

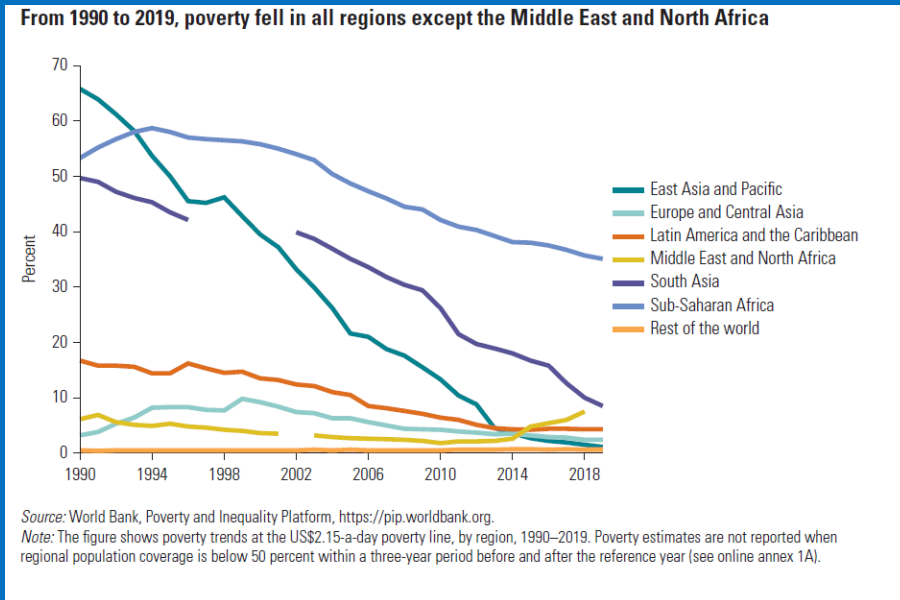


Limited Fiscal Space and Growing Demand: The Dilemma of Financing Social Protection

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Child poverty is increasing for the first time in 30 years



Increased demand

The **nonmonetary dimensions** of the pandemic and its impacts may ultimately prove **to be more costly** than the monetary dimensions

The drag on growth **could persist for decades** if unaddressed—even though the implications of learning/health loss for aggregate growth may appear modest within any one year

World Bank, 2022

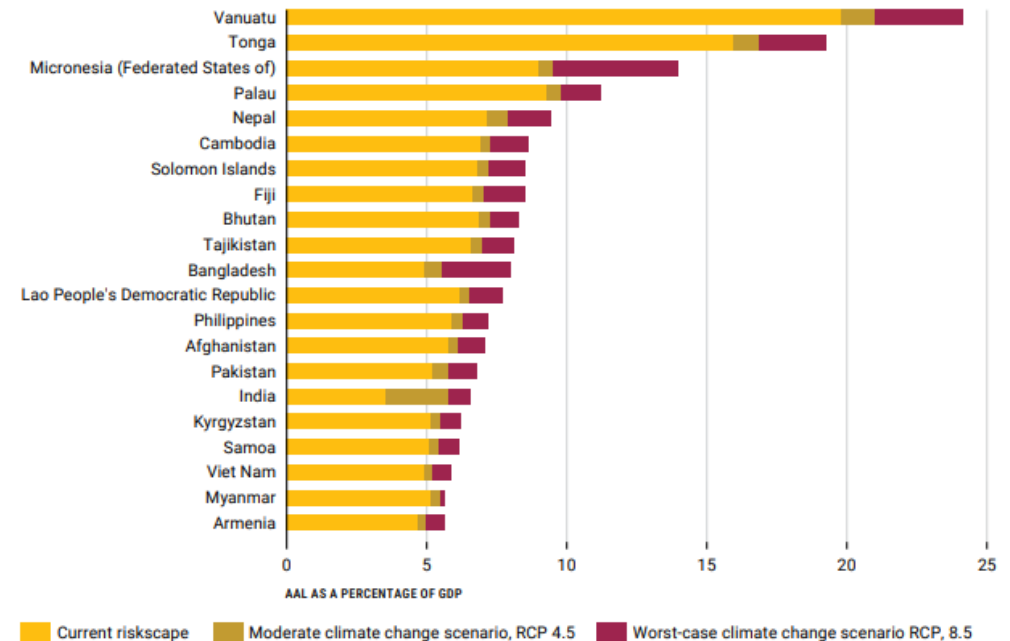
Climate Change

Economic costs of natural and biological hazards could soon exceed total government spending in several countries

