POLICY BRIEF

December, 2016

Financing Social Protection

Securing solidarity-grounded financing for social protection schemes in Asia-Pacific

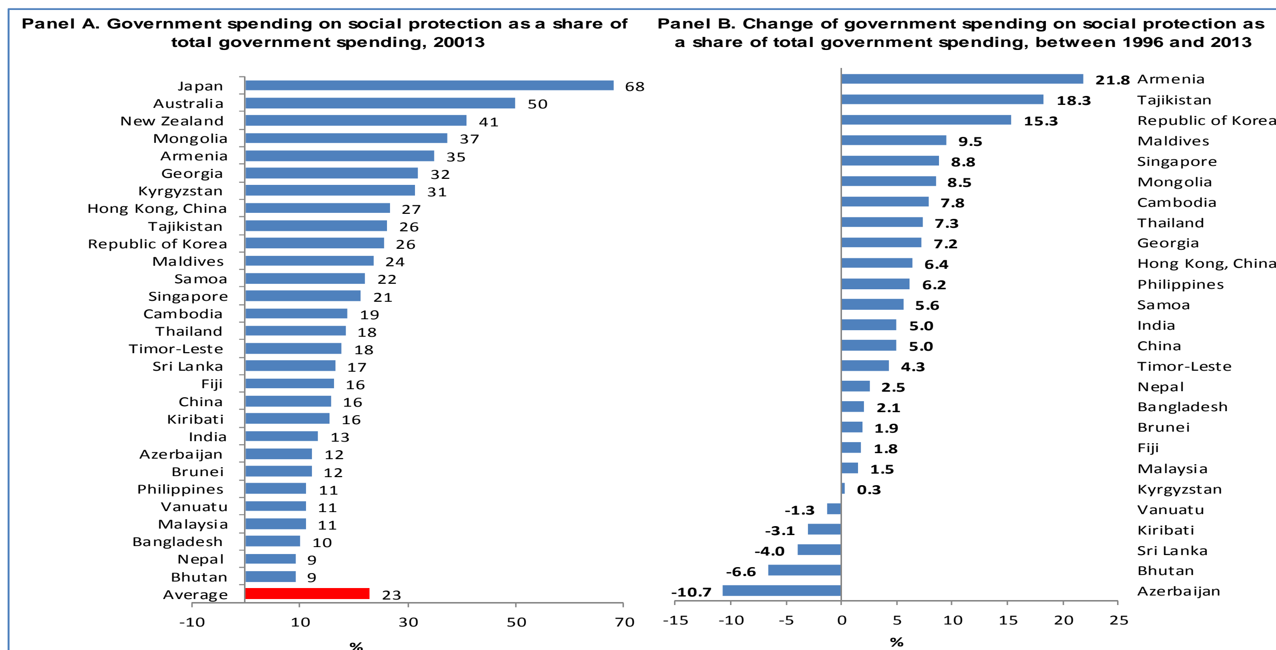
I. An investment in people

Over the past decade, social protection has emerged as a critical development instrument in Asia and the Pacific. Social protection is anchored in the universal rights of everyone to social security, and to a standard of living adequate for the health and well-being of themselves and their families. In addition to fulfilling basic rights, social protection also generates resilience, equity and opportunity, and acts as a strong redistributive mechanism. In doing so, it establishes a solid foundation for both social and economic development. Spending on social protection is a long-term investment in people.

An effective financing framework needs to be consistent with the Sustainable Development Goals' (SDG) aspirations. SDG Target 1.3 emphasizes the implementation of a Social Protection Floor, which consists of the following four components:

a) Meeting the nutritional, health and educational needs of children;
b) Ensuring income security for the working-age population;
c) Providing old-age pensions for all; and
d) Achieving universal health care coverage.

A majority of Governments in the region recognize the importance of financing social protection. This is evident from the increase in government investments in this area during the past two decades. Some 23 out of the 27 developing Asia-Pacific countries for which data are available increased social protection spending as a share of total government expenditures between 1996 and 2013 (Panel A).



Source: ESCAP, based on ADB, Key Indicators for Asia and the Pacific 2014, Country Profiles.

Note: Government spending on social protection is calculated as the sum of government expenditures on health, social security and welfare. Data for earliest available year refer to 1996, except for Singapore (1995); Kiribati (1997); Vanuatu (1998); Azerbaijan and India (1999); Bhutan (2002); China (2000) and Timor-Leste (2007). Data for latest available year refer to 2013, except for Vanuatu (2004); Brunei Darussalam and Samoa (2011); China, Fiji and India (2012).

II. Limits in finding fiscal space

Though countries have increased their investments in social protection, more needs to be done to realize the ambitious SDGs. Low investments result in poor availability and quality of public social services and low levels of social protection benefits. With few exceptions, notably OECD countries such as Japan (68 per cent) and Australia (50 per cent), and some central Asian countries as Georgia, Armenia and Kyrgyzstan, the large majority of developing countries in the region spend less than one-fifth of total government expenditures on social protection (Panel A).

The issue of finding fiscal space and prioritizing social protection is one of political will, rather than lack of resources. While the investment requirements for a basic social protection package may not be insignificant, they are feasible, even for least developed countries.

III. What policymakers can do

Investments in social protection need to be solidly grounded in domestic, primarily public financing. It is incumbent on the State to ensure the right to development and generate solidarity. The State also needs to establish the long-term sustainable development horizon against which the social and economic benefits of an appropriately funded social sector become evident.

Contributory schemes

To insure the unemployed, persons with disability or old-age pensioners, many (developed) countries are using contributory-based social protection schemes, or so-called social insurance schemes. Under these schemes, employers and employees (sometimes also with financial support from the state) co-contribute to their financing.

