TASK FORCE I

UNIVERSAL SOCIAL SECURITY

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Universal Social Security

TASK FORCE 1

Financing Social Security in G20 Countries: A Note1

Around 61 per cent (ILO 2018) of the global labour force are informal having no social insurance (52.4 percent in G20 countries). The challenges that individual and societies therefore face today are manifold, including more rapidly changing labour markets in the context of demographic transformation, technological changes and ecological imbalances. The COVID-19 pandemic further exposed the vulnerability of those who were not protected, inequalities increased and at some level also derailed the progress that has been made to achieve the goals of SDGs 2030. It hit the world at a time when many countries had not yet recovered from the 2008 financial crisis. Many countries are struggling with high structural unemployment and rising economic inactivity rates, especially after the onset of COVID-19 pandemic. Many are saddled with fragmented labour market, high levels of informality and economic insecurity (World Social Protection Report, 2020- 22).

Universal social protection in this context is both an indispensable safeguard and a lever, enabling people to live a decent and dignified life (World Social Protection Report 2020-22). Although the vison of having a set of social security mechanism for people is not a new idea. It is a fundamental human right already enshrined in the Universal Declaration of Human Rights (1948, Article 22 and 55 of UHDR) and other declarations. In fact, Universal Social Protection lies at the core of societies' social contract and sustainable development. It ensures that all members of society are well protected on a basis of nationally and collectively designed social protection policy and adequate financing.

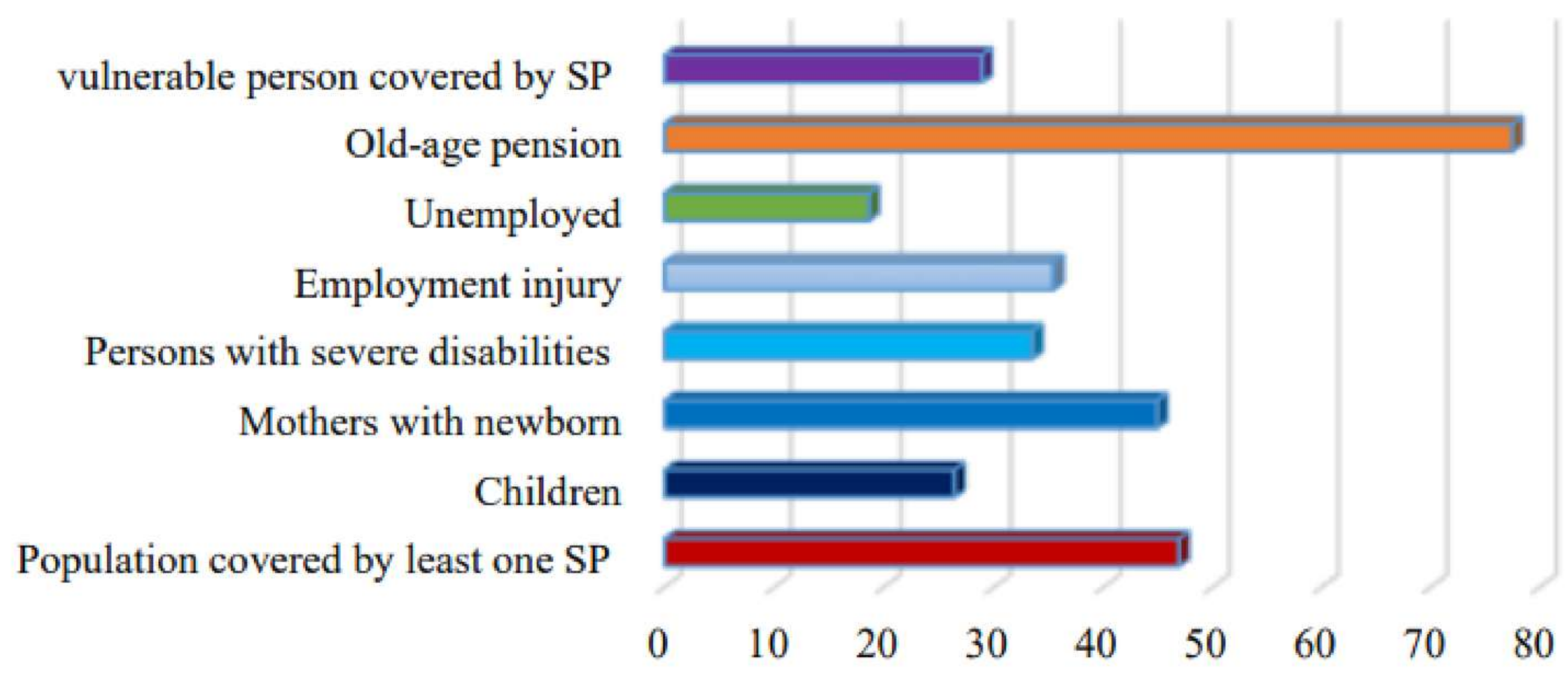
ILO Convention 102 (C102) of 1952 and ILO Recommendation 201 (R201) of 2012 on Social Protection Floors provides a normative framework in ensuring social security for all. It defines the minimum level of protection to be ensured, the strategy for achieving such level of protection and the core principles for building comprehensive and sustainable social protection system (World Social Protection Report 2020-22). To access these rights, it also defines the prime role of the states. It requires that states should assume their overall and primary responsibility for building and maintaining social protection systems and by investing in inclusive and sustainable growth, it can revitalize their strained social contracts (Global Commission on Future of Work, 2019).

Most countries in the world (including G20 countries) have taken steps in the above direction and made progress although at differentiated levels and scale given their economic condition.

1.This paper was prepared under the guidance of Prof. Santosh Mehrotra, Visiting Prof, Centre for Development Studies, University of Bath, (and Chair of the Taskforce on Financing Social Security), by Dr. Ajit Jha, Assistant Professor, Institute for Studies in Industrial Development (ISID), New Delhi (Member taskforce on Financing Social Security). Thanks are due to other members of the Task Force on Financing Social Security for their inputs (Shri. S. P. Tiwari, TUCC; Bilge Coban, Turkey; Nicholas Langridge, University of Bath, UK and a member from China.