Increased demand

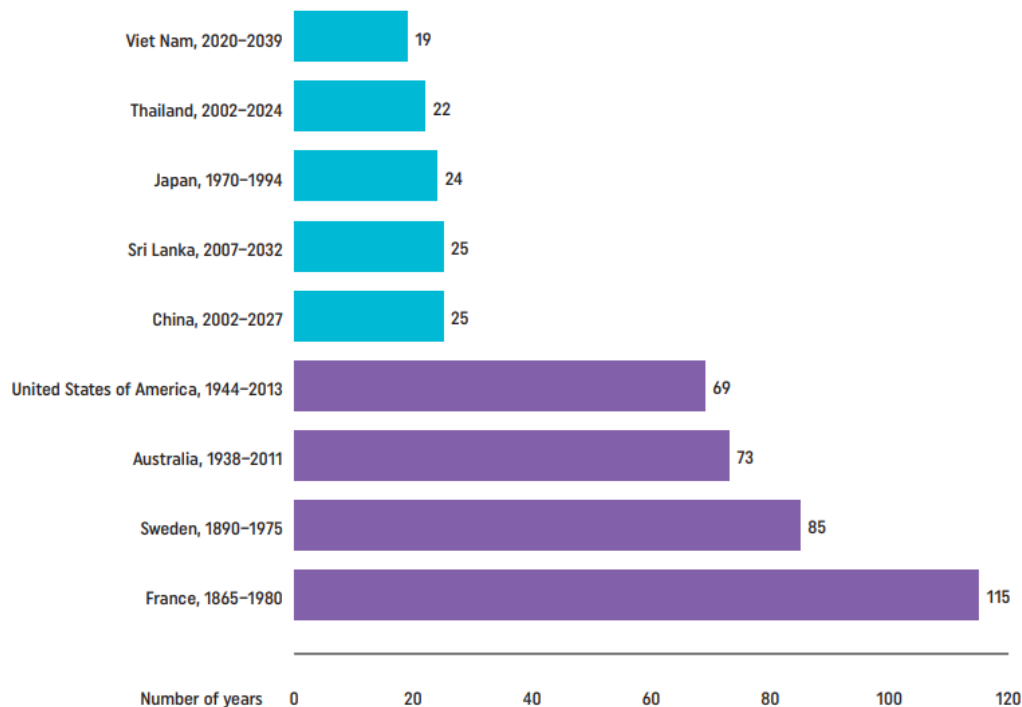
- Under the current pathway for climate change, the average costs to the economy for most of our countries will at least double.
- Completely undo regional progress towards SDGs
- Divert funding away from key areas for children

FIGURE 3-13 Increase in Average Annual Losses (AAL) as a percentage of GDP under current, moderate (RCP 4.5), and worst-case (RCP 8.5) climate change scenarios



Demographic changes > the ageing society

FIGURE 3: TIME TAKEN IN YEARS TO MOVE FROM AGEING TO AGED SOCIETY



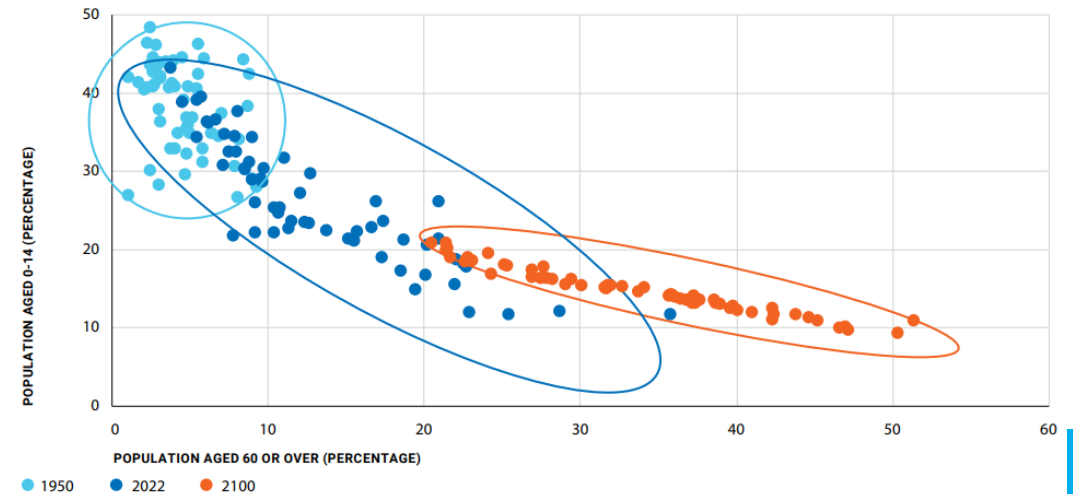
Source: ESCAP calculations based upon Kinsella and Gist (1995); UN Census Bureau (2005); and Viet Nam GSO (2010)

Increased demand

Are we taking seriously the implication of an ageing society?

