



► Sustainable Financing of Social Protection

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► Executive summary

After the Second World War, many G20 countries and invitees¹ have made significant progress in the extension of social protection coverage, reinforced their social protection systems and established effective social protection floors. Some have achieved universal or near-universal coverage in different branches of social protection through a combination of non-contributory and contributory schemes and programmes. However, other G20 countries are still lagging behind in terms of coverage, especially for essential health services. The COVID-19 outbreak highlighted the strong need for sustainable investment in social protection including, essential health care.

ILO estimates on the financing gap show that across the G20, the additional resources needed for achieving universal social protection coverage range from as high as 17 per cent of GDP to as low as zero per cent in G20 countries where full coverage is observed. Countries with near zero financing gaps include those with mainly means-tested social protection systems and those that combine earnings-related benefits with a second layer of means-tested unemployment or social assistance programmes.

Across all countries with available data, there is a trend towards social-contribution financing. However, often, contribution-based social protection systems also require additional general-revenue funding because (i) rights to contributory benefits may be accumulated even when not paying into the system, e.g. pension rights acquired during periods of unemployment or parental leave, (ii) claims may exceed contributions during extraordinary times (e.g. unemployment schemes in times of economic crises), and (iii), contribution bases of occupational schemes may shrink because of occupational shifts.

There is no one-size-fits-all approach for extending fiscal space for social protection. ILO Recommendation No. 202 calls upon countries to consider different ways of mobilizing the necessary resources. Some G20 countries have embraced the provisions of R202 and have recently scaled up efforts towards extending social security finance by increasing contributory revenues. However, the declining share of labour income in total income is posing a threat to the viability of contributory social protection systems.

To counter these trends G20 countries have extended social protection coverage for difficult-to-cover groups such as rural, gig, and informal economy workers. Others have scaled up awareness-raising campaigns regarding the advantages of affiliation to social protection systems. Simplifying administrative procedures, strengthening contribution collection, and preventing fraud were also effective strategies used in the G20 to extend the fiscal space for contributory benefits.

Taxation was another key channel used in the G20 for mobilizing resources to ensure universal social protection coverage. However, declining corporate tax rates across all G20 countries with available data and lower revenues from corporate taxes are posing challenges to ensure a stable stream of tax revenues to finance social protection. To increase the availability of resources for social protection, G20 governments have used revenues from environmental taxes, introduced voluntary tax compliance programmes for MSMEs and made dedicated efforts to fight illicit financial flows.

¹ From this point, G20 countries and invitees are referred to as G20 countries.

▶ 1. Introduction

In addition to claiming millions of lives, the COVID-19 pandemic has caused an unprecedented loss of jobs and livelihoods and exacerbated income insecurity around the world. The impact has been particularly adverse for people without access to social protection, including those working in the informal and care economies, women, children, youth, and those without access to digital technologies.

More recently, fragilities in the global food and energy systems, as well as in the global economic and financial systems, have triggered a cost-of-living crisis around the world unseen in at least a generation. This has to be set against the backdrop of the triple planetary crises (climate change, pollution, and loss of biodiversity) and its adverse impacts on economies and societies, including on water security and food production, health, and well-being.²

In the midst of these challenging circumstances, major decent work deficits persist around the world, undermining social justice. In 2022, an estimated 214 million workers were living in extreme poverty (earning less than US\$1.90 per day per person in purchasing power parity [PPP] terms), corresponding to around 6.4 per cent of employed people.³ More than 60 per cent of workers – some 2 billion men and women – continue to make their living in the informal economy, mostly but not exclusively in developing countries.⁴ The great majority of these workers do not have access to social protection⁵ and fundamental rights at work,⁶ and, most often, their working conditions are worsened when gender intersects with other characteristics such as, age, disability, migration and indigenous peoples status.⁷

Incomes have continued to be distributed highly unequally, such that many workers have failed to escape poverty.⁸ Evidence shows that, between 2005 and 2021, income inequality has increased in many G20 emerging countries with a rising share of income held by the top 10 per cent and a declining share held by those at the bottom 50 per cent of the income distribution.⁹ Evidence from G20 countries shows that, more income equality is associated with greater per capita income and that countries that have higher social protection expenditure per capita are also those that show lower levels of inequality.¹⁰ This means that, social protection is not only a human right¹¹ and an effective instrument to enhance economic dynamism and development, but also a powerful tool to redistribute income and reduce poverty and inequality across the lifecycle.¹²

The rising levels of inequality are also compounding the challenges for central bankers in their attempt to bring down inflation rates. With a larger proportion of aggregate consumption driven by households earning the top 10 per cent of income that are insensitive to interest rate hikes, there is a risk that a monetary policy much tighter than in the past will be perceived as necessary in order to produce a significant impact on inflation. This will disproportionately raise the cost for poorer households in terms of higher prices and lower employment opportunities and also for businesses, especially MSMEs, with high levels of external financing.¹³

² IPCC 2022.

³ ILO 2023.

⁴ ILO 2018.

⁵ As of 2020, across the world 53.1 – as many as 4.1 billion people – were left fully unprotected by social protection. See also ILO 2021c.

⁶ ILO 2021b; ILO 2021c; ILO 2018.

⁷ ILO 2023; Cattaneo, Beghini, and Pozzan 2022.

⁸ World Inequality Lab 2022.

⁹ Ibid.

¹⁰ Razavi and Cattaneo Forthcoming.

¹¹ UN 1948.

¹² Razavi and Cattaneo Forthcoming.

¹³ Ibid.; BIS 2022; ILO 2023.

In the current context of raising income inequality, economic growth is forecasted to be below 2 per cent in 2023,¹⁴ with serious risks of tax base erosion used to finance contributory and non-contributory benefits. Keeping existing social protection systems afloat and ensuring wider and more adequate coverage where gaps exist will be an even greater challenge with rising debt burdens. The ILO normative framework on financing social protection (Box 1) provides guidance regarding financing of social security and how to expand the fiscal space for social protection.¹⁵

This paper describes the current reach of social protection systems across G20 countries and associated financing gaps (Section 2), as well as current funding mixes (Section 3 **Error! Reference source not found.**). The last section outlines approaches that various G20 countries adopted for expanding fiscal space for social protection (Section 4).

Box 1. What do International Labour Standards say about financing social security?

The key international labour standards of the ILO in the field of social security are the Social Security (Minimum Standards) Convention, 1952 (Number 102), and the Social Protection Floors Recommendation, 2012 (Number 202). While Convention 102, ratified by 63 countries (Jan. 2023), establishes minimum criteria regarding the design and governance of social security systems, Recommendation 202 provides key principles and criteria and envisions a two-dimensional strategy, urging countries to guarantee at least basic levels of income security and access to essential healthcare for all (horizontal dimension), and to incrementally secure higher levels of protection for as many persons as possible and as soon as possible (vertical dimension).

The international labour standards also provide principles and criteria for the financing of social protection systems. Article 71 of Convention 102 establishes, in its first paragraph, that the cost of social security schemes (including administration) shall be financed collectively by contributions and/or taxes, with due attention to avoiding hardship for persons of small means. In its second paragraph, it sets out that the total insurance contribution borne by workers shall not exceed 50% of the total cost of the social security scheme, while employers (and the State when applicable) contribute at least the other half of the scheme's cost. In the case of employment injury schemes, the employer pays for the whole cost. In the final paragraph, the article establishes the general responsibility of the State for the provision of the benefits, and it also requests countries to produce actuarial reviews to ensure financial equilibrium – periodic ones and before any reform that modifies benefits or contributions/taxes.

Recommendation 202 establishes the concept of national social protection floors, that comprise basic social security guarantees providing basic income security as well as essential healthcare for children, persons in active age and for older persons. In its article 12, Recommendation 202 states that national social protection floors shall be financed by national revenues (mainly taxes and social contributions), whereas countries with lower economic capacities can seek international cooperation and support to complement their own domestic efforts. In article 3, the Recommendation provides the principles to be applied, including on financing (h-k): solidarity, diversity of methods, sound management and financial, fiscal and economic sustainability. Article 11 states that Members should mobilize funds from a diversity of sources, including a broader and more progressive revenue base, ensure stronger compliance with tax and contribution obligations, as well as expenditure reprioritization. Members are also advised to implement measures to prevent fraud, tax evasion and non-payment of contributions.

¹⁴ ILO 2023.

