

## Improving synergies between social protection and Public Finance Management: Course session briefs

### Session 8: Domestic Resource Mobilization

Session by **Alvaro Ramos-Chaves**, Technical Expert in Social Protection Financing, EU funded Programme on SP&PFM. Department of Social Protection at ILO.

#### Objectives

- Learn about the two major Domestic Resource Mobilization (DRM) fiscal space options: taxation and social security contributions.
- Challenges for increasing DRM in countries with large informal economy.
- The importance of revenue source design that facilitates the transition to formal economy to increase DRM.

#### Content

Out of the eight options described in the Handbook, two of the most widely used around the world are taxes and social security contributions. The reason is that these revenue sources generate a permanent flow of resources and can be very broad-based across economic sectors. Hence, as the economy grows, revenues are more likely to keep pace and allow the country to provide adequate social protection relative to economic capacity and average wages.

There are distributional risks (e.g. a tax might have a disproportionate incidence on poorer people) and elasticity risks: if you increase taxes, the economic sector affected by the tax may be discouraged and react by producing and selling less of its products. Therefore, the revenues attained with the tax increase will not be as much as the pure rate increase would suggest. However, social security contributions, by their nature, may be exceptional in their impact. We will learn how, under certain circumstances, the effect of SS can be more employment, instead of less.

#### Methodology

A lecture on the implications of taxation and social security contributions on the economy and the ability of people and firms to react to policy changes. A Q&A and discussion of the potential for DRM in economies with a large informal sector will follow this initial lecture.

#### Reading

[Public Economics and Inequality: Uncovering our Social Nature](#)

## Other resources

Chapters 4 and 5, [Fiscal Space for Social Protection: A Handbook for Assessing Financing Options](#)

[Some simple economics of Mandated Benefits](#)

[Global Deal to End Tax Havens Moves Ahead as Nations Back 15% Rate](#)



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## Session 9: Innovative Social Protection financing options and reviewing fiscal space analysis.

Session by **Helmut Schwarzer**, Public Finance Specialist, Social Protection Department, ILO.

### Objectives

- Learn about the remaining Fiscal Space analysis options and the innovations implied.
- Discuss how to address the concerns other stakeholders may comment on the options.
- Having the full picture, discuss how the eight options may be used in a country of interest. .

### Content

Out of the eight options described in the Handbook, four of the most innovative, besides certain types of taxes, are

1. Controlling Illicit financial flows and corruption
2. Public expenditure repriorization
3. Using fiscal and foreign exchange reserves
4. Foreign aid.

Some of them may sound very familiar, so why innovative? Well, these financing options have been, historically, hard to execute, in spite of many calls to attempt to do so. It is only in recent years, with disclosures such as the Panama papers, that some of these options, such as controlling illicit flows, became more feasible as even developed countries have decided they will have a much lower tolerance for shady financial moves. Other options have to be considered carefully and with evidence-based arguments. For example, discussing foreign exchange reserves might create some resistance, but there are widely accepted measures of adequacy of reserves that justify releasing the rest of the reserves. A country is free to exceed the technically recommended level, but it is not free to ignore the opportunity costs it is incurring when it does so.

Likewise with foreign aid and public expenditure repriorization. Foreign aid has often been much below what citizens of donor countries believe it is. There is a promise unfulfilled. Finally, there are many tools to measure public expenditure outcomes relative to the money spent, and that eases the decision to repriorize.

### Methodology

A lecture on the implications of the final four options of fiscal space, followed by an example-based discussion on how to analyze at least one of the eight options on a country.

### Reading

[Tackling Tax Havens](#)

## Other resources

Chapters 6, 7, 8 and 11 of  
[Fiscal Space for Social Protection: A Handbook for Assessing Financing Options](#)

[Global Illicit Flows Database](#)

[Social Protection Expenditure and Performance Reviews \(SPERs\)](#)

[“The Social Cost of Self-Insurance: Financial Crisis, Reserve Accumulation, and Developing Countries”](#)



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