- Reduction of birth rate + increased life expectancy
- An ageing population is an expense for families and a fiscal problem for the government.
- Public spending on health care will double between 2015 and 2050
- **To finance future needs, we need to invest in children now (no one left behind)**

Distribution of young and old age cohorts over time in Asia and the Pacific, by country, 1950, 2022 and 2050



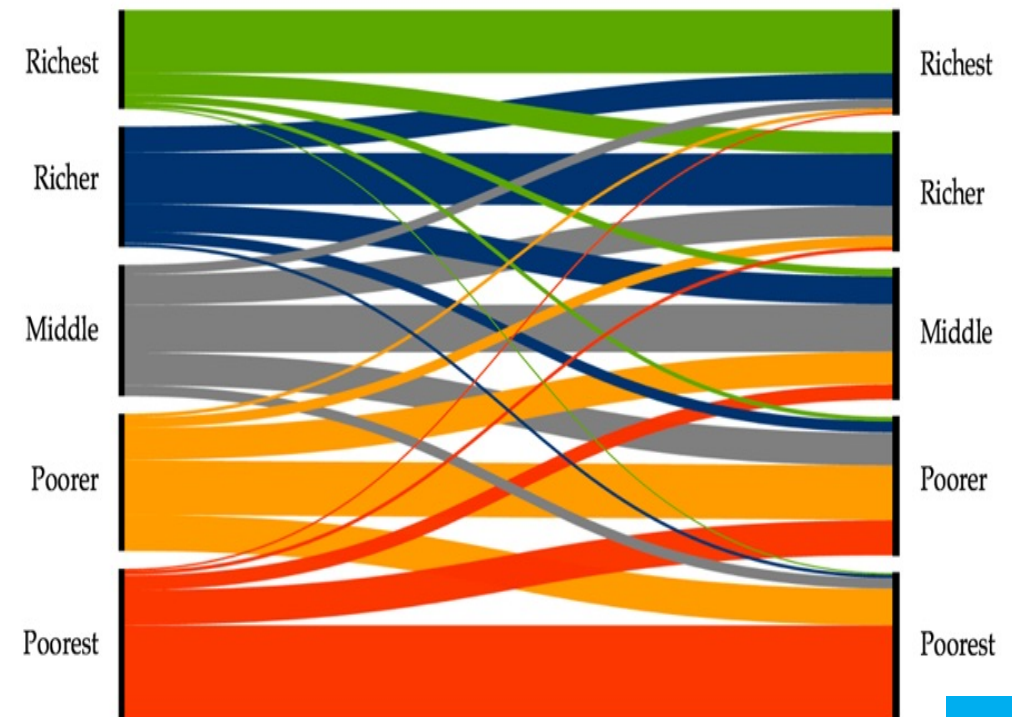
Source: United Nations, Department of Economic and Social Affairs, Population Division (2022). World Population Prospects 2022, Online Edition.

Dynamics of Poverty:

It is dynamic in terms of target populations, and poverty level

- **Poverty dynamics:** mobility across quintiles, and different deprivations
- **New Poor children** (urban, educated)
- **New deprivation:** pandemic, pollution, natural disasters, social unrest
- We need to do more and more **frequent dynamic analysis**, not just static . **Social Mobility**

Dynamic Financing, an capacity to react to change



Indonesia , child mobility 2012-2015

WHERE IS THE FISCAL SPACE FOR CHILDREN?

