.1	2.1	13.1	...	...	0.0	0.0	...	2.1	0.1	-2.1	19.8
Israel	40.3	4.6	5.6	5.8	37.4	22.1	51.3	...	...	28.1	...	...	-2.9	0.8
Italy	55.0	7.2	4.3	1.6	51.9	22.4	64.9	...	...	2.5	...	...	-3.0	0.1
Jamaica	27.5	3.3	6.3	0.9	26.8	27.1	58.8	0.1	0.9	7.4	100.6	8.8	-0.7	8.8
Japan	39.8	8.3	3.8	1.0	32.7	10.1	0.7	...	...	25.3	...	...	-7.1	2.7
Jordan	38.6	6.2	...	4.0	28.3	15.3	1.1	4.6	1.7	45.4	71.9	3.0	-10.3	3.0

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Kazakhstan	21.8	2.4	...	1.2	25.6	...	...	0.1	1.4	10.7	74.6	15.0	3.8	6.9
Kenya	26.5	1.8	...	1.7	20.5	15.9	...	5.3	0.0	12.0	30.8	1.1	-6.0	7.3
Kiribati	109.7	8.9	...	...	83.9	16.1	...	36.9	1.1	...	...	...	-25.8	2.5
Korea	21.3	4.1	5.2	2.6	21.6	...	67.5	...	...	26.6	...	...	0.3	1.6
Kuwait	44.8	2.1	...	3.2	73.6	0.7	...	...	1.3	16.7	...	...	28.8	3.0
Kyrgyz Republic	34.9	4.3	6.8	3.2	30.5	18.1	...	7.2	1.3	29.0	98.4	5.6	-4.4	8.0
Lao	28.1	1.5	...	0.2	23.5	14.8	...	4.4	8.7	6.7	81.4	2.9	-4.6	5.5
Latvia	36.2	3.4	4.9	0.9	35.4	13.8	70.2	...	10.3	24.5	...	...	-0.8	0.7
Lebanon	32.0	2.9	1.6	4.1	20.8	15.5	95.4	1.7	4.9	81.6	68.9	7.8	-11.1	3.5
Lesotho	62.0	9.1	...	2.3	60.2	...	...	11.9	11.6	46.5	30.9	1.4	-1.8	6.5
Liberia	34.3	4.6	...	0.8	23.9	20.9	...	32.6	37.8	25.2	30.9	0.3	-10.4	11.4
Libya	83.4	3.0	...	3.6	31.3	...	...	0.1	3.1	175.8	...	...	-52.1	4.8
Lithuania	34.4	4.7	5.2	0.8	32.3	13.4	92.1	...	9.7	17.4	...	...	-2.2	0.3
Luxembourg	43.5	5.8	...	0.5	43.9	25.5	72.6	...	...	1.5	...	...	0.4	1.1
Madagascar	17.0	2.5	2.8	0.7	14.9	...	...	3.8	1.9	7.3	27.3	0.7	-2.1	7.3
Malawi	41.4	7.0	5.4	1.3	36.3	...	...	28.1	14.7	10.8	43.6	1.2	-5.0	19.6
Malaysia	27.6	2.2	5.9	1.5	24.0	16.1	...	0.0	19.8	43.1	70.7	3.2	-3.6	2.9
Maldives	55.4	3.9	6.8	...	36.2	...	...	2.7	5.0	17.0	42.0	3.7	-19.2	3.0
Mali	27.0	2.3	4.8	1.4	22.6	15.6	...	9.8	6.1	12.0	33.3	0.9	-4.3	1.5
Malta	43.8	6.0	...	0.6	41.1	27.0	50.8	...	...	6.1	...	...	-2.7	1.0
Marshall Islands	63.1	12.9	...	...	62.9	...	...	44.2	...	...	...	...	-0.2	1.7
Mauritania	35.5	4.1	3.7	...	35.6	...	...	10.3	...	...	91.7	4.2	0.1	3.3
Mauritius	24.5	2.4	3.4	0.1	21.7	19.0	24.9	1.6	2.8	29.2	91.4	28.4	-2.8	3.7
Mexico	26.4	3.2	5.2	0.6	22.2	...	...	0.0	5.3	14.4	35.9	3.4	-4.2	3.9
Micronesia	62.8	11.5	...	...	66.6	...	...	35.3	...	25.3	...	...	3.8	3.3
Moldova	41.3	5.3	8.6	0.3	39.7	18.6	...	6.5	0.6	35.4	75.0	7.6	-1.7	5.1
Mongolia	40.4	4.0	5.5	1.1	29.3	18.2	99.2	4.3	0.9	19.5	176.0	13.0	-11.1	14.1
Montenegro	44.1	4.5	...	1.7	42.6	...	...	2.5	0.6	...	65.5	8.1	-1.5	-0.6