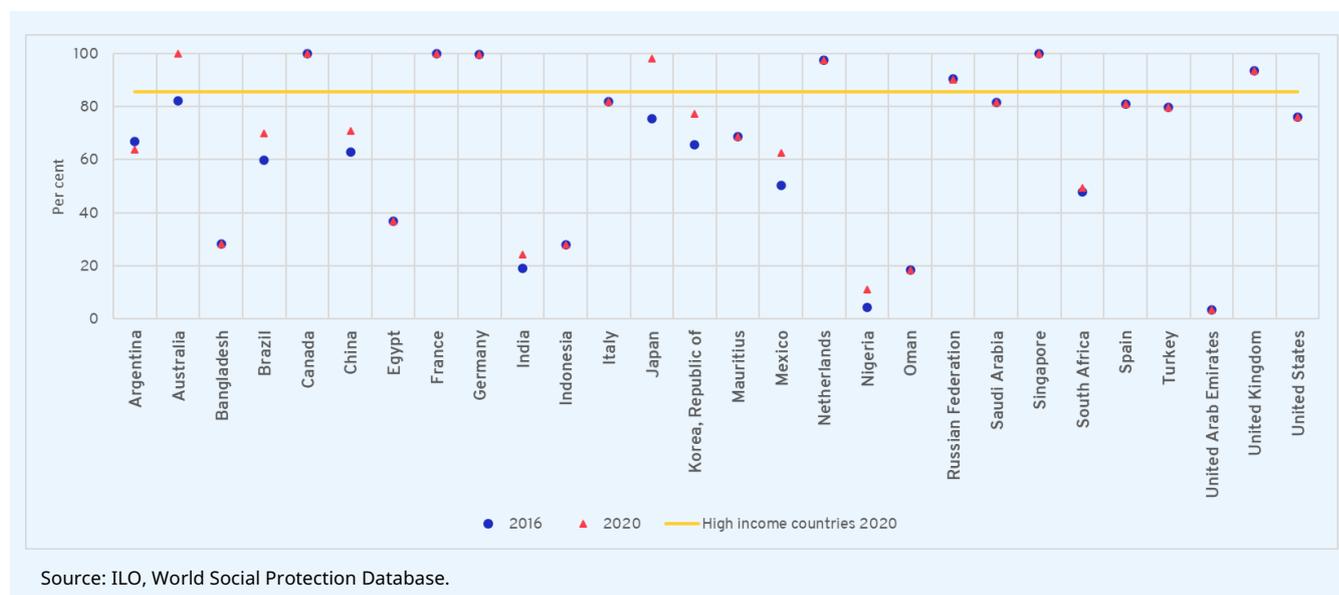
¹⁵ Cichon, International Labour Office, and International Social Security Association 2004.

► 2. Social protection coverage and financing gaps in G20 countries

1. Effective social protection coverage, SDG indicator 1.3.1¹⁶

After the Second World War, many G20 countries and invitees¹⁷ have made significant progress in the extension of social protection coverage, reinforced their social protection systems and established effective social protection floors. Some have achieved universal or near-universal coverage in different branches of social protection through a combination of non-contributory and contributory schemes and programmes. For example, this was the case in **Canada, France, Germany, the Netherlands, the Russian Federation, Spain, the United Kingdom, and Singapore**. In some G20 countries, progress in closing social protection coverage gaps was evident between 2016 and 2020. Figure 1, which presents the proportion of the population covered by at least one social protection cash benefit (SDG indicator 1.3.1), shows that **Japan** managed to increase effective coverage by 23 percentage points in 4 years, reaching an effective social protection coverage of 98 per cent in 2020. This increase was mainly driven by an increase in social protection coverage for the unemployed and for mothers of newborns. Similarly, **Australia** increased coverage for at least one social protection cash benefit from 82 to 100 per cent between 2016 and 2020 with progress driven by the achievement of universal coverage for old age pensions and for vulnerable persons. The latter group comprises children, people of working age and older persons not otherwise protected by contributory schemes. **Brazil, China, India, Nigeria, Mexico, South Africa** and the **Republic of Korea** have also increased social protection coverage between 2016 and 2020.

► **Figure 1. SDG indicator 1.3.1: effective social protection coverage, 2016 and 2020 or latest available year**



¹⁶ Proportion of population covered by at least one social protection cash benefit: ratio of the population receiving cash benefits under at least one of the contingencies/social protection functions (contributory or non-contributory benefit) or actively contributing to at least one social security scheme to the total population. For a full definition see: <https://unstats.un.org/sdgs/metadata/files/Metadata-01-03-01a.pdf>

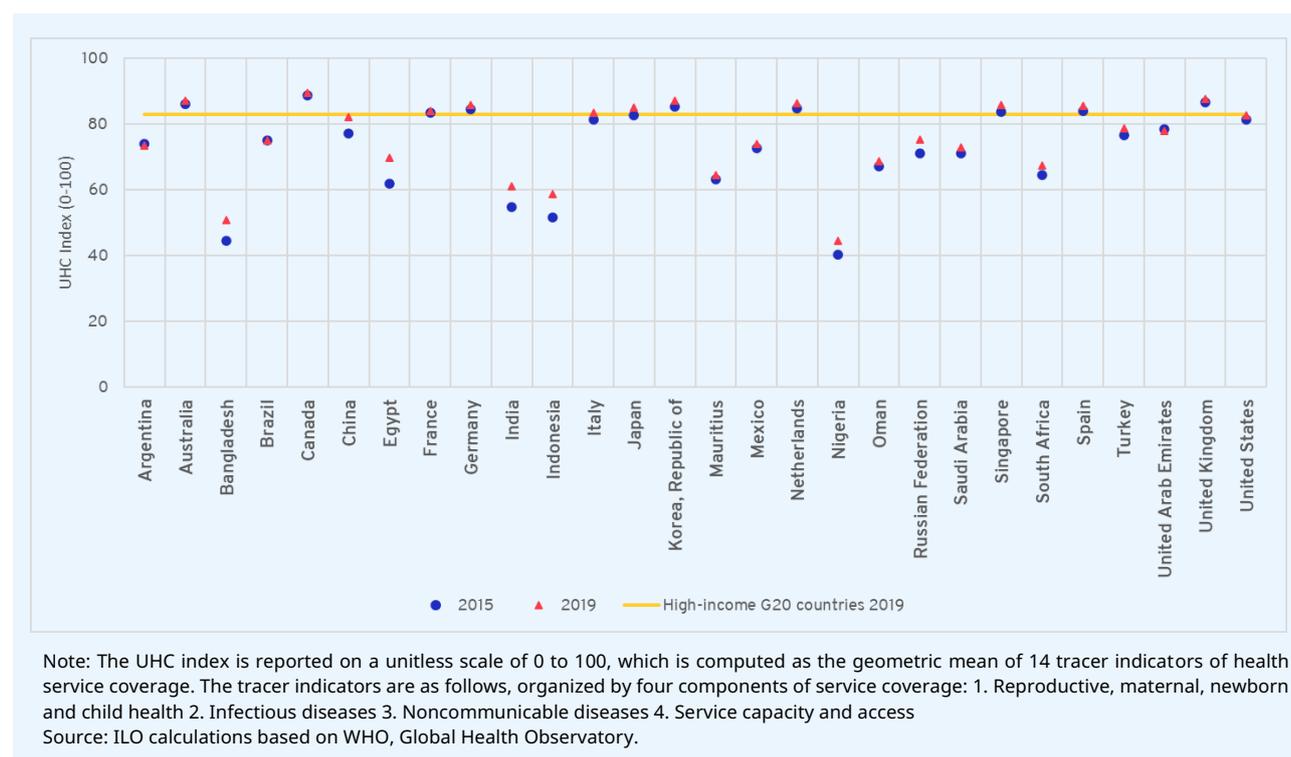
¹⁷ From this point, G20 countries and invitees are referred to as G20 countries.

Although health coverage is one of the four basic guarantees of social protection floors, as defined in Recommendation No. 202, it is not monitored under SDG indicator 1.3.1, but under SDG indicator 3.8.1, which corresponds to the Universal Health Coverage (UHC) Index. The index captures coverage of essential health services, defined as the average coverage of essential services.¹⁸ The COVID-19 crisis has revealed large gaps in social health protection, underlining the point that ensuring universality and continuity of coverage is essential in a context where the health of one person affects the health of everyone.¹⁹

Developed G20 countries had already achieved very good coverage of essential services with UHC index scores above 80 points at the onset of the pandemic. Between 2015 and 2019, many emerging G20 countries scaled up efforts to improve their health systems, and improvements are evident in Figure 2, which presents the evolution of the UHC index during the 4-year period. Most notably, **Egypt** increased the UHC index by 8 points, followed by **Indonesia** (8 points), **India** (6 points) and **Bangladesh** (6 points). Progress was also evident in **China**, which expanded social health protection coverage and reached UHC index score of 82 points in 2019, in line with the UHC index population-weighted average of 83 points for high-income G20 countries in the same year.

The COVID-19 outbreak highlighted the strong need for sustainable investment in health systems, including the health workforce and equipment.²⁰ Austerity measures implemented in pre-pandemic times, which entailed steep and indiscriminate cuts to government spending, worsened the effects of the pandemic.²¹ Evidence also showed that austerity policies had negative effects on health outcomes, especially for women living in disadvantaged areas.²²

► **Figure 2. SDG indicator 3.8.1. Universal Health Coverage Index, 2015 and 2019**



¹⁸ For a full definition see: <https://unstats.un.org/sdgs/metadata/files/Metadata-03-08-01.pdf>

¹⁹ ILO 2021c.

²⁰ ILO 2020.

²¹ Arrieta 2022; ILO 2021a.

²² Walsh et al. 2022.

