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Financing social protection

The importance of increasing investments in social protection

Over the past decade, social protection has emerged as a critical development instrument in Asia and the Pacific. Originally understood exclusively in terms of poverty reduction, today social protection is being integrated into broader national policies. 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.

To develop an effective financing framework consistent with the Sustainable Development Goals' aspirations, efforts should be consistent with the principles of the *Social Protection Floor*.[1] That is, it should include the following four components:

- Meeting the nutritional, health and educational needs of children;
- Ensuring income security for the working-age population;
- Providing old-age pensions for all; and
- 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 has increased social protection spending as a share of total government expenditures between 1996 and 2013 (Figure 1)[2].

Though countries have increased their investments in social protection, further progress needs to be made to realize the ambitious Sustainable Development Goals. Relatively low investments result in poor availability and quality of public social services and low levels of social protection benefits. With few exceptions, including 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 (Figure 2).

While the investment requirements for a basic social protection package may not be insignificant, they are feasible, even for least developed countries.[3] The issue of finding fiscal space and prioritizing social protection should therefore be understood as one of political will, rather than lack of resources.

Figure 1. Change of government spending on social protection as a share of total government spending between 1996-2013

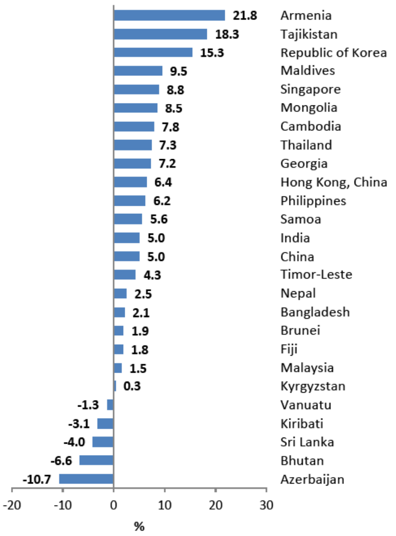
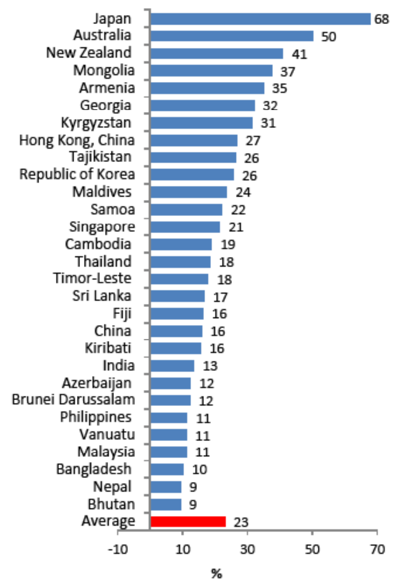


Figure 2. Government spending on social protection as a share of total government spending, 2013



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

Notes: On figure 1, data for earliest available year refer to 2013, except for Vanuatu (2004); Brunei Darussalam and Samoa (2011); China, Fiji and India (2012).On figure 2, data for earliest available year refers to 1996, except for Singapore (1995); Kiribati (1997); Vanuatu (1998); Azeirbaijan and India (1999); China (2000) and Timor-Leste (2007).

Financing social protection through taxation

Investments in social protection need to be solidly grounded in domestic public financing. This is because it is incumbent on the State to set a clear direction, not only in terms of ensuring the right to development and generating solidarity, but also in terms of establishing the long-term sustainable development horizon against which the social and economic benefits of an appropriately funded social sector become evident.

Despite the region's relatively low tax revenues, countries in the region finance, through tax revenues, social protection schemes such as:

- Income support schemes to selected vulnerable groups, such as people living in extreme poverty;
- Non-contributory pensions to cover all older persons (e.g. Maldives, Nepal, Samoa and Viet Nam);
- 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;
- Social protection programmes for children with specific nutritional, health and educational objectives (e.g. Kyrgyzstan, the Philippines and Sri Lanka).

Funding for such schemes would typically come from government tax revenues, in particular income taxation, but also from a combination of corporate taxation, consumption taxes, earmarked taxes and hypothecated taxes and Official Development Assistance (ODA).

For instance, earmarked (dedicated or hypothecated) taxes, especially for tobacco, have been an effective means to finance health care in the region. 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).[4] Asia-Pacific countries that have recently earmarked tobacco tax revenues for health care include Australia, India, Mongolia, the Philippines, Nepal, Republic of Korea and Thailand.[5]

Some countries in the region have also successfully introduced hypothecated taxes to finance social development more broadly. For example, in 1982, the Republic of Korea introduced a tax on alcohol, tobacco, interest and dividend income, as well as on the banking and insurance industry, which was earmarked for education purposes. Five years after its introduction, the earmarked tax accounted for 15 per cent of the Ministry of Education's budget.[6]

Innovative ways to finance social protection

The relatively narrow tax base, due to high labour market informality, as well as weak tax administration and collection, constrains the ability of countries in the region to finance social protection through general taxation alone. In that context, countries in the region have, also, begun to explore innovative ways to finance social protection and other critical areas in the context of realizing the 2030 Agenda for Sustainable Development. In this regard, the following examples illustrate innovative financing schemes that could complement the means discussed above:

• Blending user fees and grants:

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 financing 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, with over 50 per cent of funds raised within Pakistan and the remainder from across the globe. In 2011, 72 per cent of TCF students pursued post-secondary education, compared to the government school average of 40 per cent.[7]

• Using micro-finance mechanisms:

In India, the All India Disaster Mitigation Institute (AIDMI) brought together poor entrepreneurs and stakeholders — including commercial and public insurance companies — to develop Afat Vimo (Gujarati for "Disaster Insurance"), a micro-insurance mechanism that covers holders against 19 disasters at an annual premium of USD 5. Through Afat Vimo, AIDMI is encouraging insurance companies, authorities, donor communities, and non-governmental organizations (NGOs) to strengthen social protection through the integration of micro-finance tools and disaster risk reduction strategies.[8]

• Establishing 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 considered the establishment of a pension reserve fund, which will be used to invest a percentage of excess mining royalties.[9]

Contributory-based social protection schemes

To better insure, for example, 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.