According to the World Social Protection Report (WSPR hereafter) 2022 of ILO, till 2020, 46.9 percent people across the world were effectively covered by at least one social protection benefit (see figure-1). But it shows sluggish progress as after 75 years of United Nations declarations on UHDR more than 50 percent of the world's population (4.1 billion) are still not covered by at least one social protection benefits (as defined in the SDG 1.3.1). However, 77.5 percent of people receive old-age pension benefits which has been possible due to the extension of both contributory and non-contributory pension systems. Other branches of social security still lag behind the legal coverage (WSPR 2020-22).

Figure-1
Global Estimates of Social Protection (SP) Coverage



SOURCE: WOLRD SOCIAL PROTECTION DATABASE, ILO

The objective of this Note is to review the state of social security in the G20 countries, with particular focus on its financing. It is essential to clarify a terminological distinction in the literature on social security (or protection, which are used interchangeably in this Note).

There is global acceptance of two types of social security: social insurance and social assistance. ILO Convention 102, in listing nine types of benefits, does not distinguish between the two. Social insurance (SI) and social assistance (SA) have very different meanings. SI refers to sickness benefit, unemployment benefit, old age benefit, employment injury benefit, maternity benefit, and invalidity benefit. They are entitlements of those who are workers. SA benefits could be of many kinds (e.g., family benefit, child benefits, which could be in cash or kind, which could be conditional or unconditional) not including SI benefits, and are normally available to all citizens, qua citizens (as opposed to being workers).

This Note is organized as follows. Section 1 defines the terms in normal use in international parlance in respect of social security (SS) or social protection (SP). It also presents the current state of access to benefits in G20 countries. Section 2 briefly presents data, including on public expenditure, on SP at global level. Section 3 examines informality in the G20 countries, which remains widespread.

This is done because our focus in this Note will remain on SI, which has very little coverage in most countries other than the 10 High Income Country members of the G20 group (the G7 plus, South Korea, Australia, and Saudi Arabia) (with per capita income at >$12000 per annum at market exchange rates). The remaining nine countries are mostly Upper Middle-Income Countries (in the World Bank classification of countries), with India as the only Low MiddleIncome Country (per capita income at <$4000 per year but >$1000). Section 4 presents information on SP coverage in G20 countries and brings out the variation between G20 countries. To define informality in the labour market of G20 countries, this Note uses the ILO distinction between formal and informal workers as being those who have access to full social insurance, and those who do not. Section 5 discussed expenditure pattern and the various options in respect of financing of SS in the world and theG20, and the various options that policy makers have adopted. It also draws some implications for the G20, currently chaired by India in 2023, in this regard.

1. **Definitions of terms, and the current state of SS in G20 countries**

The Social Security (Minimum Standards) Convention, 1952 (No. 102) , is the flagship of all ILO social security Conventions, as it is the only international instrument, based on basic social security principles, that establishes worldwide-agreed minimum standards for all nine branches of social security. These branches are:

medical care;
sickness benefit;
unemployment benefit;
old-age benefit;
employment injury benefit;
family benefit;
maternity benefit;
invalidity benefit;
and survivors' benefit.

While Convention No. 102 covers all branches, it requires that only three of these branches be ratified by Member states, which allows for the step-by-step extension of social security coverage by ratifying countries. The minimum objectives of the Convention relate, for all the nine branches, to the percentage of the population protected by social security schemes, the level of the minimum benefit to be secured to protected persons, as well as to the conditions for entitlement and period of entitlement to benefits. Convention No. 102 does not prescribe how to reach these objectives but leaves certain flexibility to the member State. They can be reached through:

universal schemes;
social insurance schemes with earnings related or flat rate components or both;
social assistance schemes.

The principles anchored in Convention No. 102 are:

guarantee of defined benefits;

participation of employers and workers in the administration of the schemes;

general responsibility of the state for the due provision of the benefits and the proper administration of the institutions;

collective financing of the benefits by way of insurance contributions or taxation.

Convention No. 102 also requires regular actuarial valuations to be carried out, to ensure the sustainability of the scheme. Furthermore, Convention No. 102 lays down that social security schemes be administered on a tripartite basis, which aims at guaranteeing and strengthening social dialogue between Governments, employers and workers. Thus, Convention No. 102 is considered as a tool for the extension of social security coverage and provides ratifying countries with an incentive for doing so by offering flexibility in its application, depending on their socio-economic level.

ILO Recommendation makes the distinction between SI and SA somewhat more clearly, with bullets one, three and four referring to SI and the second referring to SA (box-2). Over time, SA has come to mean many other types of safety net type benefits, going well beyond those for children.

A significant variation in terms of access of social protection across and within regions can be observed from the statistical figures of this report (WSPR 2020-22). Most of the countries in Asia and the Pacific (44.1 %) and Africa (17.4 %) are below the global average and there is a large coverage gap. Whereas social security coverage in Europe and Central Asia (83.9 %) and North America (64.3 %) are much higher as compared to global average and also there is a wide variation in social protection coverage between global north and global south. According to the World Bank data the global working age (15-64 years) in 2021 was 5.12 billion. But only 30.6 percent of this population is legally covered by comprehensive social security systems which include benefits from child and family to old-age pension. Similarly, there are protection mechanism for healthcare, sickness, and unemployment benefits but it partially benefits the working age population and there is a wide inter and intra-regional gaps. For example, almost two-thirds of the global population are covered by some sort of health scheme, but when it comes to income protection during sickness and unemployment the coverage and adequacy gap is more pronounced (WSPR, 2020-22).

2. Expenditures on Social Protection at the Global Level

One of the prime reasons for this wider gap in coverage is associated with underinvestment (lower public and private expenditure) in social protection. As per the World Social Protection Database, average global expenditure on social protection (excluding health) is less than 13 percent of gross domestic product (GDP). Also, there is a staggering variation in the expenditure pattern.