The challenge is that only a small fraction of individuals work in the formal sector in Asia and the Pacific (e.g. civil servants). As a result, social insurance schemes are very limited in coverage. The majority of (informal) workers depend on non-contributory social assistance schemes. But these schemes are rare; and when they exist, benefits are often low, which results in coverage gaps for these vulnerable workers. Two solutions remain: 1) promote productive and decent work opportunities; and 2) expand social assistance.

Taxation

Funding for social protection, particularly social assistance, principally comes from government tax revenues, in particular income taxation, but also from a combination of corporate taxation, consumption taxes, earmarked taxes and Official Development Assistance (ODA).

Despite the region's relatively low tax revenues many countries provide some kind of tax-financed income support schemes to selected vulnerable groups, such as people living in extreme poverty. Other countries, like Kyrgyzstan, the Philippines and Sri Lanka have developed tax-financed social protection programmes for children with specific nutritional, health and educational objectives.

Several countries, including the Maldives, Nepal, Samoa and Viet Nam are also providing tax-financed non-contributory pensions that aim to cover all older persons.

Tax revenues have also helped finance non-contributory health-care services such as China's Urban Residents Basic Medical Insurance, Bhutan's Primary Health Care system and Thailand's Universal Health Coverage scheme.

Earmarked taxes, especially for tobacco, have also contributed to financing health. Earmarking tobacco taxes aims to correct the negative externality of tobacco use for the non-smoking members of society (i.e., the effects of "second-hand smoke") and reduce consumption of these products, while generating additional revenue for health, especially for health promotion, including prevention of non-communicable diseases (NCDs).[i]

In 1982, the Republic of Korea introduced a tax on alcohol, tobacco, interest and dividend income, as well as the banking and insurance

industry, which was earmarked for education purposes. Five years after its introduction, the tax accounted for 15 per cent of the Ministry of Education's budget.[ii]

The relatively narrow tax base, due to high labour market informality, as well as weak tax administration and collection, constrain the ability of countries in the region to finance social protection through general taxation alone. Strong political will is necessary to reallocate existing resources towards social protection.

Expenditure reallocation

In the absence of new fiscal space for expanding social protection, policymakers can consider reprioritizing public spending in favour of social protection.

For example, gradual removal of fuel subsidies and reorientation of revenues from extractive industries can create fiscal space for the social sector. Countries in Asia and the Pacific spend considerable resources on fuel and electricity subsidies. In South-East Asia alone, energy subsidies amounted to USD51 billion in 2012.[iii] These energy subsidies are often regressive and incentivize fuel-intensive production, with environmental consequences. Furthermore, they have had little impact on reducing poverty or enhancing inclusive growth. Gasoline subsidies in most countries benefit the middle class, while the poor walk or take public transportation. Worldwide, far less than 20 per cent of fossil-fuel subsidies benefit the poorest one-fifth of the population.

Savings from these subsidies would be sufficient to finance income security for all older persons and all persons with disabilities in the region as well as provide universal access to health and education in Indonesia, Malaysia, the Philippines and Thailand.[iv]

Innovative ways to finance social protection

In the face of multiple limitations, alternative and innovative financing schemes are also emerging. Policymakers can take note of these examples and, where relevant, support them as complementary to general taxation and contributory schemes.

Dedicated funds from extractive industries: The Government of Mongolia has been supporting the payment of old-age pensions through the Human Development Fund (HDF), established in 2009 with the aim of accumulating excess revenues from the mining sector, and redirecting them towards the economic and human development of the country. In addition to pensions, the HDF is currently being used for providing health-care, housing and educational benefits to Mongolian citizens. Due to lack of fiscal space, Mongolia has also considered the establishment of a pension reserve fund, which will be used to invest a percentage of excess mining royalties.[v]

Private initiatives: Several private or civil-society led initiatives are also emerging to fill in gaps in social protection coverage or service delivery.

For example, in Pakistan, the Citizens Foundation (TCF) builds and operates schools that are Government certified and follow a national curriculum. At TCF schools, parents contribute to the school fees based on the household income and number of children (capped at five per cent of household income), with an average monthly contribution of USD 1 per child. Corporate and philanthropic donations cover the remainder of the costs. [vi]

In India, the All India Disaster Mitigation Institute (AIDMI) developed a micro-insurance mechanism that covers holders against 19 disasters at an annual premium of USD 5. The scheme, which is called Afat Vimo (gujarati for "disaster insurance") is the result of collaboration among poor entrepreneurs, commercial and public insurance companies.

Cross-subsidization: Outside the region, in Uruguay, a unified system has been designed to combine contributory social security schemes and tax-based programmes into a "monotax". It is a system of cross-subsidization, based on the principles of solidarity, inclusiveness and equity. This innovative solution has served to overcome the segmentation in benefit schemes between salaried workers in the formal economy, and non-salaried, self-employed workers in the

informal economy. Contributions are made on the basis of people's ability to pay, and benefits are disbursed following equitable, needs-based criteria.[vii]

Regardless of the financing strategies pursued, responsibility for ensuring a social protection floor and remedying exclusion rests primarily with each national government. National governments are best positioned to ensure the sustainability of financing streams and to guarantee country ownership. At the same times, governments can work towards establishing competent, credible and democratic institutions for efficient and effective administration of financing strategies and of policy execution. Other actors, private corporations and civil society organizations, can play a complementary role in financing or delivering social protection.

Financing social protection requires broad political consensus and sufficient long-term financing, framed as an investment similar to investments in infrastructure. To mobilize domestic resources, social protection needs to be anchored on a rationalized revenue structure with greater equity, strengthened tax administration to close loopholes, and more accountable and efficient public spending. Effective social protection relies on a strong social contract that is fundamental for winning the broad support and understanding of tax payers.

References

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