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Morocco	32.9	2.1	...	3.5	27.9	24.5	91.4	1.5	0.5	18.4	38.7	5.0	-5.0	1.1
Mozambique	41.9	2.8	...	...	32.7	20.8	16.6	14.7	2.0	20.5	45.0	0.9	-9.2	4.6
Myanmar	28.7	0.4	0.8	...	24.2	...	...	0.9	1.4	...	...	...	-4.5	6.6
Namibia	41.7	5.1	...	3.2	35.7	...	...	2.0	7.3	12.3	...	...	-6.0	5.9
Nepal	18.8	2.2	...	1.4	21.0	13.9	...	4.1	5.2	27.5	19.7	1.1	2.2	9.0
Netherlands	46.2	9.9	5.9	1.3	43.8	19.7	90.0	...	...	2.6	...	...	-2.5	0.5
New Zealand	34.8	8.5	7.1	1.0	34.2	29.3	9.9	...	...	9.0	...	...	-0.7	1.6
Nicaragua	23.5	4.5	...	0.7	22.7	14.8	...	5.0	24.4	17.7	87.7	5.8	-0.9	6.3
Niger	32.8	2.8	4.2	1.1	27.1	...	...	13.5	5.2	15.7	36.3	0.6	-5.7	-1.1
Nigeria	12.3	1.9	...	0.5	10.6	1.6	...	0.4	4.0	8.2	2.8	0.1	-1.7	8.3
Norway	44.3	7.7	...	1.4	55.1	27.3	59.9	...	...	11.4	...	...	10.8	2.0
Oman	46.8	2.1	...	15.8	49.8	2.5	...	...	0.6	20.7	...	...	3.0	2.8
Pakistan	19.8	1.0	2.2	3.5	15.1	10.1	...	0.9	0.2	3.1	22.8	3.3	-4.7	8.6
Palau	39.0	7.3	...	...	43.9	...	...	6.5	...	...	...	...	4.9	3.0
Panama	27.2	5.2	3.5	...	23.3	...	...	0.1	19.4	7.0	38.9	3.9	-3.9	3.2
Papua New Guinea	37.3	4.3	...	0.6	30.1	...	...	4.3	8.7	18.0	148.4	30.3	-7.2	5.3
Paraguay	22.0	4.3	4.8	1.4	21.3	12.8	85.5	0.4	17.0	15.5	47.2	6.8	-0.7	4.8
Peru	21.6	3.0	2.5	1.3	21.5	16.5	36.0	0.2	0.2	32.5	29.0	3.6	-0.1	3.2
Philippines	19.2	1.7	...	1.2	18.9	12.9	...	0.0	4.3	30.6	18.6	1.8	-0.3	4.5
Poland	41.3	4.7	...	1.8	38.1	16.0	71.2	...	1.7	20.5	...	...	-3.2	0.1
Portugal	47.6	5.9	...	1.9	43.6	20.3	62.0	...	...	1.3	...	...	-4.0	0.0
Qatar	31.5	1.8	...	...	42.9	...	...	...	2.1	20.5	...	...	11.4	3.4
Republic of Congo	41.4	2.3	...	...	46.6	...	...	1.0	8.9	...	30.4	2.7	5.2	2.2
Romania	35.3	4.0	3.1	1.4	33.1	18.8	70.1	...	0.0	5.8	72.9	16.6	-2.2	1.5
Russia	37.6	3.8	...	4.0	36.6	15.1	52.0	...	8.3	24.3	...	...	-0.9	7.4
Rwanda	28.3	6.1	4.8	1.1	26.3	13.7	...	12.1	8.1	14.1	23.0	0.6	-2.0	2.6
Samoa	41.3	6.0	...	...	38.7	0.0	...	15.0	17.3	21.5	67.2	1.9	-2.6	-1.2
San Marino	22.4	5.7	...	...	21.2	...	...	...	...	29.9	...	...	-1.3	1.0