The Highincome (HI) countries spend 16.4 of their GDP, which is twice as much as Upper-middle-income (UMI) countries (UMI spend 8.0 %) and six times as much as lower-middle-income (LMI) countries (2.5 %). Between the regions America on average spends 16.6 percent on social protection while Africa and South Asia respectively spend only 3.8 percent and 2.6 percent their GDP on social protection. According to the WSPR 2020-22, COVID-19 pandemic has further widened the financing gap for building a social protection floor by approximately 30 percent (ILO WSPR 2022) due to increased need for healthcare services, income protection and reduction in GDP. To guarantee a basic level of social security through a nationally designed social protection floor, LMI countries would now need to spend an additional US$362.9 billion and UMI countries a further US$ 750.8 billion annually. Low-income countries would need to invest an additional US$ 77.9 billion, equivalent to 15.9 per cent of GDP.

As the G20 countries account for 63 percent of global population, they have a huge responsibility to pursue high road strategy towards Universal Social protection by addressing the legal hurdles, making national level policies and ensuring the sustainable financing mechanism. Some observations and commitments have already been made in this direction in the previous Labour 20 summit held in recent years in Japan 2019, Riyadh 2020, Rome 2021, and Bali 2022 (see box 3), current meeting of the Engagement Group of L20 in Patna can be an appropriate forum to reiterate our common commitment to make the globe hunger free, equitable and universally protected.

Box-3:

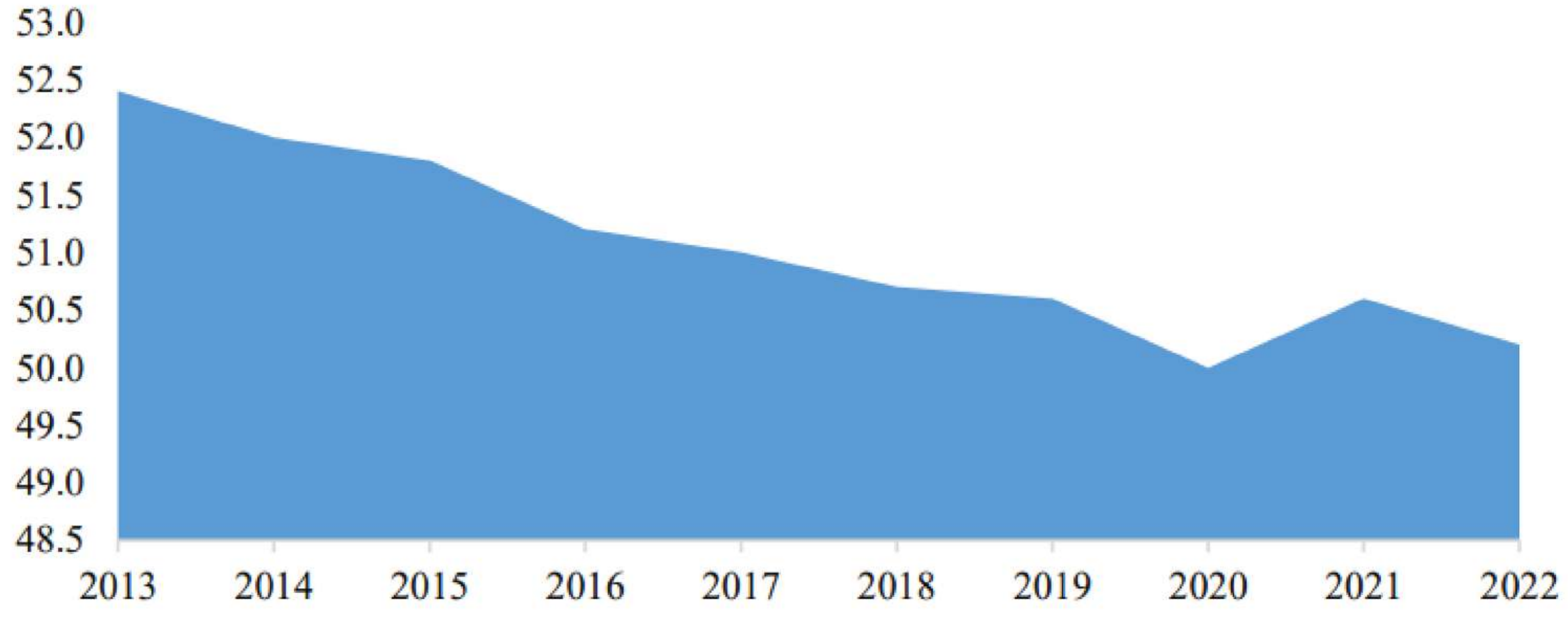
Observations and Commitments Towards USS in Past L20 Summits Establishing a labour protection floor under the purview of ILO commission on Future of Work was
a major suggestion in the L20 statement in Japan in 2019. As coronavirus disease in 2020 had shattered the lives across the world, the L20 statement in Riyadh stressed upon a new social contract system that can ensure recovery and resilience. The basic of this contract was based on a labour protection floor, universal social protection, quality jobs, equal opportunities for women and men and plan for just transition to a zero-carbon economy. The G20 labour ministers' summit in Rome in 2021 also made commitment on the universal labour protection including strengthening of social protection systems (including contributory system), support for free and universal health care services, and other social care services. In the similar direction L20 statement in Bali 2022, called for universal social protection and strengthen international financial support to the at least developed countries to extend social protection through official development assistance and establishing a Global Social Protection Fund to mobilise and coordinate financial efforts (G20 Information Centre, University of Toronto).

The ILO convention C102 of 1952 and recommendation R202 of 2012 are two most important instruments in this area and hence the draft is also based on ILO convention (C102). Our commitment for universal social protection is guided by the ILO convention (C102) of 1952. However, C102 merges two types of social protection/social security measures: social insurance and social assistance. The first covers unemployment, employment injury, old-age pension and maternity benefits considered as basic elements that need to in place for an effective social insurance system (Mehrotra, 2022). The focus of this draft is largely on to access social insurance system in G20 countries, their financing pattern, and legal hurdles. Looking ahead to 2030 and to achieve the specific goals of sustainable development, investing in social protection will be a catalyst to address the challenges highlighted in this note to accelerate progress towards sustainable goals. This background Note elaborates on these challenges in context of G20 countries. For better analytical purpose G20 countries are clubbed into three groups: G7 Plus (this is basically a group of HI countries), UMI and LMI. There is no classification for lower-income countries as all countries in theG20 are out of this bracket.