However, in most developing countries, only a small fraction of individuals work in the formal sector (such as civil servants). Therefore these social insurance schemes are very limited in coverage. The majority of workers who do not qualify for social insurance 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. It is therefore of critical importance that productive and decent work opportunities are promoted.

Reallocating public expenditures

Countries in the region also need to orient political will to reprioritize public spending in favour of social protection. Political will needs to be demonstrated by reprioritizing already existing public revenue in favour of the social sector. The issue of subsidies and revenues from extractive industries are important in this regard.

One area of expenditure with great potential in creating fiscal space is subsidies.[10] Countries in the region spend considerable resources on subsidies predominately on fuel, but also on electricity, food and agriculture. In South-East Asia alone, energy subsidies amounted to $51 billion in 2012.[11] In Bangladesh, Kyrgyzstan and Pakistan, energy subsidies represented between one quarter to half of total government revenues. 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.[12]

Government responsibility

Regardless of the financing strategies pursued, "[r]esponsibility for raising the domestic public revenues necessary for the core economic and social functions – for example to ensure a social protection floor and to remedy exclusion – rests primarily with each national government."[13]

In this respect, the State cannot transfer the responsibility for providing such basic services as health care and education to other actors, particularly actors that are not bound by human rights obligations. Furthermore, given the importance of the sustainability of financing streams, as well as the principle of country ownership, governments may wish to pursue policies that prioritize domestic resource mobilization, while noting the necessity of 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.

Conclusion

Financing is inextricably linked to, and one of the fundamental prerequisites for, addressing the global priorities for sustainable development. It involves transformative change across the economic, social and environmental dimensions "to achieve a life of dignity for all, leaving no one behind," where there is full realization of human rights, shared prosperity, social equality and protection of the natural environment. In this context, social protection plays a transformative role in contributing to long-term inclusive growth and sustainable development.[14]

For this to be fully realized requires broad political consensus around the importance of social protection and sufficient long-term financing for it, framed as an investment similar to investments in infrastructure. This, in turn, requires more effective domestic resource mobilization, based on tax reform grounded in the principles of equity. Increasing public spending revenues through tax reform is also essential for financing new investments in social protection. Such reforms must avoid perpetuating existing inequalities and instead have clear redistributive aims to help address prevailing income inequalities. Progressive pro-poor taxation systems grounded in the concept of solidarity emphasize taxing personal income and capital gains, rather than relying on broad support of consumption which is usually regressive and anti-poor.

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[1] International Labour Organization (ILO), "Social Protection Floors Recommendation No. 202," 101st Session of the International Labour Conference, Geneva, 14 June 2012.

[2] Government spending on social protection is calculated as the sum of government expenditures on health, social security and welfare

[3] ESCAP, *Economic and Social Survey of Asia and the Pacific 2013* (Bangkok, 2013); ILO, *World Social Protection Report 2014/15: Building Economic Recovery, Inclusive Development and Social Justice*. (Geneva: ILO, 2014).

[4] World Health Organization, *Tobacco Taxation and Innovative Health Care Financing* (New Delhi, 2012).

[5] *Ibid*.

[6] Enrique Delamonica and Santosh Mehrotra, "How can financing of social services be pro-poor?", prepared for the UNRISD project on Financing Social Policy (Geneva, 2008).

[7] D. Capital Partners, "Impact investing in education: an overview of the current landscape", Education Support Program Working Paper Series, No. 59 (New York, Open Society Foundations, 2013).

[8] United Nations International Strategy for Disaster Reduction (UNISDR) and the United Nations Development Programme (UNDP), *Building Disaster Resilient Communities: Good Practices and Lessons Learned.* (Geneva, 2007).

[9] Alicia Campi, "Mongolia's quest to balance human development in its booming mineral-based economy", 10 January 2012. Available from www.brookings.edu/opinions/mongolias-quest-to-balance-human-development-in-its-booming-mineral-based-economy/.

[10] ILO, *World Social Protection Report 2014/15: Building Economic Recovery, Inclusive Development and Social Justice* (Geneva, 2014).

[11] ESCAP, "Sustainable Development Financing: Perspectives from Asia and the Pacific," Background paper prepared for the Asia-Pacific Outreach Meeting on Sustainable Development Financing (Jakarta, 2014).

[12] ESCAP, *Year-end Update: Economic and Social Survey of Asia and the Pacific* (Bangkok, 2014).

[13] United Nations, *The Road to Dignity by 2030* (New York, 2016).

[14] *Ibid*.

The ESCAP Policy Briefs aim at generating a forward-looking discussion among policymakers, researchers and other stakeholders to help forge political will and build a regional consensus on needed policy actions and pressing reforms. Policy Briefs are issued without formal editing. The content of this issue was prepared by Patrik Andersson and Riccardo Mesiano. This policy brief benefited from comments by Sudip Ranjan Basu. For further information on this issue, please contact Hamza Ali Malik, Officer-in-Charge, Macroeconomic Policy and Financing for Development Division, ESCAP (escap-mpdd@un.org).

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