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
São Tomé Príncipe	39.0	2.5	...	...	32.6	14.0	...	18.5	12.2	20.5	69.6	1.9	-6.3	6.7
Saudi Arabia	40.0	2.1	...	7.7	45.3	...	...	...	7.1	96.9	...	...	5.2	2.9
Senegal	28.3	2.8	...	...	23.3	19.2	...	7.7	0.0	15.2	34.9	2.7	-5.0	-0.5
Serbia	50.0	6.4	4.8	2.1	41.1	19.7	67.3	2.9	7.7	34.8	88.1	19.4	-8.8	2.3
Seychelles	32.4	4.3	3.6	0.9	33.9	31.2	...	3.1	0.0	30.7	222.4	4.5	1.5	3.6
Sierra Leone	17.9	2.5	2.7	0.0	12.9	11.7	...	11.7	3.2	10.8	31.1	0.6	-5.0	8.8
Singapore	17.6	1.7	3.1	3.3	22.0	14.0	...	...	...	114.7	...	...	4.3	1.4
Slovak Republic	38.3	5.5	4.1	1.1	35.4	12.2	106.6	...	...	2.2	...	...	-2.9	0.1
Slovenia	47.6	6.4	5.7	1.2	42.7	17.5	90.0	...	...	1.9	...	...	-5.0	0.5
Solomon Islands	50.4	7.7	...	...	48.8	...	...	30.8	22.6	45.2	21.2	4.6	-1.6	7.0
South Africa	33.7	4.2	6.2	1.2	28.8	26.5	12.1	0.3	4.2	14.3	40.7	2.8	-4.9	6.3
South Sudan	44.9	1.0	...	9.3	35.9	...	...	15.4	...	6.8	...	...	-9.0	0.2
Spain	43.9	7.1	...	1.0	38.2	7.1	67.4	...	...	2.6	...	...	-5.7	0.0
Sri Lanka	18.5	1.3	2.0	2.6	13.4	12.0	9.1	0.8	1.0	12.8	38.5	2.8	-5.2	3.8
St. Kitts Nevis	31.8	2.3	...	...	37.9	20.2	...	3.0	8.7	39.0	...	...	6.2	0.6
St. Lucia	31.8	4.7	4.4	...	25.6	23.0	...	2.1	0.0	14.4	37.2	2.9	-6.2	2.1
St. Vin.and the Gren.	34.3	4.3	...	...	27.6	23.0	...	1.2	10.4	18.8	40.6	4.0	-6.7	1.2
Sudan	12.4	1.7	...	...	11.4	...	...	1.6	4.4	0.3	47.9	0.5	-1.0	38.0
Suriname	28.1	3.4	...	...	24.6	19.4	...	0.8	11.3	14.6	...	...	-3.5	2.6
Swaziland	36.8	6.3	8.3	2.9	35.9	...	...	2.2	7.3	20.1	13.1	0.9	-0.9	5.8
Sweden	52.4	7.9	...	1.1	50.3	20.7	37.4	...	...	10.8	...	...	-2.0	0.1
Switzerland	33.1	7.0	5.3	0.7	33.5	...	45.7	...	...	76.3	...	...	0.5	0.1
Syria	...	1.6	...	...	...	...	...	...	3.3	...	...	...	...	...
Tajikistan	26.5	1.7	3.9	...	25.8	...	...	5.2	0.0	5.4	41.8	5.0	-0.6	6.6
Tanzania	26.5	2.8	...	1.2	21.5	16.1	...	10.0	3.7	14.0	39.7	0.5	-5.0	5.9
Thailand	24.2	3.0	5.8	1.5	21.8	16.5	18.8	0.0	8.6	43.2	37.2	3.6	-2.5	2.0
The Bahamas	22.5	3.5	...	...	17.2	15.5	...	...	23.9	9.6	...	...	-5.2	1.4
The Gambia	27.9	3.3	3.9	...	23.3	...	...	15.3	11.0	24.8	59.0	3.1	-4.6	5.3