3. Presence of Informality in G20 Labour Market:

Structural unemployment, informality and quality employment are some significant challenges being faced by most of the G20 countries. Millions of economic units and hundreds of millions of workers are pursuing their livelihood in condition of informality. This phenomenon has also shown resilience and emerged in new forms in many high income (G7) countries in G20. At the aggregate level, the share of informal workers has declined (from 52.4 % in 2013 to 50.0 % in 2020) in last one decade (see figure 2). After COVID-19, it increased marginally but declined again in the subsequent year. But still 50.2 per cent people in G20 countries are informal.

Figure-2: Proportion of Informal Employment in Total Employment in G20 Countries



Source: ILO Modelled Estimates

Table-1 shows the share of informal employment in G20 countries based on the grouping into different income groups (G7 Plus, UMI and LMI). The share of informal employment varies from 3.8 per cent in Germany, 26.6 per cent in South Korea, 56.5 per cent in Mexico to 80.2 percent in Indonesia and 89.1 percent in India. The majority of informal workers are engaged in the informal sector (i.e. defined as those working in the formal sector but without SI, plus those in the informal or mostly unregistered units, plus those working in households) without any SI. In India according to the latest Periodic Labour Force Survey (20201-21), there are about 510 million workers, of which only 18 percent are in the formal sector (82 % in the informal sector). Nearly 56 per cent are self-employed and more than half of the regular wage workers in the formal sector are informal workers. Based on the ILO definition of informal sector, there are a total of 91.52 million workers in the formal sector (regardless of size). Out of which 47.5 million receive any kind of social security provided by the employers. This includes 3.1 million in the informal sector, a total of only 50.5 million workers access any kind social security (Srivastava, 2023). With a population of over 80 million, there is a large and diverse workforce in Turkey. According to the Turkish Statistical Institute as of January 2023, employment and unemployment rates are respectively 48.9 percent and 9.7 percent. Approximately 35 percent workers are informally employed (Coban, 2023).

Table-1: Share and Composition of Informal Employment in G20 countries

Country/groups	Year	Formal employment	Informal Employment			
			Total	Non-agri sector	Male	Female
G7 Plus (High Income Group Countries)						
France	2021	95.6	4.4	4.3	4.7	4.1
Germany	2021	96.2	3.8	3.7	8.8	4.6
Italy	2021	88.8	11.2	10.9	11.8	10.4
UK	2018	75.5	24.5	24.2	25.2	23.7
USA	-	81.4	18.6	-	-	-
Canada	-	-	-	-	-	-
Japan	-	81.3	18.7			
South Korea	2019	73.4	26.6	23.1	23.6	31
Australia	2021	73.9	26.1	25.2	25.8	26.5
Saudi Arabia	-		-	-	-	-
Upper Middle Income Group Countries (UMI)						
Argentina	2021	51.1	48.9	49.0	49	48.9
Brazil	2022	61.5	38.5	35	40.3	36.1
Mexico	2022	43.4	56.6	51.8	56.9	56.2
Turkey	-	65.2	34.8	21.9	28.9	48.3
Russia		64.4	35.6			
China		45.6	54.4	53.5		
South Africa	2022	57.8	42.2	34.3	41.3	43.3
Indonesia	2022	19.8	80.2	74.4	73.3	81.9
Lower Middle Income Group Countries (LMI)						
India	2021	10.9	89.1	81.2	88.2	91.6
G20 (total)		49.8	50.2			

Source: ILOSTAT Data

The rate of informality in G7 Plus countries is much lower than LMI and UMI countries. The difference between the highest informality rate in HI and LMI countries is of 54 percent. But it is notable that the share of informal workers in the UK (25.5 %), the USA (18.6 %), Japan (18.7 %), South Korea (26.6 %) and Australia (26.1 %) all are quite high. In the UMIC, informality rate is high in Mexico (56.6 %), China (54.4 %), Argentina (48.9 %) and Indonesia (80.2 %).

More importantly informality in the UK and Italy in the last one decade has increased. In the UK informal informality rate has increased by 22 percentage points between 2010 and 2018. Surprisingly in Italy also informality rate increased by 133 percentage point in last one decade. It has also increased in South Africa (by 12 percentage point) and in India by 0.9 percentage point (figure-3).