Review of social sector budgets in selected countries
in South Asia, East Asia and the Pacific Islands

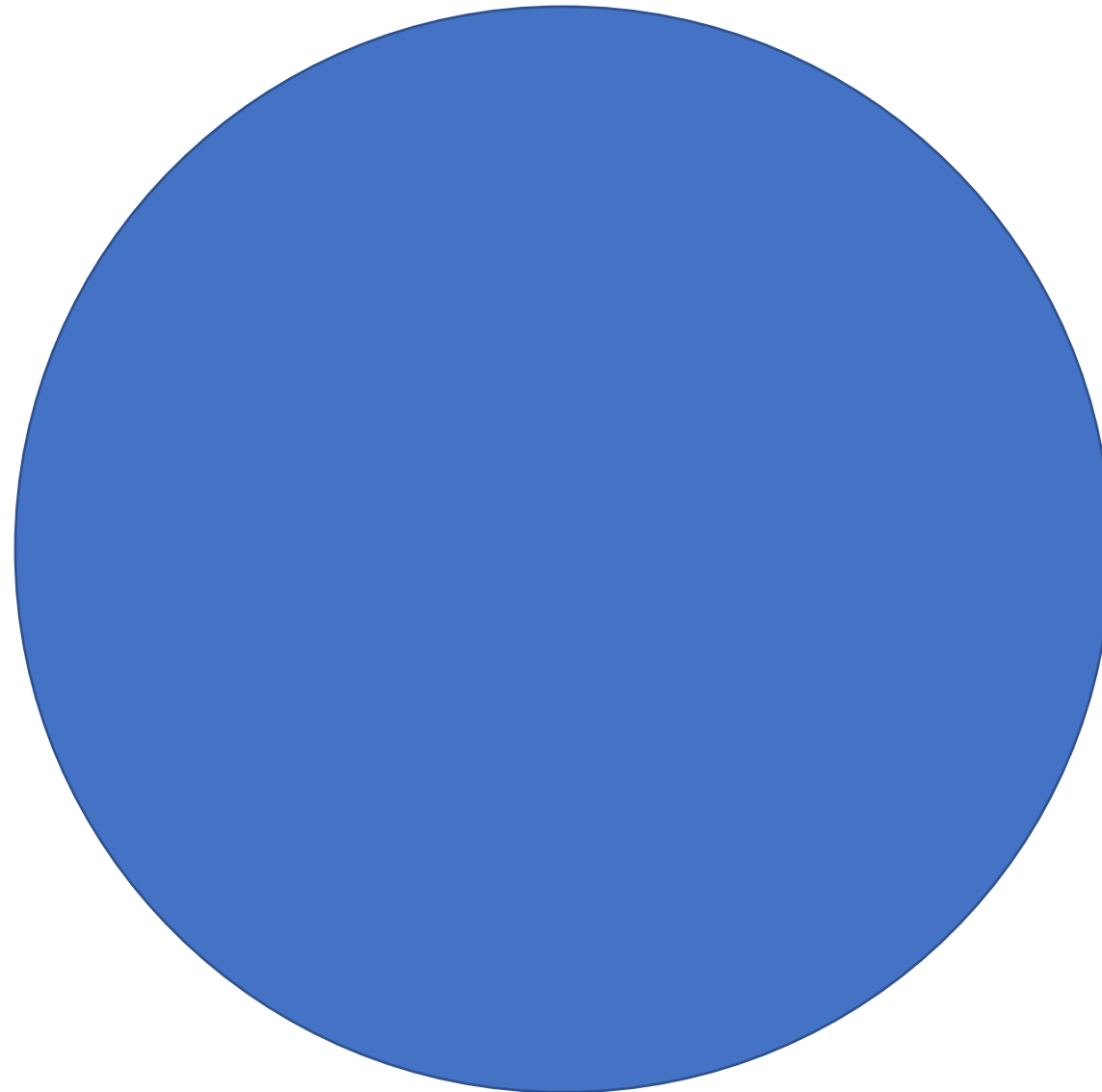


Review of social sector budgets in selected countries in South East Asia and the Pacific Islands

Trends in

- Education,
- Health
- Social assistance

The Centrality of Public Finance



Social Sectors as essential element of recovery and inequality reduction

Doing more with less?

- Overseas development assistance (**ODA**), through aid and debt relief;
- Deficit **financing**, through domestic and external borrowing
- Domestic **revenue** mobilisation, through improved tax administration or tax policy reforms;
- Bold **prioritization** in budget allocation
- Increasing the **efficiency** of Public Finance management of each social sector

COVID emergency
challenged the
usual hidden
assumptions
about State
response on Social
Protection

Fiscal
Political Space

Speed

FALSE

The bureaucratic assumption: State response will be very slow **42 days**

Size

FALSE

The capacity assumption: don't have the capacity for large expansions (vertical or horizontal) **+47%**

Finance

FALSE

The fiscal assumption: There is no fiscal space
Large and quick financing

In response to the impacts of the COVID-19 crisis, large social protection interventions have been put in place in several countries in the regions at a **scale, speed**, and with a level of **financing very rarely experienced before**.