Country	(i) Government expenditure				(ii) Revenue		(iii) Social security cont. (% of social prot. exp.)[d]	(iv) ODA received 2012[a]	(v) Illicit fin. flows 2012[b]	(vi) Foreign reserves 2013[c]	(vii) Debt (% of GNI) 2013[a]		(viii) Budget deficit 2014	(ix) Inflation (% change) 2014
	Total 2014	Health 2012[a]	Educ. 2011[a]	Military 2012[a]	Total 2014	Tax 2012[a]					Ext. stocks	Total service		
Timor-Leste	28.9	3.2	9.4	2.3	52.4	...	...	5.1	0.2	...	...	...	23.5	2.5
Togo	26.4	4.4	4.5	...	21.4	16.4	...	6.2	35.2	11.7	24.4	1.5	-5.0	1.5
Tonga	29.3	4.5	...	...	30.0	...	...	16.7	10.5	32.9	41.6	1.4	0.7	1.6
Trinidad Tobago	32.4	2.7	...	...	32.5	...	36.5	...	23.6	38.2	...	...	0.1	4.7
Tunisia	35.3	4.2	...	1.8	30.9	21.0	90.4	2.2	0.0	16.2	55.5	5.9	-4.4	5.7
Turkey	37.3	4.7	...	2.3	35.3	20.4	126.2	0.4	0.7	16.0	47.9	7.6	-2.0	9.0
Turkmenistan	16.4	1.3	...	...	16.5	...	...	0.1	...	...	1.3	0.1	0.0	5.0
Tuvalu	100.2	15.4	...	...	116.0	...	…	61.2	...	...	...	...	15.8	3.3
Uganda	19.8	1.9	3.2	2.5	15.0	13.0	...	7.8	3.3	14.6	21.0	0.4	-4.8	5.5
Ukraine	48.4	4.1	6.2	2.6	42.6	18.2	90.1	0.4	0.6	11.4	81.6	20.9	-5.8	11.4
United Arab Emirates	22.8	1.9	...	5.0	33.3	0.4	15.5	...	3.9	17.0	...	...	10.5	2.2
United Kingdom	42.5	7.8	...	2.2	37.2	25.3	46.7	...	...	3.7	...	...	-5.3	1.6
United States	36.9	8.3	...	4.2	31.4	10.2	57.2	...	...	0.8	...	...	-5.5	2.0
Uruguay	33.5	6.1	4.5	1.9	30.0	19.3	70.5	0.0	3.6	29.2	...	...	-3.5	8.8
Uzbekistan	35.6	3.1	...	...	36.2	...	...	0.5	...	...	18.1	1.2	0.6	10.0
Vanuatu	22.6	3.1	...	...	19.7	...	...	12.9	27.9	...	16.7	1.0	-3.0	1.7
Venezuela	43.2	1.6	...	1.3	29.1	...	...	0.0	1.1	9.5	27.5	4.6	-14.2	64.3
Vietnam	26.9	2.8	...	2.2	20.3	...	...	2.6	3.9	15.2	40.2	3.1	-6.6	5.2
Yemen	29.3	1.5	...	4.5	23.9	...	...	2.0	0.4	13.1	22.1	0.8	-5.4	9.0
Zambia	24.2	4.2	...	1.3	19.0	...	...	3.8	15.3	10.1	25.9	1.2	-5.2	8.0
Zimbabwe	30.9	...	...	2.5	29.2	...	...	8.0	0.0	3.6	69.5	21.2	-1.7	0.3
World	**34.7**	**4.1**	**4.6**	**2.0**	**31.9**	**17.2**	**57.2**	**6.3**	**6.8**	**21.1**	**45.5**	**5.1**	**-2.8**	**4.4**

Notes: 2014 or latest available; in per cent of GDP unless otherwise noted.

Source: IMF's World Economic Outlook (October 2014), unless otherwise noted.

[a] World Development Indicators (2015).

[b] Represents 2010-12 average values based on authors' calculations using Kar and Spanjers (2014), "Illicit Financial Flows from Developing Countries: 2003-2012", (Washington, D.C., Global Financial Integrity).

[c] World Bank's Global Economic Monitor (January 2015).

[d] Ratio of social security contributions to public social protection expenditure (in per cent of GDP, latest year available).