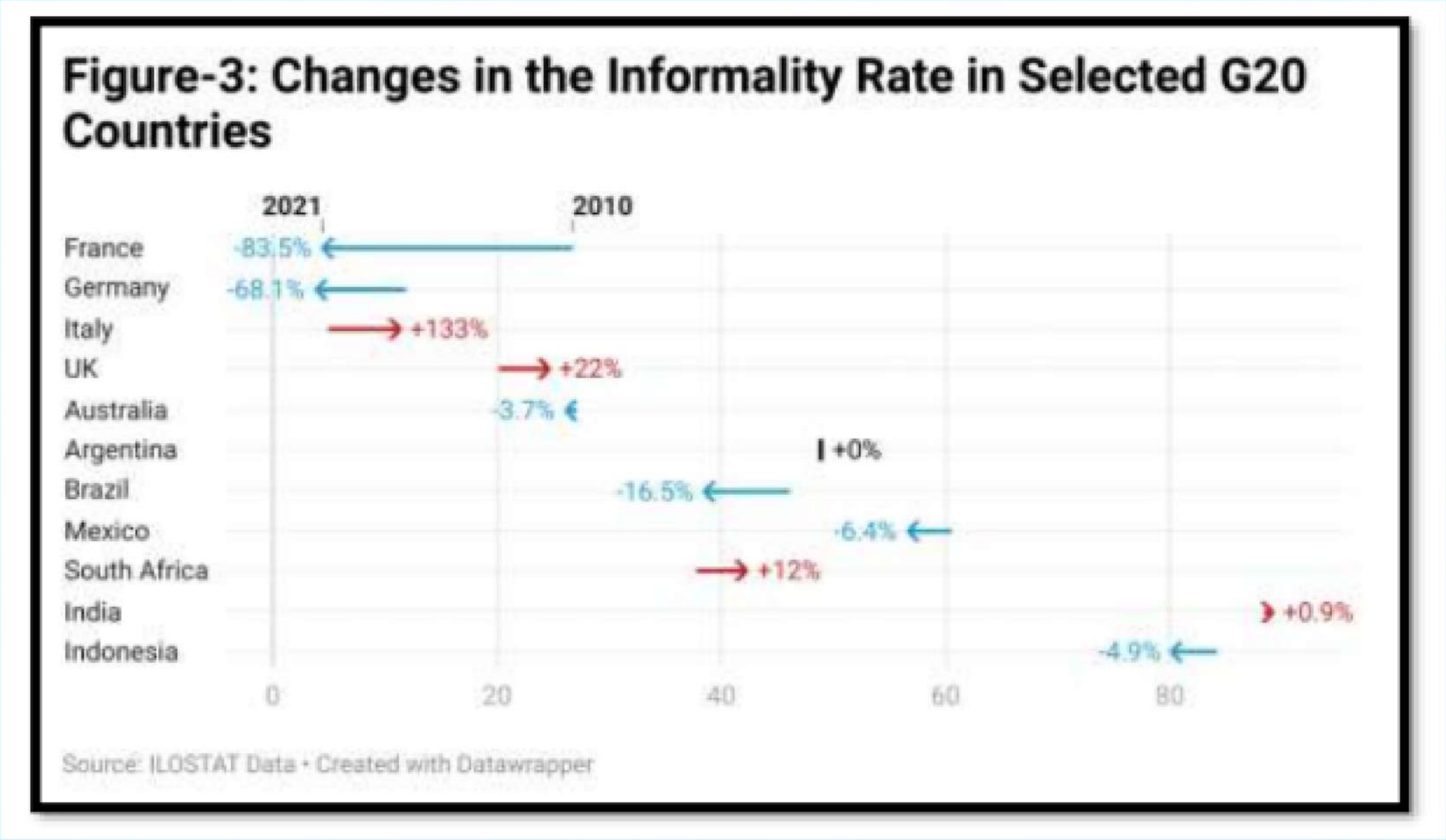


Figure-3: Changes in the Informality Rate in Selected G20 Countries

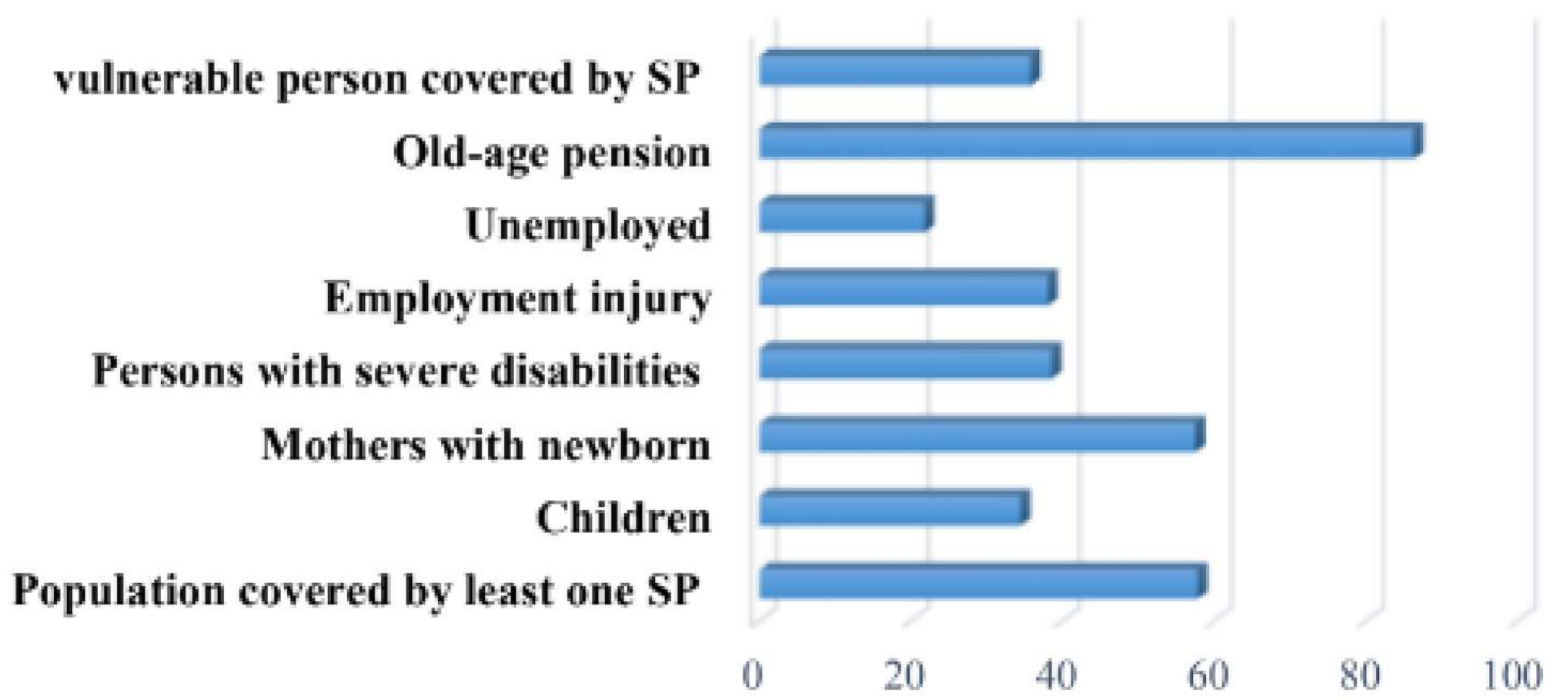
The resilience of rising informality in G7 Plus is alarming. According to the ILO report on Informality (2014) the phenomena of informality in advance countries is associated with the development of non-standard forms of employment. Most importantly it is found in countries where the employment relationship is not recognized and identified. The high incidence of informality is a major challenge for the realization of SDGs by 2030. Earlier it was expected that the process of steady and high economic growth would absorb surplus labour and irradiate formality. But contrary to this view informal activities and employment have increased in most of the part of the world including the G20 countries.