2. Financing gaps

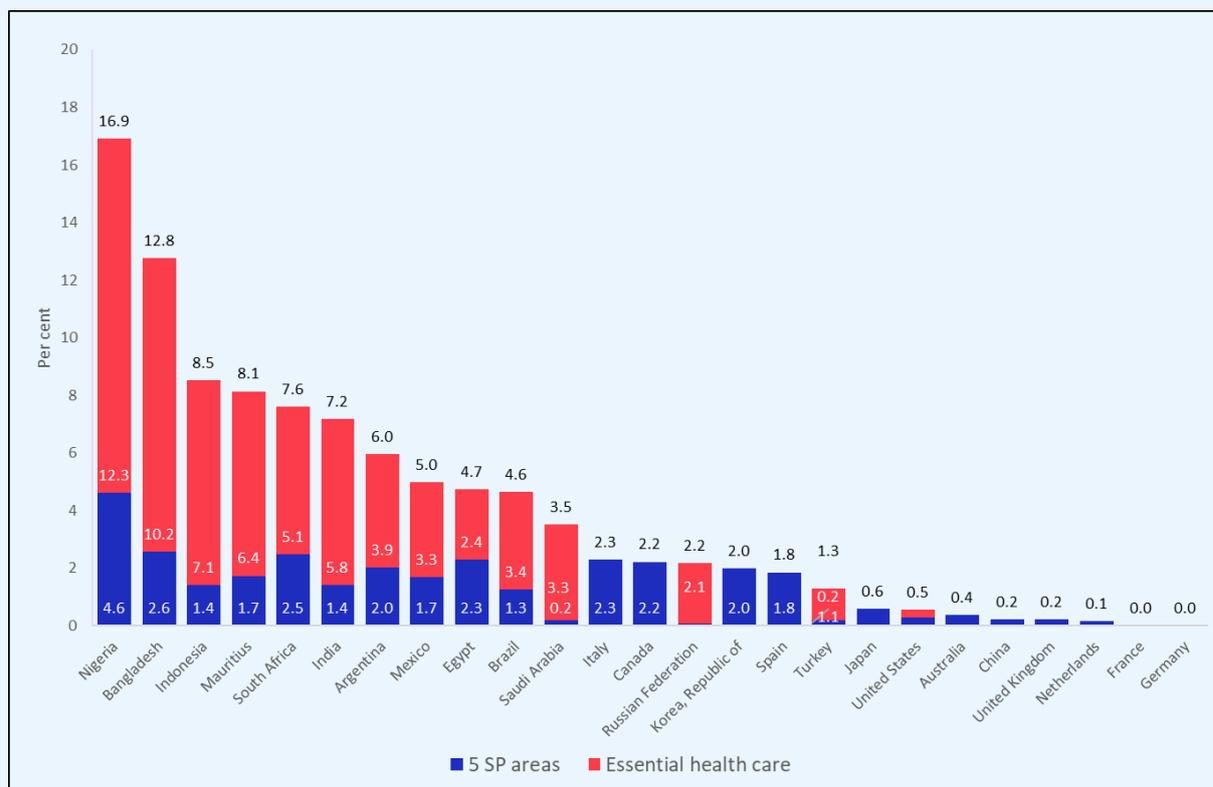
The evidence presented in the previous section showed that social protection coverage gaps persist across the G20 and that further investment is needed to fill these gaps. In particular, prioritizing investments in nationally defined social protection floors is vital for delivering on the promises of the 2030 Agenda. Figure 3 presents the social protection financing gaps, measured as a percentage of GDP, for achieving universal social protection in 2022 across the G20. As expected, the financing gaps for developing countries in the G20 are significant. For instance, in **Nigeria**, there is a need to invest an additional 4.6 per cent of GDP, or 23 billion USD, to achieve universal social protection coverage for children, mothers of newborns, persons with disabilities, persons in old-age and the unemployed. Moreover, ensuring universal coverage for essential health care services²³ would mean progressively mobilizing an additional 12.3 per cent of GDP or 62 billion USD. A similar situation is estimated in other emerging countries such as **Bangladesh**, followed by **Indonesia**, **Mauritius** and **India**. In **India**, achievement of universal social protection including universal coverage for essential health care services, would require spending an additional 7.2 per cent of GDP or 248 billion USD.

In developed G20 countries and **China**, financing gaps in essential health care are comparatively low, while gaps for the 5 social protection areas (children, disability, maternity, old-age, unemployment) are below 3 per cent of GDP. Figure 4 corroborates these findings by showing the proportion of total investment needed to close the financing gaps disaggregated by each social protection area. For example, in **Australia**, the **Netherlands** and in the **United Kingdom**, additional investments would need to be directed towards covering the unemployed, while in **Spain** the unemployed would require 73 per cent of the total investments needed to achieve universal social protection coverage. In **China**, the largest part of resources – 51 per cent or 21 billion USD – would need to be directed towards children, in **Japan** 73 per cent of the funds or 18 billion USD required to ensure universal social protection coverage would be for persons with disabilities, while in **Italy** 43 per cent or 19 billion USD would be for old age persons.

The ILO Social Protection Floors Recommendation (No.202) provides a useful framework that G20 countries may embrace to design and implement policies aimed at securing universal social protection. In particular, it calls for using a variety of methods to mobilize the necessary resources to ensure financial, fiscal and economic sustainability of national social protection floors, taking into account the contributory capacities of different population groups. Such methods may include, individually or in combination, effective enforcement of tax and contribution obligations, reprioritizing expenditure, or a broader and sufficiently progressive revenue base (see also Box 1 and Chapter 5).

²³ Universal coverage for essential health services is proxied by the achievement of Universal Health Care Index value of 84 points, which corresponds to population weighted average of the Universal Health Care Index observed across high-income economies in the year 2022

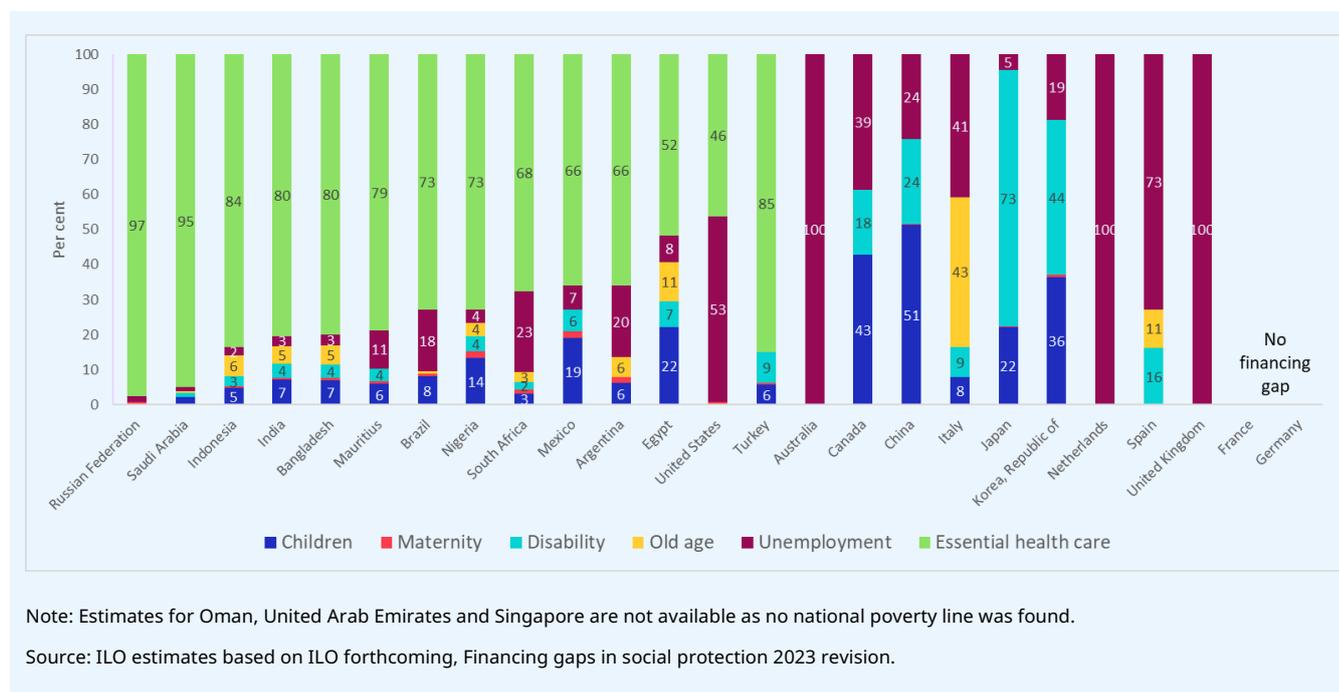
► **Figure 3. Financing gap for achieving universal social protection coverage, as a percentage of GDP, G20 members and invitees, 2022**



Note: The estimations for the 5 social protection areas (children, disability, maternity, old-age, unemployment) consider the social protection coverage rates of 2022 with GDP at current prices and national poverty lines for the year 2022. The estimation for essential health care is produced in two steps. 1) The elasticity of the Universal Health Coverage Index (SDG indicator 3.8.1) to health expenditure as percentage of GDP is estimated in a panel regression covering 194 countries for the years 2000 to 2022. 2) The estimated elasticity is used to calculate in each country the additional percentage points of GDP that needs to be allocated to health expenditure to reach a Universal Health Care Index value of 84 points, which corresponds to population weighted average of the Universal Health Care Index observed across high-income economies in the year 2022. Estimations for Oman, United Arab Emirates and Singapore are not available as no national poverty line was found.

Source: ILO estimates based on ILO forthcoming, Financing gaps in social protection 2023 revision.