Annex 2. Social security contribution rates

Country	Insured person	Employer	Total	Country	Insured person	Employer	Total
Americas				Andorra	5.5	14.5	20.0
Antigua and Barbuda	7.5	9.5	17	Austria	17.20	25.15	42.35
Argentina	14	21.5[d]	35.5	Belarus	7.0	34.3	41.3
Bahamas	4.4	6.4[d]	10.8	Belgium	13.07	24.80	37.87
Barbados	9.18	10.43[d]	19.61	Bulgaria	12.9	17.8	30.7
Belize	e	e	e	Croatia	20.0	15.2	35.2
Bermuda	5[f]	5[d,f]	10[f]	Cyprus	7.8	7.8	15.6
Bolivia	12.71	27.71[d,g]	39.42	Czech Republic	11	34	45
Brazil	8	21[d,h]	29	Denmark	8	0	8
British Virgin Islands	4	4.5[d]	8.5	Estonia	4	34	38
Canada	6.83	7.582[d,i,j]	14.412	Finland	8.41	22.19	30.60
Chile	17.65	4.61[d]	22.26	France	13.2	37.5	50.7
Colombia	8	28.848	37.848	Germany	20.175	20.575	40.750
Costa Rica	9.17	17.42[d]	26.59	Greece	12.05	23.60	35.65
Cuba	1	12.5	13.5	Guernsey	6.0	6.5	12.5
Dominica	4.5	7.25[d]	11.75	Hungary	16	27	43
Dominican Republic	5.91	15.39[d]	21.3	Iceland	4.00	15.79	19.79
Ecuador	8.64	10.36	19	Ireland	4.00	4.25	8.25
El Salvador	9.25	12.05	21.3	Isle of Man	11.0	12.8	23.8
Grenada	4	5[d]	9	Italy	9.19	33.68	42.87
Guatemala	4.83	10.67	15.5	Jersey	6.0	6.5	12.5
Guyana	5.6	8.4	14	Latvia	10.50	23.59	34.09
Haiti	6	8[d]	14	Liechtenstein	12.55	15.90	28.45
Honduras	3.5	7.2[d]	10.7	Lithuania	9.00	31.17	40.17
Jamaica	2.5	2.5[d,j]	5	Luxembourg	12.70	11.95	24.65
Mexico	2.4	31.3[d,j]	33.7	Malta	10	10	20
Nicaragua	6.25	14.5[d]	20.75	Moldova	6	23	29
Panama	9.75	12.25[d]	22	Monaco	6.55	23.48	30.03
Paraguay	9	14	23	Netherlands	22.70	19.07	41.77
Peru	13[m]	9.63[d]	22.63	Norway	8.2	14.1	22.3
Saint Kitts Nevis	5	6[d]	11	Poland	22.71	19.38	42.09
Guyana	5.6	8.4	14	Portugal	11.00	23.75	34.75
Haiti	6	8[d]	14	Romania	16.5	28	44.5
Honduras	3.5	7.2[d]	10.7	Russia	0	30.2	30.2
Jamaica	2.5	2.5[d,j]	5	San Marino	6.3	31.0	37.3
Mexico	2.4	31.3[d,j]	33.7	Serbia	19.9	17.9	37.8
Nicaragua	6.25	14.5[d]	20.75	Slovak Republic	13.4	33.2	46.6
Africa				Slovenia	22.10	16.63	38.73
Algeria	9	25	34	Spain	6.25	31.13	37.38
Benin	3.6	16.4 [c]	20	Sweden	7.00	31.42	38.42
Botswana	0	0 [e]	0	Switzerland	13.25	13.35	26.60
Burkina Faso [f]	5.5	16 [c,e]	21.5	Turkey	15.0	21.5	36.5
Burundi [f]	4	9 [c,e]	13	Ukraine	3.6	36.1	39.7
Cameroon [f]	2.8	12.95 [c,e]	15.75	UK	11.1	13.8	24.9
Cape Verde [f]	8	17 [c,e]	25	**Asia-Pacific**			
Cen. Afr. Rep.[f]	3	19 [c,e,g]	22	Armenia	8	0[b]	8[b]
Chad [f]	3.5	16.5 [c,e,g]	20	Australia	0	9.5[b]	9.5[b]
Congo (Brazzaville) [f]	4	20.28 [c,e,g]	24.28	Azerbaijan	3	22[c]	25[c]
Congo (Kinshasa)	3.5	9 [c,e]	12.5	Bahrain	7	13	20
Côte d'Ivoire [f]	6.3	15.45 [c,e]	21.75	Bangladesh	0[c]	0[c]	0[c]
Djibouti [f]	4	15.7	19.7	Brunei	8.5	8.5[b]	17[b]