The larger question remains: how issues of informality can be tackled and a transition from informality to formality take place? The experience of countries which have successfully curbed informality shows the need for a mix of policies to encourage employment-centered growth in the formal economy together with extension of social protection. Because any ad-hoc or isolated policies will have limited reach and unlikely to make a sustained impact on informality (on this subject, see Mehrotra (2020) for the Asia; and ILO (2021)).

4. Taking Stock of Social Protection Coverage in G20 Countries:

According to the WSPR 2020-22, today most countries in the world have a social protection system and they have made some progress in this direction depending upon their economic capability and policy preferences. Figure-4 gives an overall picture of social protection coverage in G20 countries. The share of population covered so far by at least one social protection (which also the goal of SDG 1.3.1) in G20 countries is 57.8 percent. The coverage of old-age pension (86.3 %) is comparatively higher than other schemes because it belongs to the largest branch of social insurance.

Figure-4: G20 Estimates of Social Protection Coverage 2020



Source: ILO Social Security Database

Table-2 shows the status of social protection coverage in individual G20 counties. It is obvious that social protection coverage is higher in G7 Plus countries (France, Germany, and Australia). In France and Australia, 100 percent people are covered by at least one social protection, whereas in Germany coverage rate is 99.5 Percent. In the UMI group coverage is above 60 percent in Russia (90.1 %), Turkey (79.8 %), China (70 %), Brazil (69.9 %) and South Africa (69.9 %) and Mexico (62.4 %). Indonesia and India are only two countries from UMIC and LMIC where social protection coverage is below 30 percent. In Indonesia 27.8 percent are covered, while in India 24.4 percent people are covered by at least one social protection scheme. Coverage of old-age pension is higher and in many G7 Plus and UMI countries almost 100 per cent people have retirement pension benefits. Only exception is Saudi Arabia in G7 Plus where only 33.2 percent people get old-age pension benefit. In UMIC, old-age pension coverage is relatively poor in Indonesia (14.8 %).

Table-2: Social Protection Coverage of Population living in G20 Nations						
Name of the country/group	**Proportion of Population covered by at least one SP benefits (SDG 1.3.1)**	**People Protected by Social Protection Systems including floors**				
		Children	**Mothers with newborn**	**Person with Severe disabilities**	**Old-age Pension**	**Employment Injury**
G7 Plus (High Income Groups)						
France	100	100	100	100	100	74.1
Germany	99.5	100	100	100	100	100
Italy	82.0	-	100	91.4	94.4	72.2
UK	93.5	100	100	100	100	68.0
USA	76.1	100	100	100	100	84.8
Canada	99.8	95.2	100	68.0	100	69.1
Japan	98.0	85.4	-	56.1	100	83.6
South Korea	77.3	40.0		24.8	100	85.2
Australia	100	100	100	100	100	72.0
Saudi Arabia	77.8	6.0	-	9.4	33.2	74.7
Upper Middle-Income Group						
Argentina	63.8	79.6	31.7	100	89.8	47.4
Brazil	69.9	67.7	47.8	100	91.5	48.7
Mexico	62.4	23.4	10.4	40.4	100	35.4
Turkey	79.8			5.6	100	60.3
Russia	90.1	100	63	100	100	79.1
China	70.8	3.0	69	32.6	100	31.8
South Africa	69.9	76.6	7.6	66.5	81.4	19.2
Indonesia	27.8	25.6	28.4	2.5	14.8	22.5
Lower Middle-Income Group						
India	24.4	24.1	41.5	5.6	42.5	3.7
G20 (total)	57.8	34.5	57.5	38.6	86.3	38.1
Source: ILO Social Protection Database						

Globally, 44.9 per cent of women with newborns receive cash maternity benefits (WSPR 2020- 22), while in G20 countries 57.5 per cent avail maternity benefits. In G7 plus almost 100 per cent women with newborns are protected, whereas in UMI, there is wide variation in coverage. In India, 41.5 percent are protected under maternity benefits. In other indicators of social protection, average protection in G20 countries is above than world average (against 34.5 % children in g20 benefits only 26.4 % children globally receive social protection). But there is huge inter and intracountry disparity between and within the G20 groups. Saudi Arabia is a high-income country, but people are poorly protected than in many UMIs. Indonesia's coverage is below the average of other UMI countries, and it is more or less similar to that of India. In India, maternity benefit is available to only formal workers. Since 1948, Employee State Insurance Corporation has provided it through a social insurance programme financed by employer, the employee, and the government. The period of maternity leave benefit is 26 weeks and the percentage of wages paid during the covered period is 100 percent. In Indonesia, the programme has been running since 1957 and this is an employer financed programme involving employer liability.

The benefits cover only formal workers extend to 13 weeks and the percentage of wages paid is 100 percent (Mehrotra, 2022). The existing coverage gap in UMI and LMI is largely due to the prevalence of informal employment and lack of appropriate mechanism to cover women outside formal employment .

Table-3: Status of Maternity/Paternity Benefit Pragramme			
Name of the Country	**Measures**	**Contributory/Non-Contributory**	**Contraction/Expansion**
Indonesia	Extending Coverage	Contributory	Expansion
	Extending Benefit Level	Contributory	Expansion
India	Contracting Coverage	Non-contributory	Contraction
	Extending Coverage	Contributory	Expansion
	Increasing benefit duration	Contributory	Expansion
South Africa	Increasing benefit level	Contributory	Expansion
	Introducing new benefits	Contributory	Expansion
Turkey	Extending Coverage	Contributory	Expansion
	Introducing new benefits	Contributory	Expansion
Mexico	Extending Coverage	Non-contributory	Expansion
	Introducing new benefits	Non-contributory	Expansion
Brazil	Extending Coverage	Not specified	Expansion
	Increasing benefit duration	Non-contributory	Expansion
Argentina	Extending Coverage	Not specified	Expansion
	Increasing benefit duration	Non-contributory	Expansion
Source: Social Protection Database, ILO			