“The rich are better,
consolidation is
coming”

K

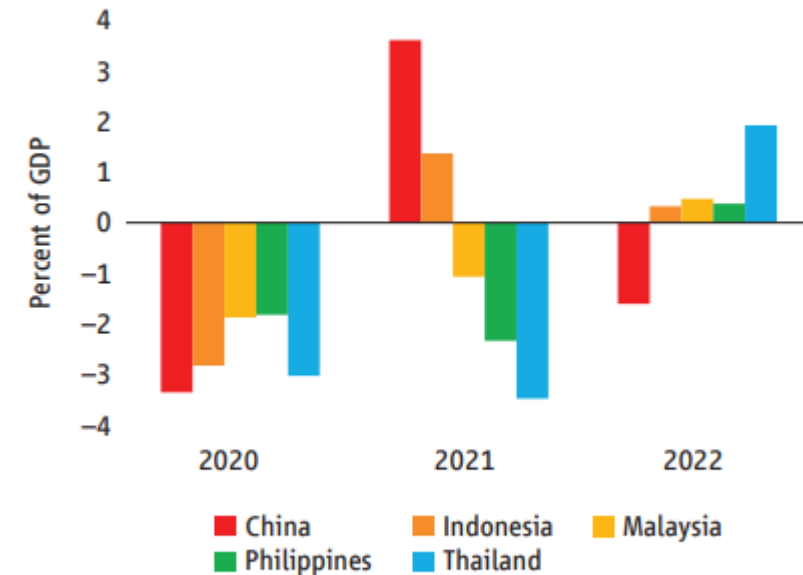
“If we have learned something from
past crises it is that expansion of
social [protection] interventions will
not last forever.”

UNICEF March 2020

Governments in the region are cutting
expenditure as support to individuals
and firms that were ramped up in the
aftermath of COVID-19 has been
waning