► **Figure 4. Distribution of the financing gap for achieving universal social protection coverage across the G20 members and invitees, 2022**



Differences in public social spending explain some, but not all, of this cross-country variation in social protection coverage and financing gaps. Among countries with available data, the **Republic of Korea** does have the lowest level of aggregate social spending, and **France** the highest (**Error! Reference source not found.5**). But the composition of public social spending on health, working-age benefits and old-age pensions matters as well, especially since health services and some old-age pensions are privately provided in some countries. For instance, public social spending is somewhat higher in the **United States** than in **Australia**, where more jobless low-income individuals receive support. This is because public social expenditure in the **United States** is mostly made-up of old-age pensions and health services, whereas most old-age pensions in **Australia** are private, and public social expenditure in **Australia** thus skews more towards working-age support. Public social expenditure in **Italy** is also higher than in **Germany**, where social protection financing gaps are zero (Figure 3). As a percentage of GDP, **Italy** also spends more on working-age support than **Germany**, however benefits in **Germany** are more targeted to low-income households.²⁴

The gap in coverage rates between standard and non-standard workers are the largest where (i) benefits are mainly contribution-based, (ii) non-standard workers are not covered at all or only partially covered, and (iii) social assistance programmes either do not exist or are inaccessible (e.g. **Italy** and **Korea**). Countries with low or no access gaps include those with mainly means-tested social protection systems (**Australia**, the **United Kingdom** and the **United States**), and those that combine earnings-related benefits with a second layer of means-tested unemployment or social assistance programmes (e.g. **France** and **Germany**).²⁵

²⁴ Immervoll, Hye, et al. 2022; OECD 2022.

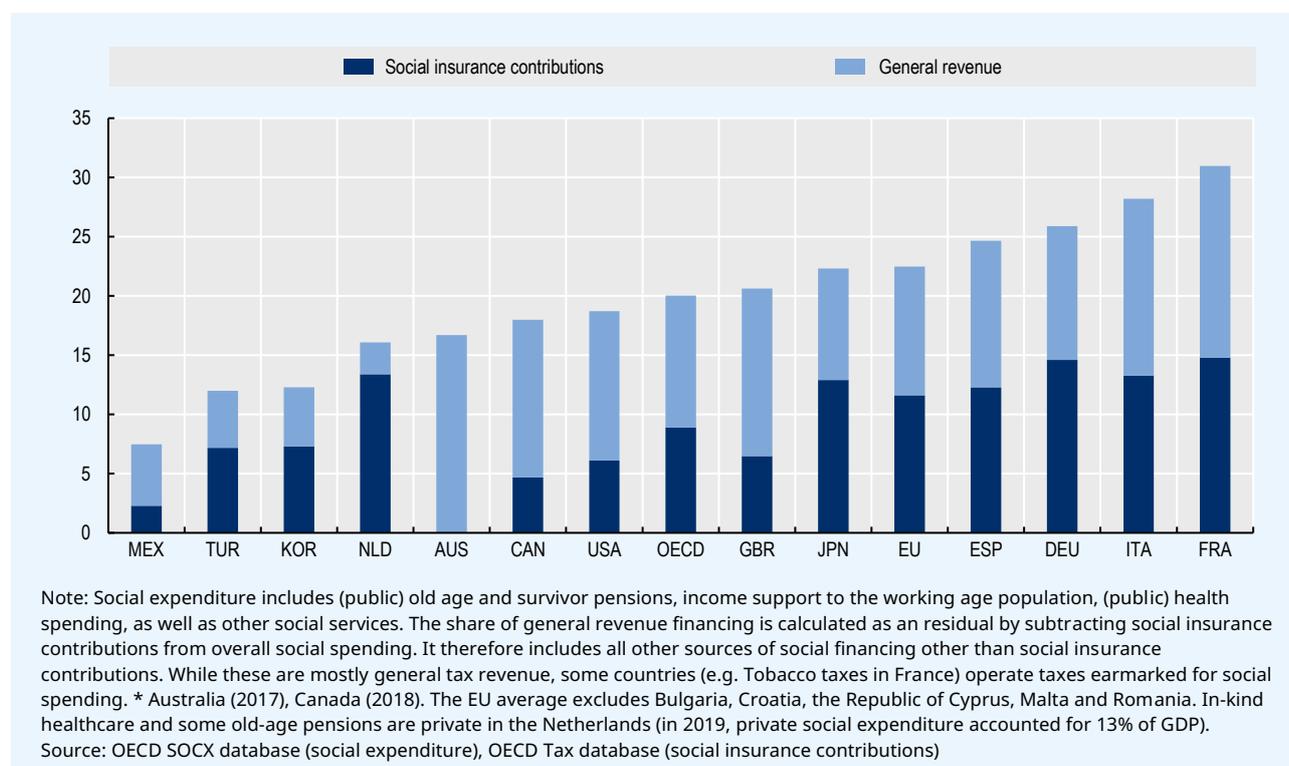
²⁵ OECD Forthcoming.

► 3. Financing structure of social protection systems in the G20

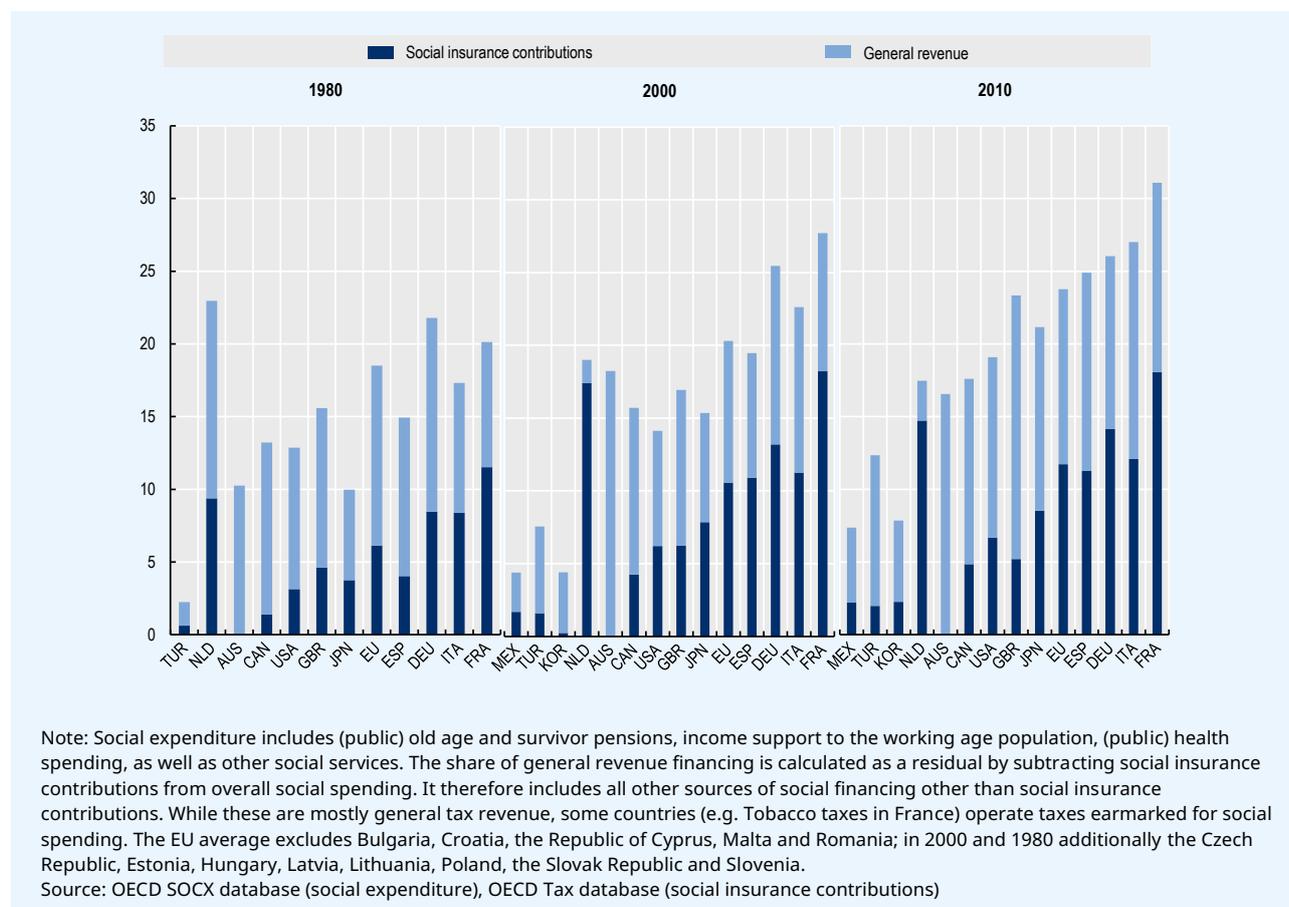
Financing strategies and policy setups differ significantly across countries. Some countries rely mainly on general revenue to grant basic health-services to all residents and means-tested benefits for working-age support, and have a high share of private expenditure for old-age pensions (e.g. **Australia**, **Canada**, the **United Kingdom** and, to a lesser degree, the **United States**). In other countries, workers acquire entitlements to earnings-related benefits such as unemployment insurance, disability and parental-leave benefits as well as old-age pensions through contributions, with a limited role for general-revenue-financed, means-tested transfers for those who do not have the required contribution history, but operate a general-revenue financed healthcare system (e.g. **Italy**, the Republic of **Korea** or **Spain**). A third group combines a contribution-funded health-care system and insurance-based out-of-work benefits (including old-age pensions) with means-tested benefits for low-income households, and universal benefits for children (e.g. **France** and **Germany**, see **Error! Reference source not found.5**).