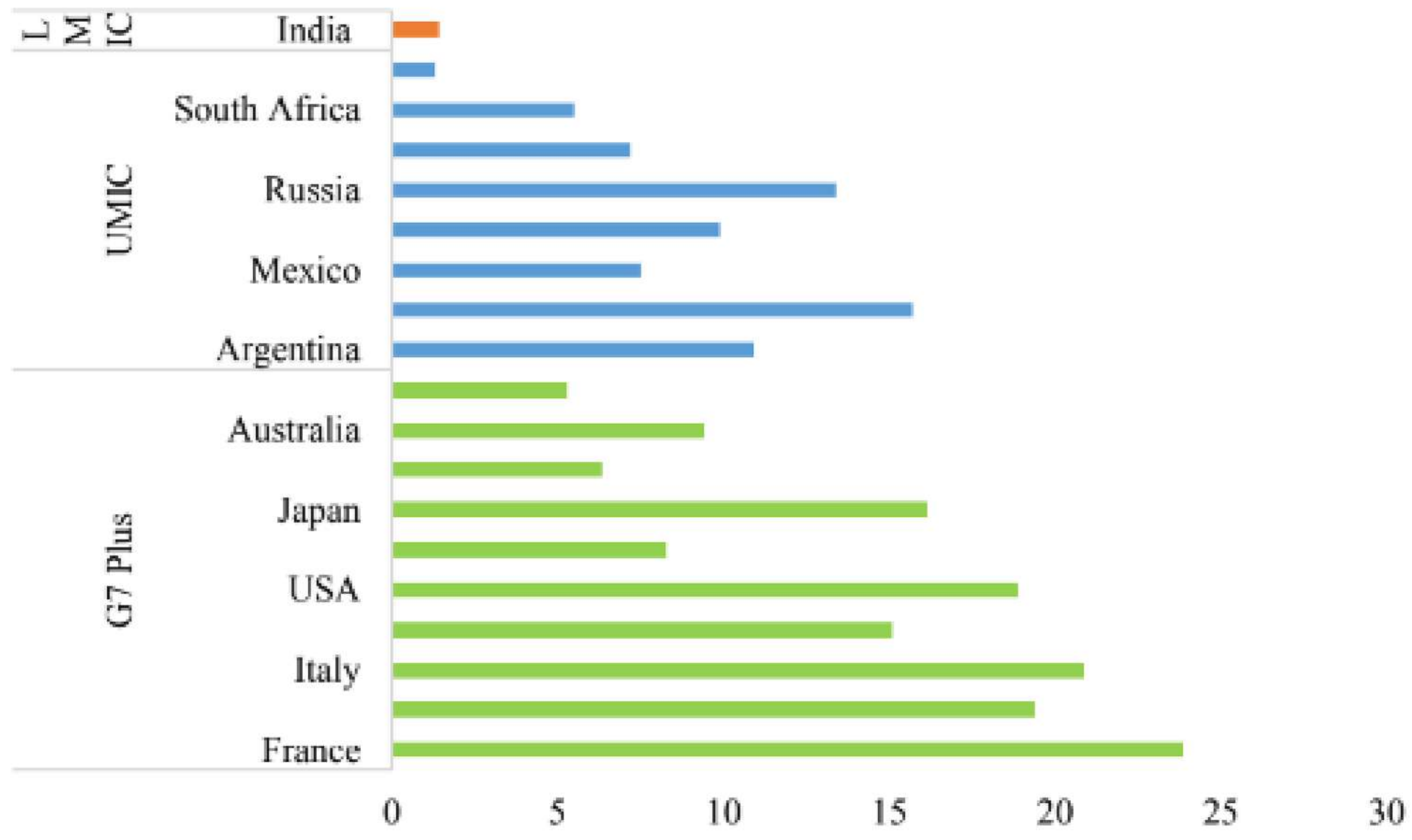
Table-3 shows the status of maternity/paternity in some of these countries where the coverage gap is large, and proportion of informal workers is also high. In most UMI and LMI countries in the G20 the programme is financed through contributory mechanism either independently or jointly by employees, employers, and the government. A general perception emerges from this analysis is that countries that have lower-income levels are poorly implementing the social protection while the high-income countries are doing better. But even here there are variations. For example, on many indicators, Indonesia and India have better coverage in their social protection system than Saudi Arabia. Similarly, some UMI countries are performing better than G7 Plus countries. In short, while higher levels of social protection coverage are usually associated with high levels of economic development, some countries with lower income levels have demonstrated sustained efforts to extend coverage effectively. One of the major reasons of poor coverage is associated with the high rate of informality. In many G20 countries (especially UMI and LMI) the proportion of informal workers in total employment is very high which holds back the objective of decent work.

Globally 60 percent and in G20 countries 50 percent people make a living in the informal economy and the fact is that great majority of these workers are unprotected. Most workers in the informal economy are not affiliated with contributory schemes, nor are they reached by narrowly targeted 'safety nets', as they are not considered 'poor enough' to qualify for these. So sometimes they are referred to as the 'missing middle' (World Social Protection Report 2020-22).

5. Social Protection Expenditure and Financing Mechanism in G20 Countries

Figure-5 depicts the total public social protection expenditure in G20 countries. India and Indonesia are lowest spender on social protection. Governments in both the countries respectively spend 1.4 per cent and 1.3 per cent of their total GDP. At the other hand, France (23.9 %) and Italy (20.9 %) spend more than 20 per cent of their GDP on social protection. Germany, UK, USA and Japan spent between 15-20 per cent of their GD. In UMI, Brazil and Russia respectively 15.7 percent and 13.4 per cent.

Figure-5: Total Expenditure on Social Protection as Percent of GDP (exl health)



Source: World Social Protection Database , ILO

Like the staggering variation in social protection coverage across regions and intra-regional groups, the situation is same in the case of expenditure also. There are sizable differences in social protection investment even among countries at the same level of economic development. Generally, it is seen that social protection coverage and expenditure on social protection are positively linked. But many times higher income does not necessarily means higher spending on social protection because of policy choice (political priorities and social preference) (Ortiz et al. 2019).