Annual change of structural balance

A. East Asia



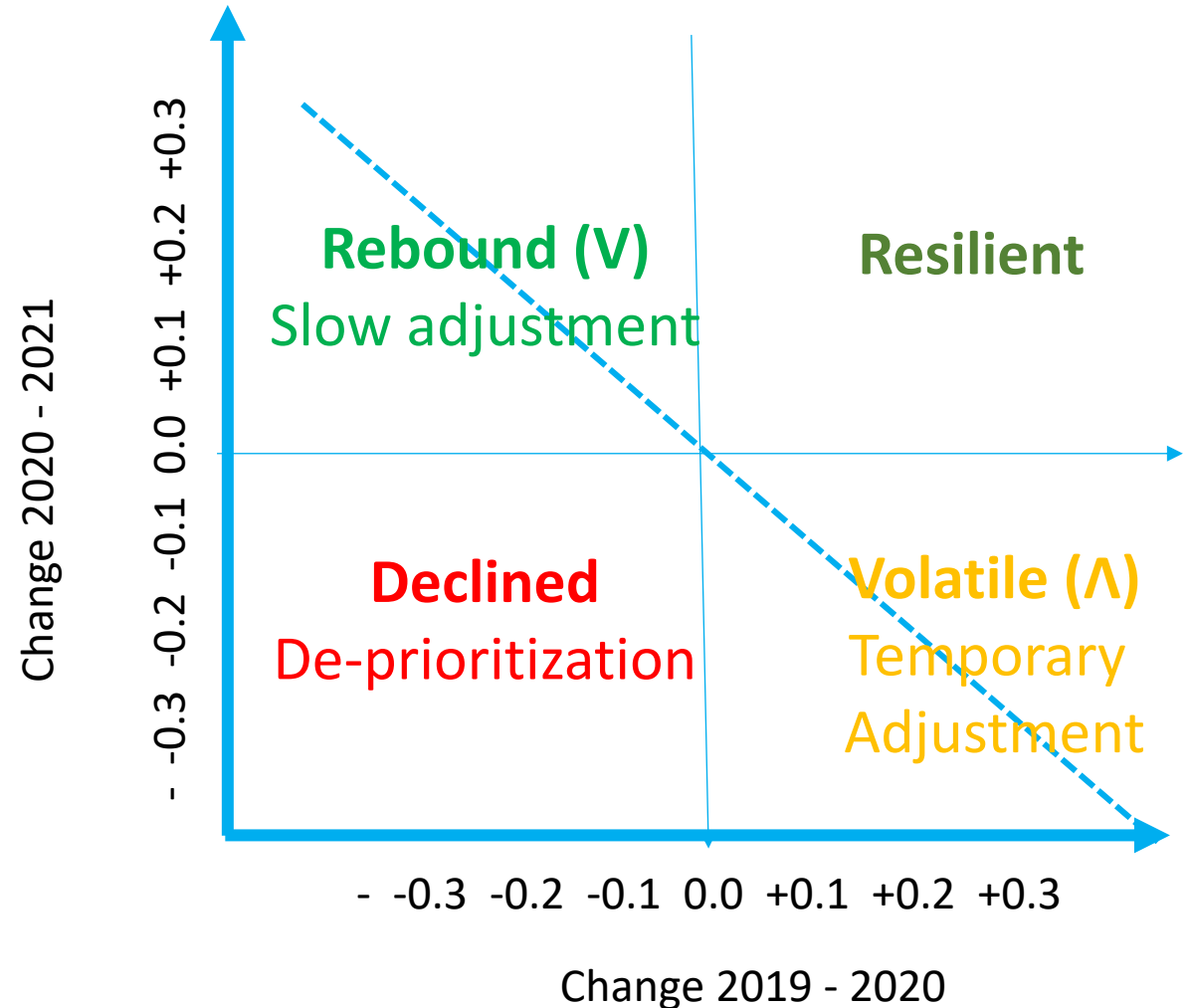
Source: World Economic Outlook

Note: Figures show annual change in structural balance.

Mapping the Priority Track

The budget is the skeleton of institution priorities stripped of all misleading narratives
(Schumpeter)

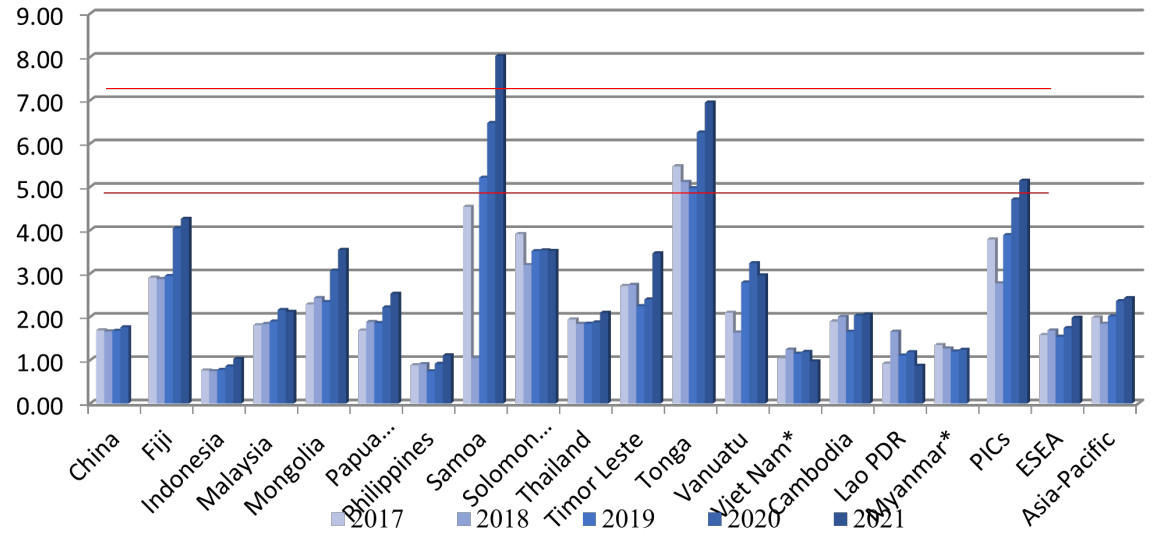
Social sector budget as a percentage of the national budget describes the priority that a government places on addressing social issues, such as poverty, health care, and social protection.