Country	Insured person	Employer	Total	Country	Insured person	Employer	Total
Egypt [f]	14	26 [e]	40	Myanmar	6	7	13
Equatorial Guinea [h]	4.5	21.5	26	China	9	24[c]	33[c]
Ethiopia	7	11	18	Fiji	8	8[c]	16[c]
Gabon [f]	5	20.1 [c,e,g]	25.1	Georgia	0	0b[c]	0[b,c]
Gambia [f]	5	30 [e]	35	Hong Kong	5	5[c]	10[c]
Ghana	5.5	13 [e]	18.5	India	13.75	21.25	35
Guinea [f]	5	20 [c,e,g]	25	Indonesia	2.5	8[c]	10.5[c]
Kenya [f]	5	5[e]	10	Iran	7	23c	30[c]
Lesotho	0	0 [e]	0	Iraq	4.1	12.9	17
Liberia	3	4.75 [e]	7.75	Israel	0.39	3.43	3.82
Libya	5.25	12.95	18.2	Japan	9.237[b]	9.987[b]	19.224[b]
Madagascar [f]	1	13 [e,g]	14	Jordan	6.5	12.25	18.75
Malawi	0	0 [e]	0	Kazakhstan	10	0[b]	10[b]
Mali [f]	6.66	17.9 [e,g]	24.56	Kiribati	7.5	7.5[c]	15[c]
Mauritania [f]	3	14 [c,e,g]	17	Kuwait	5.5	10.5	16
Mauritius [f]	4	6 [e,k]	10	Kyrgyzstan	10	15.25	25.25
Morocco [f]	6.29	18.5 [c,e]	24.79	Laos	4.75	5.25	10
Namibia [f]	0.9	0.9 [e,k]	1.8	Lebanon	0	14.5	14.5[c]
Niger [f]	5.25	15.4 [c,e,g]	20.65	Malaysia	12	14.75	26.75
Nigeria	7.5	8.5 [e]	16	Marshall Islands	7	7	14
Rwanda [f]	3	5 [e]	8	Micronesia	7.5	7.5	15
São Tomé Prin.	4	6	10	Nepal	10	10[c]	20[c]
Senegal [f]	11	23 [e,g]	34	New Zealand	0	0[b]	0[b]
Seychelles	1.5	1.5 [l, m]	3	Oman	7	11.5	18.5
Sierra Leone	5	10 [e]	15	Pakistan	1	11	12[c]
South Africa [f]	1	1[e,k]	2	Palau	6	6	12
Sudan	8	19 [e]	27	Papua N. Guinea	6	8.4	14.4
Swaziland [f]	5	5 [e]	10	Philippines	3.63	7.37[b]	11[b]
Tanzania	10	10	20	Qatar	5	10[c]	15[c]
Togo	4	17.5 [e,g]	21.5	Samoa	5	6[c]	11[c]
Tunisia	8.8	15.45 [e,n]	24.25	Saudi Arabia	10	12	22
Uganda	5	10 [e]	15	Singapore	20	16[c]	36[c]
Zambia [f]	5	5 [e]	10	Solomon Islands	5	7.5[c]	12.5[c]
Zimbabwe	3.5	3.5 [e]	7	South Korea	5.195	6	11.195
Europe				Sri Lanka	8[b]	12[c]	20b[c]
Albania	11.39	16.51	27.90	Syria	7	17.1[c]	24.1[c]

Notes: This table provides an overview and contribution rates are not directly comparable across programs and countries. Rates are in per cent of covered earnings. For a full picture of the different contributions to old age, disability, and survivors schemes; sickness and maternity; work injury; unemployment; and family allowances, see ISSA (www.issa.int/ssptw) and the ILO social protection platform (www.social-protection.org/).

a. Includes Old Age, Disability, and Survivors; Sickness and Maternity; Work Injury; Unemployment; and Family Allowances. In some countries, the rate may not cover all of these programs. In some cases, only certain groups, such as wage earners, are represented. When the contribution rate varies, either the average or the lowest rate in the range is used.

b. Contributions finance old-age benefits only.

c. Employers pay the total cost of family allowances.

d. Government pays the total cost of the Old Age, Disability, and Survivors program.

e. Employers pay the total cost of work injury benefits.

f. Contributions are submitted to a ceiling on some benefits.

g. Employers pay the total cost of maternity benefits.

h. Data are at least 2 years old.

i. Also includes the contribution rates for other programs.

j. There is no Disability or Survivors program. An Old Age program has yet to be implemented.

k. Government pays the total cost of family allowances.

l. Government pays the total cost of cash sickness and maternity benefits.

m. Government pays the total cost of work injury benefits. n. National Social Security Fund pays the total cost of unemployment benefits.

Source: SSA (Social Security Administration of the United States) and ISSA (International Social Security Association) 2014.