The funding mix can differ across countries that have similar levels of spending, reflecting different policy institutions (such as privately or publicly-funded healthcare and pension systems), but also different strategies for balancing the various objectives of social protection – such as risk sharing, income smoothing over time, inequality reduction and poverty alleviation. Often, contribution-based social protection systems also require additional general-revenue funding because (i) rights to contributory benefits may be accumulated even when not paying into the system, e.g. pension rights acquired during periods of unemployment or parental leave, (ii) claims may exceed contributions during extraordinary times (e.g. unemployment schemes in times of economic crises), and (iii), contribution bases of occupational schemes may shrink because of occupational shifts – e.g. the miners' pension scheme in **Germany**.

► **Figure 5. Public social spending by social security contributions and general revenue funding, in % of GDP, 2019**



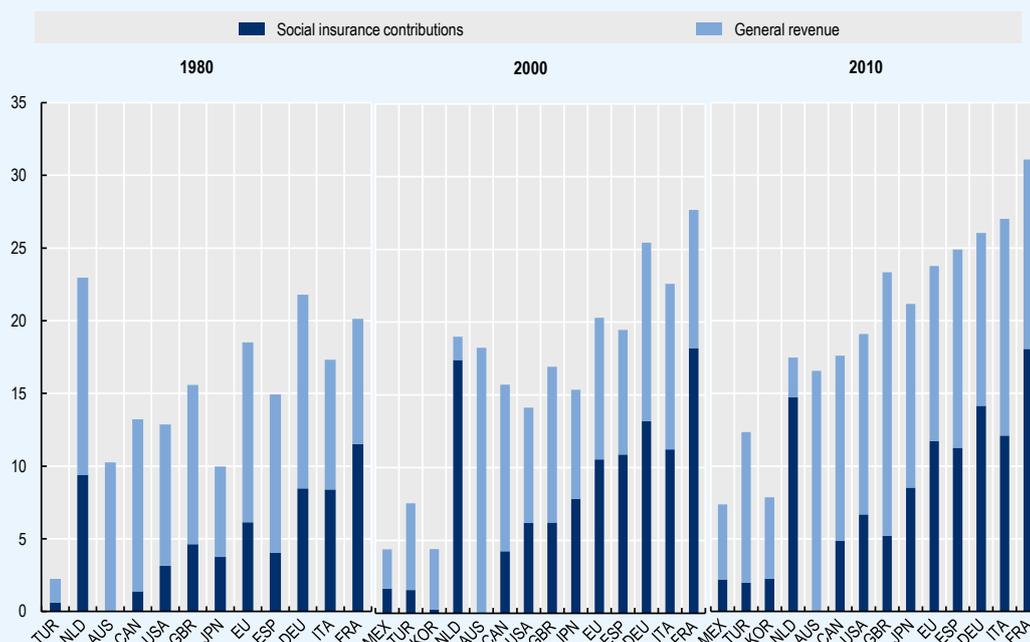
► **Figure 6. Development of public social spending by social security contributions and general revenue funding, in % of GDP**



Most G20 countries with mature social protection systems expanded social spending over the last four decades, with particularly strong increases in **Japan, Italy and France** (+ eleven to twelve percentage points of GDP). **Japan** mainly increased spending on health services, and to a lesser degree old-age pensions, and **Italy and France** mainly on old-age pensions and working-age cash benefits. Also, **Turkey** increased spending by nine percentage points, mainly on old-age pensions and healthcare. The **Netherlands** are an outlier in that public social expenditure declined since 1980, mainly because of a reform that privatised healthcare provision in 2006.²⁶

Across all countries with available data, there is a trend towards social-contribution financing. Thus, an increasing share of total social protection spending is paid exclusively by workers and employers. **Turkey** almost reversed its funding mix from two-thirds general revenue, one-third social contribution-funded to two-thirds contribution funded. **Japan, Spain and Germany** also increasingly rely on social contributions to fund rising social expenditure. **France**, and to a lesser extent **Italy**, are the only countries with available data that increased the share of general revenue (Figure 6. Development of public social spending by social security contributions and general revenue funding, in % of GDP

²⁶ Immervoll, Fernandez, et al. 2022.



Note: Social expenditure includes (public) old age and survivor pensions, income support to the working age population, (public) health spending, as well as other social services. The share of general revenue financing is calculated as a residual by subtracting social insurance contributions from overall social spending. It therefore includes all other sources of social financing other than social insurance contributions. While these are mostly general tax revenue, some countries (e.g. Tobacco taxes in France) operate taxes earmarked for social spending. The EU average excludes Bulgaria, Croatia, the Republic of Cyprus, Malta and Romania; in 2000 and 1980 additionally the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.

Source: OECD SOCX database (social expenditure), OECD Tax database (social insurance contributions)

6).

► 4. Approaches for expanding and financing social protection among G20 members

There is no one-size-fits-all approach for extending fiscal space for social protection. ILO Recommendation No. 202 calls upon countries to consider different ways of mobilizing the necessary resources (Box 1). G20 countries where large coverage and financing gaps persist need to invest more and better in social protection, on the basis of principles of universality, adequacy, sustainability and solidarity. Not only the design and implementation of social protection systems, including floors, but also decisions on their financing need to be adapted to the developments in the world of work and guided by effective social dialogue. G20 experiences show that countries usually adopt different strategies for creating fiscal space.²⁷ Some of the emerging strategies used across the G20 are discussed below.

1. Extending social security finance by increasing contributory revenues

Social security contributions play a critical role in financing social protection. Social security contributions are linked to legal entitlements and should be considered a deferred wage and a social and economic investment.

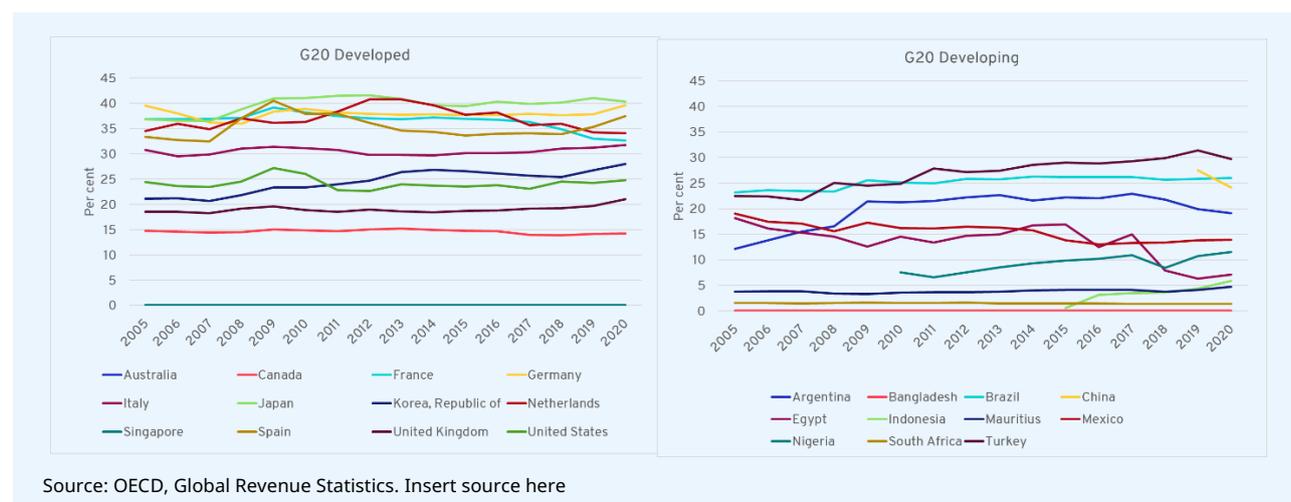
²⁷ ILO 2019a; ILO 2019b; ILO 2021c.

According to the ILO Convention C102, social security contributions shall be collected in a manner which avoids hardship to persons of small means and takes into account the economic situation of the member and the classes of persons protected. Furthermore, the total of the insurance contributions borne by the employees protected shall not exceed 50 per cent of the total of the financial resources allocated to the protection of employees and their families including children.²⁸

Social security contributions have represented a reliable way to finance social protection in many G20 countries, with the highest share of total government revenues represented by social security contributions at 40.4 per cent in **Japan** (Figure 7).²⁹ In most G20 countries where the initial design of social protection systems was made under strong Bismarckian influence linked to social insurance and even in those countries that have moved towards the Beveridge universalist model, social security contributions continue to be predominant, regardless of their level of national income.³⁰

In some G20 countries, social contributions are low or virtually non-existent, but not always for the same reasons. **Canada**, the **United Kingdom** and **Singapore** have mature social security systems that are mostly tax-financed. In G20 emerging countries, social security systems are still in need of substantial investments to reach universal coverage, which explains the low proportion of social contributions.