Social protection in most of the countries is financed by three mechanisms/sources: contributory scheme, non-contributory scheme and combination of both. Contributory schemes are financed by compulsory contribution made by employers, employees and state. These contributions entitle employees (workers) to receive a contingent future social benefit (Calligaro et al. 2023). Noncontributory system is largely based on tax financing. Table-4 shows the prevailing financing pattern in G20 countries for three key benefits (old age pension, disability and injury benefits and maternity benefits). In Japan, Saudi Arabia, Turkey and Indonesia 100 percent contributory system of financing is available. While in Germany (87.5 %), USA (88.7 %), South Korea (83.3 %), China (82.6 %) and South Africa (83.3 %) more than 80 percent social security funds are financed by contributory system.

Table-4: Financing Pattern on Regular Measures (Maternity, Old-age, Employment Injury & Disabilities)

	Contributory	Non-contributory	Both	Not Specified
G7 Plus				
France	58.33	20.83	12.50	8.33
Germany	87.50		12.50	
Italy	85.71			14.29
UK	71.88	28.13		
USA	88.75	2.50	2.50	6.75
Canada	46.43	42.86	7.14	3.57
Japan	100.00			
South Korea	83.33			16.67
Australia	52.94	41.18	5.88	
Saudi Arabia	100.00			
UMI				
Argentina	37.50	31.25	6.25	25.00
Brazil	61.11	22.22	5.56	11.11
Mexico	30.00	40.00	10.00	20.00
Turkey	100.00			
Russia	44.00	56.00		
China	82.61	13.04		4.35
South Africa	83.33	16.67		
Indonesia	100.00			
LMI				
India	68.18	18.18	6.00	7.58

Source: Social Protection Database, ILO

Except Argentina (37.5 %) and Mexico (30.0 %), these three regular schemes are financed by a contributory system of financing. In India also 68. 2 per cent financing is done through contributory mechanism (though that is exclusively in the formal sector, which barely accounts a tenth of the total number of workers in the country). In some countries both contributory and noncontributory systems are also available. In Canada, Australia, Russia, and Mexico between 40 and 50 percent expenditure is done through non-contributory system. The financing system of old-age pension in figure-6 shows that it is primarily based on contributory system of financing. The share of non-contributory and combination of both are low and only in Argentina, Australia, Canada, China, and India.

Figure-6: Financing System of Old-age Pension

Source: Social Protection Database, ILO

The larger issue in the context of developing countries is that these social protection benefits are mainly available to formal workers. But the share of informal workers is very high especially in India and Indonesia. Even in many UMI and G7 Plus, informality rate is very significant. Governments mainly in developing countries are trying to complement this gap through social assistance or by some ad hoc/temporary social insurance measures that can be changed/altered with given economic conditions and political scenario. Bringing these informal workers into formal structure and extending social security are a major task for the G20 group. Because 50 percent workers in these countries are still informal.

Mehrotra (2022) has pointed following barriers to social protection for informal workers:

i. The legal framework may exclude or constrain the participation of certain categories of workers in social protection scheme and often legislation links social security coverage to an identifiable employment relationship between any employer and a dependent worker.

ii. The second barrier impeding informal workers from participating in social insurance is that workers and employers may be reluctant to contribute towards such a scheme if they are not convinced that the benefits provided will meet their priority needs.

iii. The third is cost of social insurance and inadequate financing arrangements. A high level of contributions is often considered to be an economic barrier in participating social protection scheme.

Especially for the self-employed, contributing to a social protection scheme can be particularly burdensome, as they cannot bear the employers' share of contribution. In that case, the state has to bear the cost. Fluctuating/seasonal and unstable income of informal workers is another challenge. Informal workers have volatile incomes that may require adaptations, involving contributory form of protection.

iv. There is a large number of MSME enterprises, whose owners often, on account of regulatory barriers, do not wish to register with state authorities. These enterprises do not want to formalize in developing countries, often because of operational cost associated with operating in the formal economy, such as taxes, license fee and social contributions.

v. The next barrier is getting social insurance involves complex and burdensome administrative procedure and services, including need for producing different kinds of identity proofs and address proof, a problem for informal workers.

vi. The last barrier to social insurance for informal workers is labour mobility. Apart from these challenges faced by informal workers, the other important issue is how the scope of fiscal space can be enlarged.

According to Ortiz et al. (2019), to meet the fiscal gap and to enlarge the fiscal space several strategies are available.

i. Extending social security coverage by increasing contributory revenues. ii. Increasing tax revenue.
iii. Eliminating illicit financial flows.
iv. Reallocating public expenditure and enhancing the quality of spending.
v. Using fiscal and foreign exchange reserves.
vi. Managing sovereign debt through borrowing and debt restructuring.
vii. A more accommodating macroeconomic framework.
viii. Increasing aid and transfer.

Extending social security coverage and increasing tax revenue are more feasible options that a country can easily adopt. Many developing countries including Brazil, South Africa and Mexico have adopted one of these measures. For example, Monotax system in Argentina and Brazil have demonstrated the feasibility of both coverage and contributions. Taxation is a key channel for generating tax revenue. By strengthening the efficiency of tax collection, broadening the base or by imposing higher taxes on tobacco product social protection system can be financed. In 2008, Brazil applied a temporary tax on financial transactions to expand social protection coverage (Ortiz et al 2019).

Conclusion

Concluding remarks There are lessons from the now industrialized countries of Europe and North America for Emerging Market Economies of the G20 as well as non-G20 EMEs. When Europe and North America, over the one hundred year period 1880-1980, saw their per capita income rise, they also saw their public expenditure to GDP ratio rise from 11% in 1880 to over 40% in 1980 (based on rising tax to GDP ratios). The important point is that this rise in the size of the state in the economy, was driven in Europe and North America by three types of public expenditure: on health services, on education, and on social transfers (Lindert, 2004). The social transfers included both social insurance as well as social assistance.

The implication for EMEs today is that as their per capita incomes rise (as they have been for the last three-quarters of a century), they will have to increase allocations, similarly, to strengthening their public health services, their education systems, and especially social security systems. Hence, the current meeting of G20 countries is an appropriate occasion to commit to increasing their allocations to the financing of social insurance, given high informality remains in the EMEs, and how persistent it has remained.

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