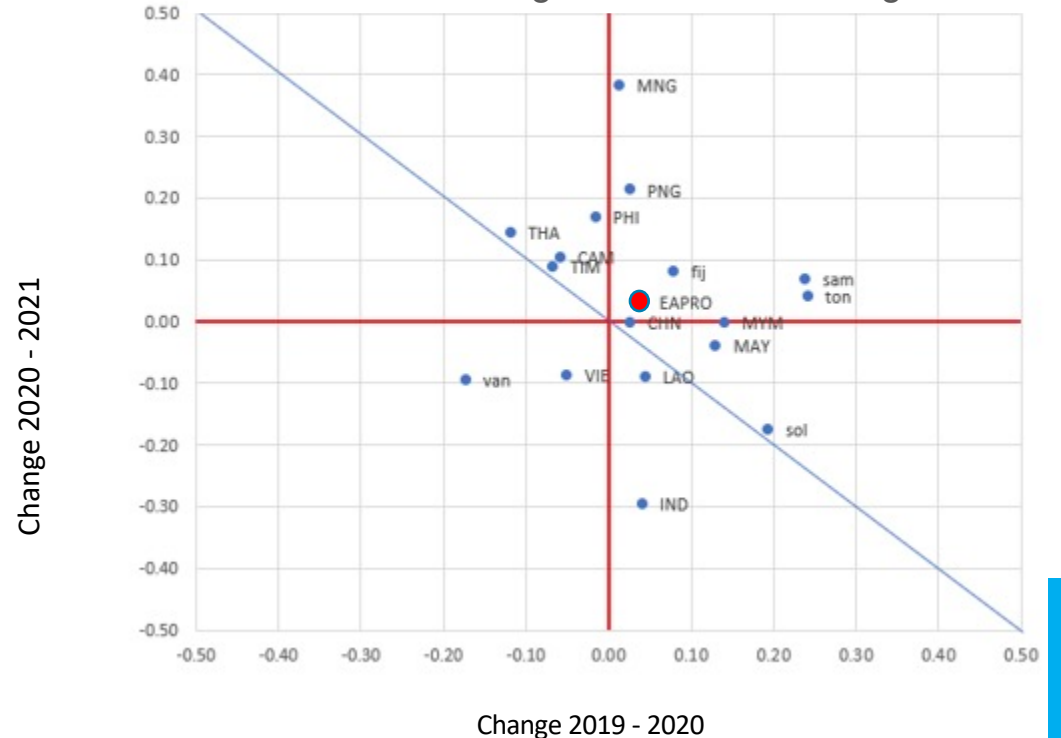
Health

Average health spending away from the global benchmarks
 Small but continuing prioritization
 (but still internal discrepancies)