► **Figure 7. Share of social security contributions as a percentage of total government revenues, 2005-2020, per cent**



The amount of income that is produced by labour, which includes wages and work-related earnings of the self-employed, is strongly linked with the country's capacity to generate revenues from social security contributions. In developed countries, the share of income attributable to labour clustered around 60 per cent in 2019, while in the G20 emerging countries, it remained mostly below 50 per cent (Figure 8). Between 2004 and 2019, the share of labour income in total income has mostly stagnated and, in some instances decreased, also in the advanced G20 countries. These trends are probably exacerbated by the decline of real wages in the first half of 2022, which is estimated at -2.2 per cent in the advanced G20 economies.³¹

²⁸ ILO 2019a.

²⁹ The share of total government revenues represented by social security contributions is missing in India, Oman, Russian Federation, Saudi Arabia and the United Arab Emirates.

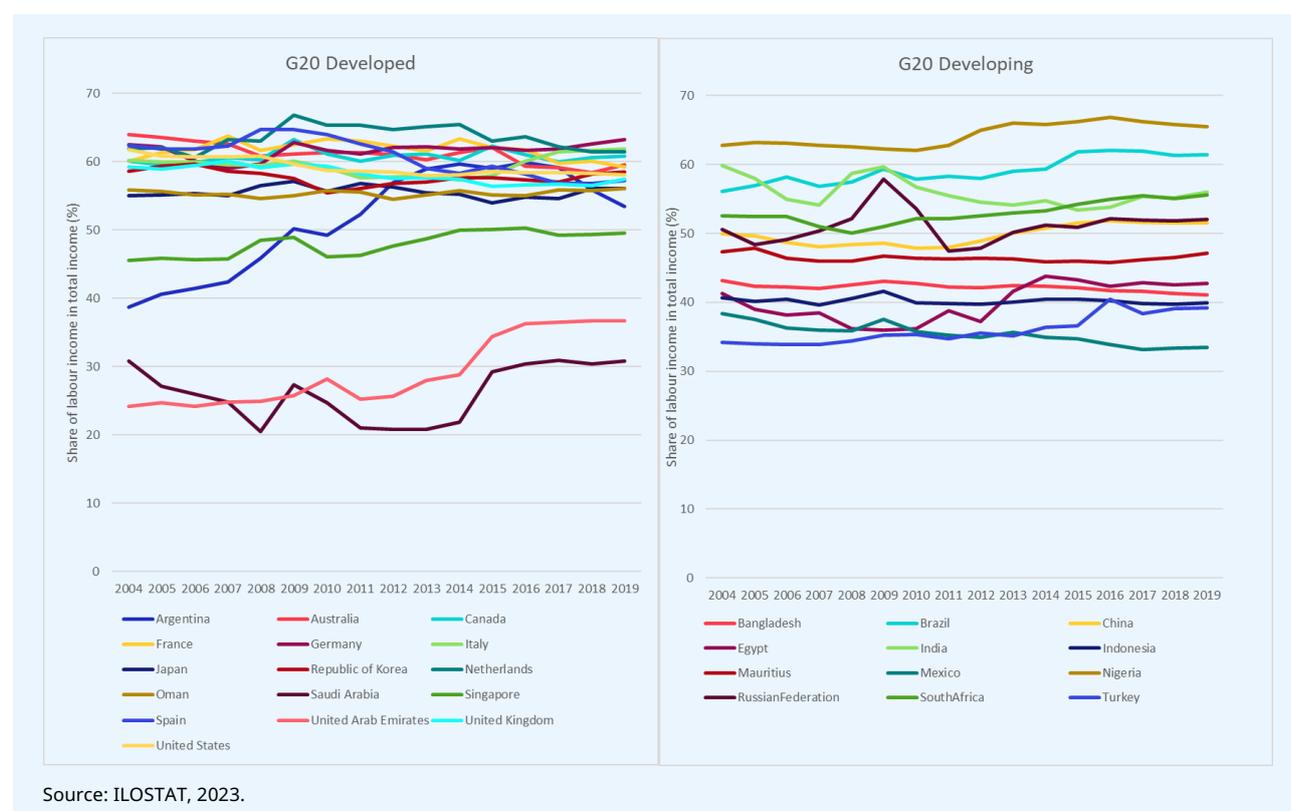
³⁰ ILO 2019a.

³¹ ILO 2022c.

In the emerging G20 countries, the labour income shares mostly increased. In **China**, for example, the labour income share increased from 50 per cent in 2004 to 52 per cent in 2019. These trends seem to be sustained by modest, though positive, wage growth of 0.8 per cent observed in G20 emerging economies in the first half of 2022.³² There are exceptions, however, one being **Mexico**, where the labour income share decreased and where, together with **Italy**, **Japan** and the **United Kingdom**, real wages were lower in 2022 than in 2008.³³

There are several possible explanations for this trend, including the impact of technological changes, increased globalization, the enhanced exercise of market power by large firms in concentrated product markets, the decline in unionization rates and the erosion of the bargaining power of workers in labour markets.³⁴

► **Figure 8. Share of labour income in total income, 2004-2019**



In this context of declining wages and labour income shares in advanced economies, as well as widespread income inequality and persistent labour market informality in emerging G20 countries, many G20 countries have taken steps to broaden the contribution base and improve collection mechanisms. Example of emerging practices observed across the G20 include the following:

³² Ibid.

³³ Ibid.

³⁴ Karabarbounis and Neiman 2014; Grossman and Oberfield 2022.

Extension to difficult-to-cover groups

Contributory social security systems have been extended to the so-called difficult-to-cover groups, which include very different categories of workers ranging from domestic workers and rural workers to the low-income self-employed - also known as the “missing-middle” - as well as platform workers. Workers pertaining to these groups have often one common characteristic: they are working in the informal economy.

Building on the concrete experience of ILO member countries, the ILO Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) provides a useful framework to ensure that an integrated policy framework to facilitate the transition to the formal economy is included at all levels of government with a view to progressively extending coverage of social protection for all, including for difficult-to-cover groups in the informal economy. According to R204, reducing compliance costs by introducing simplified tax and contributions assessment and payment regimes is one concrete way of moving in this direction.

Several G20 countries have adopted strategies in line with this provision, by for example, simplifying administrative procedures to enable difficult-to-cover workers to enrol and pay contributions together with other formalities, such as tax payments through single portals and mobile apps. **Argentina**,³⁵ **Brazil**³⁶ and other Latin American countries as well as **Indonesia**³⁷ and other Asian countries have implemented schemes and service delivery tools to cover these groups. In addition, very low-income self-employed can benefit from government subsidies to their contributions, for instance, in the Monotributo/Monotax schemes in **Argentina** and **Brazil**.³⁸ Some countries are also applying these approaches to cover platform workers, which is discussed in a separate paper presented to the EWG.

Despite the challenges and costs, developing effective mechanisms for collecting contributions is crucial to ensure broad and effective coverage for all types of workers. Countries such as **Argentina**, **France**, **Indonesia** and **Spain** leveraged their capacity generated by implementing regular contribution collection systems to develop systems tailored to difficult-to-cover groups. Extending coverage and workers' formalization through contributory schemes are crucial for improving social protection financing and sustainability. Although this may involve short-term investments and eventual subsidies, it ensures the comprehensive enrolment of, and contribution collection from, large numbers of workers that can increase social security revenues in the middle and long term. In addition, these measures also help improve public trust in the social security system as well as support for expenditures, especially among younger generations, who are increasingly working in new types of jobs.³⁹

The role of public trust and communication

The readiness of individuals and of society as a whole to pay for social security systems impacts significantly on their financing. But it is sometimes overlooked. The acceptance to contribute and support political decisions in this regard is linked to public trust in the capacity of the system to deliver reliable and quality benefits. Efforts to communicate appropriately about social security, reform initiatives and high-quality service delivery are important strategies in this regard. An example is the question of educating younger generations on the vital role and delivery capacity of old-age pension systems. To counter disinformation and strengthen trust in the pension system among the younger population, **Japan**⁴⁰ introduced on-site pension lessons in schools and developed study tools including “pension manga”. The **French** social security institutions implemented

³⁵ ISSA 2017.

³⁶ ILO 2019c.

³⁷ ISSA 2020b.

³⁸ ISSA 2021h.

³⁹ ISSA 2022d.

⁴⁰ ISSA 2021g.

communication campaigns strengthening the visibility of the positive impact of social security and its key role for citizens' daily life as well as enhancing public support for social security.⁴¹ In **Oman**, the social security institution has collaborated with academic and educational institutions to educate students and children about social security and its importance.⁴²

Strengthening contribution collection and preventing fraud

Independently from the categories of workers and employers, improving contribution collection and compliance enforcement mechanisms is key to maximizing social security financing through contributions. To enhance compliance, recent practices have demonstrated the importance of making the dealings with social security administration as simple and tailored as possible.⁴³ **Spain** has implemented a tailored portal to facilitate domestic workers' registration and contribution payment. The portal aims to overcome barriers related to administrative, communication and web design complexities.⁴⁴ **France** has also developed a tailored portal for the self-employed and entrepreneurs to facilitate registration and contribution payment.⁴⁵ These experiences also show that in addition to developing the institutional capacities of administrations to implement these tailored approaches, attention must also be paid to developing the understanding and capacities of contributors, especially among the low-income self-employed and difficult to cover groups. More recently, the application of behavioural insights techniques has also enabled influencing the behaviour of contributors and strengthen compliance.⁴⁶ For instance, by applying these innovative behavioural techniques, **Indonesia** could reduce social security contributions arrears of employers and encourage them to make on-time payments of member contributions. They tested the effectiveness of different email interventions to influence employers to increase contribution payments before the monthly deadline.⁴⁷

Appropriate measures to prevent and detect fraud in social security contributions are fundamental for contributory social security systems due to the financing implications and the potential impact on reputation and public trust. Many G20 countries have implemented innovative mechanisms addressing the ever-evolving challenges in this area. Notably, **Argentina, France, Indonesia, Oman, Saudi Arabia** and **Spain** have developed fraud detection systems using data analysis, predictive analytics, and data exchange with other public agencies.⁴⁸ In addition, **Mexico** and **Singapore** developed fraud prevention measures fostering voluntary compliance by applying behavioural insights techniques. Concretely, the **Mexican** IMSS provided the employees monthly reports on the contributions made by the employers as a dissuasive and corrective measure to address under-declaration.⁴⁹ In turn, the **Singapore** CPFEB fostered self-employed enrolment and voluntary compliance by simplifying the enrolment and contribution payment, developing communication campaigns and providing a government contribution during a transitional period.⁵⁰ Previously, as part of the WorkRight initiative, the CPFEB developed video spots and advertising posters to educate employers on their legal obligations and employees on their rights.⁵¹

⁴¹ ISSA 2022a.

⁴² ISSA 2021c.

⁴³ ISSA 2019.

⁴⁴ ISSA 2022c.

⁴⁵ ISSA 2022b.

⁴⁶ ISSA 2021b.

⁴⁷ Ibid.; The Behavioural Insights Team 2019.

⁴⁸ ISSA 2018a; ISSA 2018b; ISSA 2020a; ISSA 2021a; ISSA 2022a; García Huete 2022.

⁴⁹ ISSA 2023.

⁵⁰ ISSA 2021d.

⁵¹ WorkRight initiative (Singapore): <https://youtu.be/QZ8E8cUQEkg>

Optimizing the investment of social security funds and introducing ESG considerations

A number of G20 countries, including the **Republic of Korea, Japan, Indonesia, Saudi Arabia** and the **United States** have established public social security reserve funds to secure the capacity to pay benefits during times when current expenditures exceed current contribution income. The biggest social security reserve funds have been established in the area of old-age protection and retirement schemes and they are usually managed by a social security institution under regulations and oversight by other government bodies.

These social security funds not only play a key role in the future financing of benefits but also allow for anticyclical measures in case of unexpected events and crises. It is in the interest of covered population and all stakeholders that social security funds are invested with an appropriate asset/liability management, appropriate investment horizons and an optimal risk/return ratio. In addition, sound governance must be in place to ensure that investment decisions are made in the best interests of scheme members and without undue influence.

Efforts to strengthen investment approaches have been undertaken in order to enhance the funding ratio of schemes and of the broader social security systems. **Indonesia's** social security institution has worked towards strengthening asset-liability management and to achieve more dynamic investment management with regard to improving the funding ratio of old-age pensions.⁵² In **Oman**, the social security institution has enhanced data management and investment risk assessment and thereby contributed to strengthening of the funding ratio.⁵³

An important development has been the inclusion of a mandate for environmental, social and governance (ESG) investment in the portfolio decisions of public social security reserve funds. ESG investment is also linked to a growing attention to infrastructure investment designed to enhance domestic growth opportunities that are expected to also support the future financing of social protection systems. The National Pension Service of **Korea** carries out ESG evaluation for specific asset classes.⁵⁴ The Government Pension Investment Fund of **Japan** adopted an ESG index for domestic equities focussing on the measures taken by companies related to emissions and climate change.⁵⁵ The unemployment insurance scheme in **France** has introduced social impact considerations in their debt financing strategies through social bonds.

Ensuring appropriate financing forecasts and considerations for resilience

Regular and high-quality financial forecasts are essential for the formulation of long-term financing strategies for social protection schemes. Actuarial valuations are at the core of these and are indispensable to assess the sustainability of social security programmes but are also required to assess system adequacy, financing and funding considerations. Actuarial valuations and financial forecasts are based on a range of assumptions including life expectancy, labour market participation, scheme coverage, real wage increases or economic growth, and are inherently complex. Findings of actuarial valuations also have an impact on investment decisions, benefit calculations and communication. The approach to assessing the financial obligations of social security systems should also be consistent across systems and with other public spending and not encourage or promote a particular financing approach.

In this regard, efforts must continue to ensure that decisions regarding the financing of social protection are based on the best available evidence and assumptions. The ILO has recently developed new actuarial models for social security pensions and health that are accessible via the ILO/ISSA actuarial services platform launched this year.

Climate related risks, shocks to livelihoods and extreme events make financial forecasting even more complex but also require the increasing consideration of the financial means necessary for ensuring both the resilience of social protection systems and the contribution that social protection makes to societal and economic

⁵² ISSA 2021e.

⁵³ ISSA 2021f.

⁵⁴ NPS 2023.

⁵⁵ Government Pension Investment Fund 2023.

resilience. The recent pandemic demonstrated this need as an erosion of revenue sources from both contributions and investments met an unprecedented increase in the need for benefit expenditures. To enhance the capacity for anticyclical financing in social protection and prepare for extreme events, risk management methodologies need further attention.

2. Increasing tax revenues

Taxation is the other key channel for mobilizing the resources that governments need to establish universal social protection systems, including floors, that provide adequate protection for all in need across the life cycle. Countries have a wide range of options to raise tax revenues, the most common are consumption/sales and value added tax (VAT), progressive taxation such as income, wealth and corporate taxes –including taxes on the financial sector– as well as property, inheritance and environmental taxes (Box 3).

International competition for inward FDI has led many G20 governments to reduce tax rates and to otherwise increase tax concessions to corporations. Figure 9 shows that, without exception, all 13 G20 countries with available data have reduced their corporate tax rates over the past 20 years. However, there is no consensus on the advantages of granting such concessions in the matter of direct taxes, since the diversion of international investment or the attraction of such flows is determined by many factors, including the quality and availability of infrastructure, human capital, and institutions. Therefore, G20 countries should examine the cost and benefits of such tax concessions as they may constitute an unnecessary loss of revenue, which could be used to ensure universal social protection coverage.⁵⁶ Declining corporate tax rates mirrors lower proceedings from corporate taxes as a share of GDP. In 8 out of 13 G20 countries with available data, government revenues from corporate taxes have declined, driven by lower tax rates, but also by non-compliance with tax obligations (Figure 10).

Governments face challenges in ensuring compliance with taxes at all levels from wage and salaried workers, own-account workers, MSMEs to large corporations. To promote tax compliance for small contributors, voluntary tax compliance programmes have been adopted across the G20 (e.g. **Argentina, Indonesia, Spain**). Countries may introduce these programmes for a variety of reasons including, among others, raising tax revenue, regularising the payment of social security contributions, and/or facilitating asset repatriation for the purpose of economic policies, especially when the country is in an economic crisis.⁵⁷

Increasing tax compliance and/or raising tax rates are important strategies to expand fiscal space for social protection. Equity, gender balance, efficiency, and administrative feasibility are other key criteria that must be factored in when designing and evaluating tax systems. Countries face significant problems in tax policy due to globalization and other factors, such as illicit financial flows. Global and regional tax cooperation is needed to deal with these problems effectively.

⁵⁶ ILO 2019a.

⁵⁷ Council of Europe 2014.

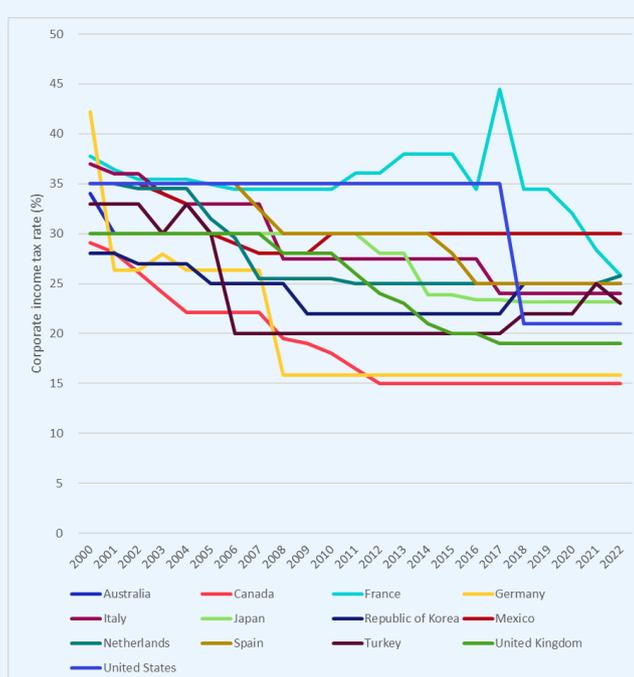
► Box 3. The emerging role of environmental taxes for financing social protection

In the context of the green transition, the main purpose of environmental taxes (carbon taxes, excise taxes on fuels, and revenues from emissions trading systems) is to disincentivise carbon emissions. But they can form part of a sustainable financing strategy for social protection through revenue recycling.⁵⁸

OECD research shows that in 2019, 60% of 40 countries studied earmark at least part of the revenue from environmental taxation. Of the 19 G20 countries with available data⁵⁹, only the United Kingdom earmarks a small share of the revenue generated from excise taxes on fuels for tax policy changes (such as tax rebates). However, South Africa uses revenue from excise taxes to fund an insurance scheme for victims of road injuries, and Argentina dedicates part of the revenue to the social security administration and the national housing fund. Only Australia, Canada, France, Mexico and the United Kingdom operated carbon taxes in 2019, but Australia, Canada and France earmarked at least half of the revenue to tax policy changes, indicating that carbon taxes are seen as part of broader tax reform efforts. Revenues from emissions trading systems are mostly earmarked for spending on renewable energy and transport, with no G20 country explicitly earmarking any of the revenues for taxes or social spending in 2019.

The potential for carbon tax revenue is certainly substantial. OECD estimates show that (abstracting from behavioural responses), increasing the price of carbon emissions to EUR 30 per tonne of CO₂ emissions (a conservative estimate of the social cost of carbon emissions) would generate additional revenues of about 5% of GDP in India, about 1% in Brazil, the United States, Canada, Australia, Argentina, Mexico, Turkey, and of about 0.5-1% in Japan, Spain, Germany, France, the United Kingdom, the Republic of Korea, the Netherlands and Italy.

► Figure 9. Corporate tax rates, 2000-2022

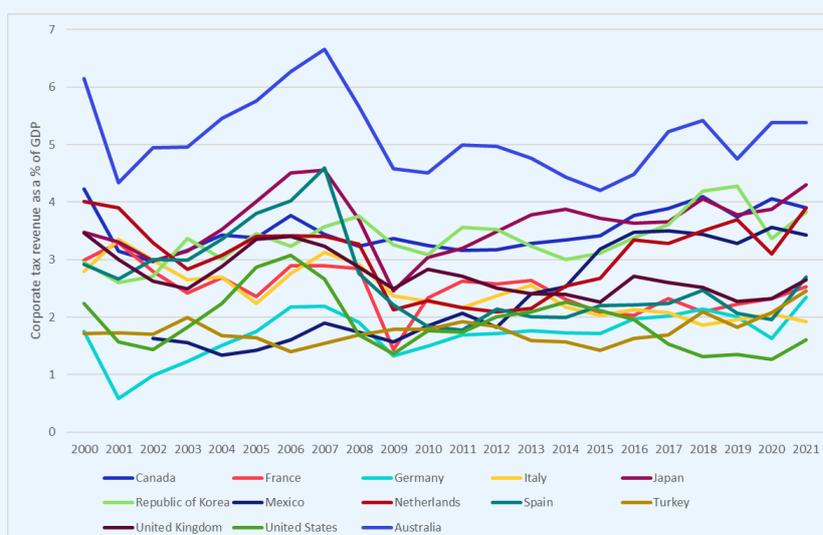


Source: OECD Tax Statistics.

⁵⁸ Immervoll and Kerschbaumer 2022.

⁵⁹ Excluding Indonesia, the Russian Federation and Saudi Arabia, but including visiting countries the Netherlands and Spain.

► Figure 10. Corporate tax revenues as a percentage of GDP, 2000-2022



Source: OECD Tax Statistics.

3. Eliminating illicit financial flows.

Illicit Financial Flows (IFFs) generally involve money laundering, bribery by international companies, tax evasion and trade mispricing. Stemming IFFs and fighting corruption can be a significant source of fiscal space for socio-economic development.

Domestic tax base erosion and profit shifting (BEPS) due to multinational enterprises exploiting gaps and mismatches between different countries' tax systems affects all G20 countries. Developing countries' higher reliance on corporate income tax means they suffer from BEPS disproportionately. Working together in the OECD/G20 Inclusive Framework on BEPS, [over 135 countries and jurisdictions](#) are implementing [15 Actions](#) to tackle tax avoidance, improve the coherence of international tax rules, ensure a more transparent tax environment and address the [tax challenges arising from the digitalisation of the economy](#).⁶⁰ Efforts should be continued during the Indian presidency to ensure that more government finance is available for closing the coverage and financing gaps in social protection.

Success in this would alone free up more than ten times the annual total of official development assistance (ODA) disbursed and received across the globe. Such is the extent of resources that illegally escapes developing countries every year.⁶¹ There are increased efforts to crack down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes that are not only illegal but also reduce much-needed revenues for social protection and work towards the SDGs. For **Egypt**, it is estimated that combating illicit financial outflows could on average generate an annual amount equivalent to 3 per cent of GDP; illicit financial outflows from the country in 2014 were estimated at between 1.9 per cent and 4.7 per cent of GDP.⁶² Egypt is one of the few countries where data are available. To improve measurement of illicit financial and arms flows, UNCTAD is piloting a project in 8 developing countries, including **Nigeria**.

⁶⁰ OECD 2023a.

⁶¹ ILO 2019a.

⁶² Ibid.

4. Increasing aid and transfers

Official development assistance (ODA) is defined as government aid that promotes and specifically targets the economic development and welfare of developing countries. Despite calls for enhanced ODA to support financing for sustainable development,⁶³ and agreement on a target commitment of 0.7 per cent of gross national income (GNI), ODA in fact represented only 0.33 per cent of the combined GNI of the member countries of the Development Assistance Committee in 2021.⁶⁴ Among G20 donor countries, only **Germany** met the 0.7 target (Figure 11). Not only did donor countries fall short of their commitments; the share of their actual disbursements of ODA allocated to social protection in 2017 represented a mere 0.0047 per cent of their GNI.⁶⁵

To avoid that the “great divergence” between richer and poorer economies continues to characterize the labour market recovery in 2022,⁶⁶ in September 2021, during the General Assembly, jointly with the ILO the United Nations Secretary General launched the **Global Accelerator on Jobs and Social Protection for a Just Transition**. This initiative aims to increase the level and coordination of the multilateral system’s efforts to help countries create 400 million decent jobs, including in the green, digital and care economies, to extend social protection coverage to the 4 billion people currently excluded and facilitate just transitions, efforts which are vital to poverty reduction and achieving the SDGs as a whole.⁶⁷ The Accelerator includes three complementary and mutually supportive pillars:

- **Pillar 1** addresses policy dimensions, in particular by developing integrated national employment, social protection and just transition strategies.
- **Pillar 2** addresses the challenge of resource mobilisation, complementing domestic fiscal efforts with international financial support, including from international financial institutions and public development banks.
- **Pillar 3** aims to enhance multilateral cooperation to build political momentum and strategic support for the Accelerator.

A transversal, system-wide Technical Support Facility (TSF) will advise on the work under the three pillars and seek to align financial and technical assistance for a human-centred recovery and sustainable development.

Another option for complementing pillar 2 on financing is the **Global Fund for Social Protection** launched by the Global Coalition for Social Protection Floors, the UN Rapporteur on Extreme poverty and Human Rights and the International Trade Union Confederation (ITUC) and endorsed by the tripartite constituents at the International Labour Conference in 2021.⁶⁸ The Global Fund for Social Protection could be integrated in the Global Accelerator and it could aim to support countries to design, implement and, in specific cases, to finance national floors of social protection.

⁶³ United Nations 2015.

⁶⁴ OECD 2023b.

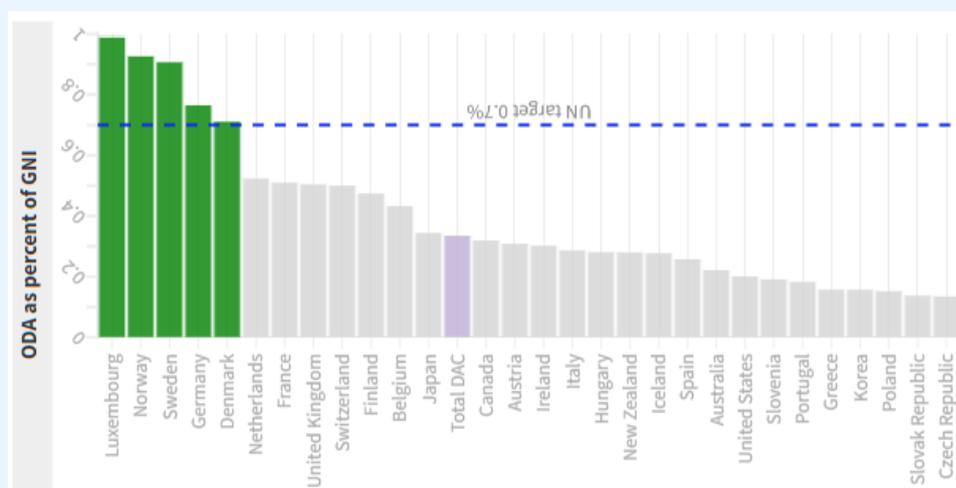
⁶⁵ ILO 2021c.

⁶⁶ ILO 2022b.

⁶⁷ ILO 2022a.

⁶⁸ https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_806099.pdf

► Figure 11. Official Development Assistance as a percentage of Gross National Income, 2021



Source: OECD 2023b.

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