Health Spending, % of GDP, EAPRO, 2017-21



Health as change % of National Budget



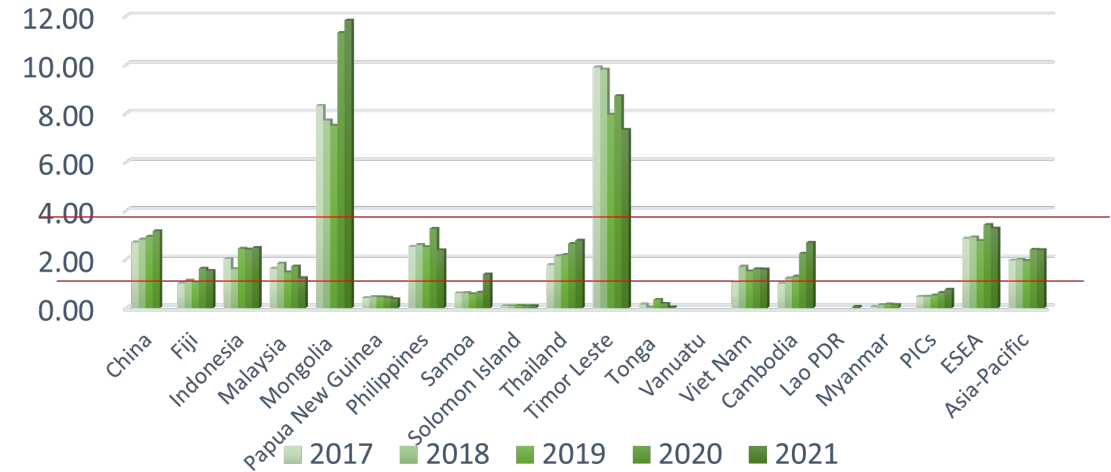
Social Protection

Volatile

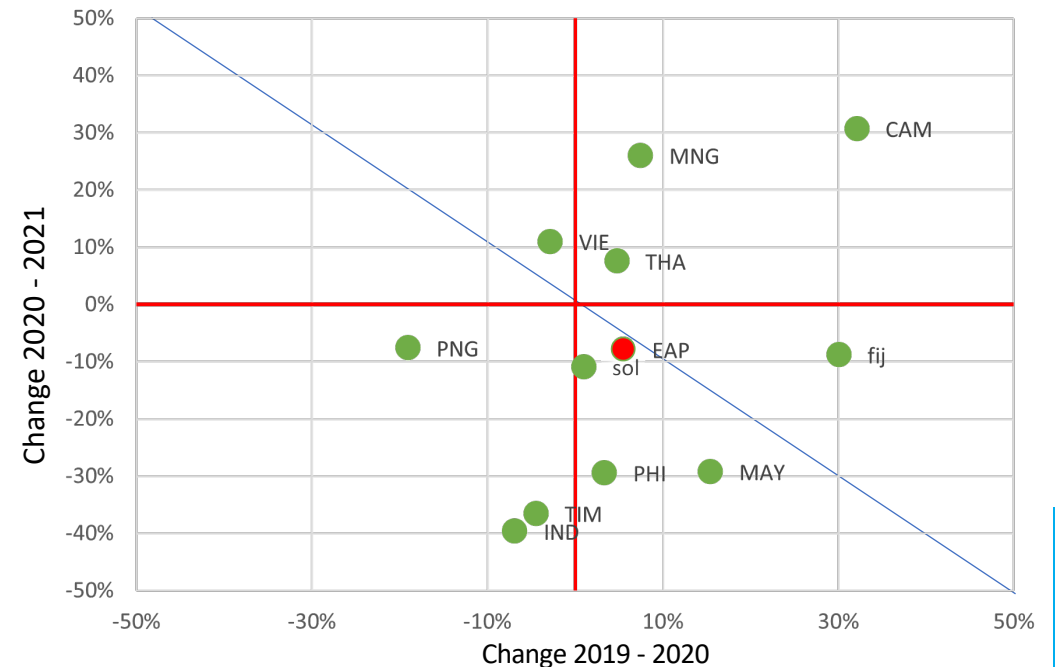
Initial increase

Underinvestment in Social Protection ?

Govt. Social Protection Spending as % of GDP. EAPRO. 2017-2021



Social Protection as change % of National Budget

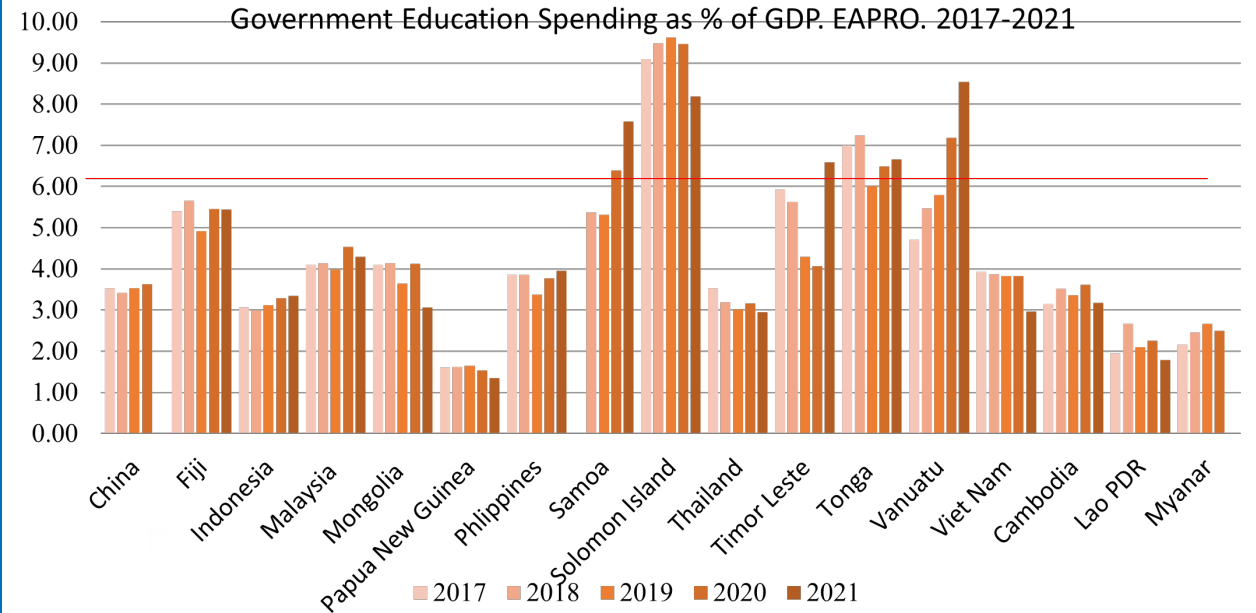


UNICEF EAPRO calculation based on Regional Budget Briefs

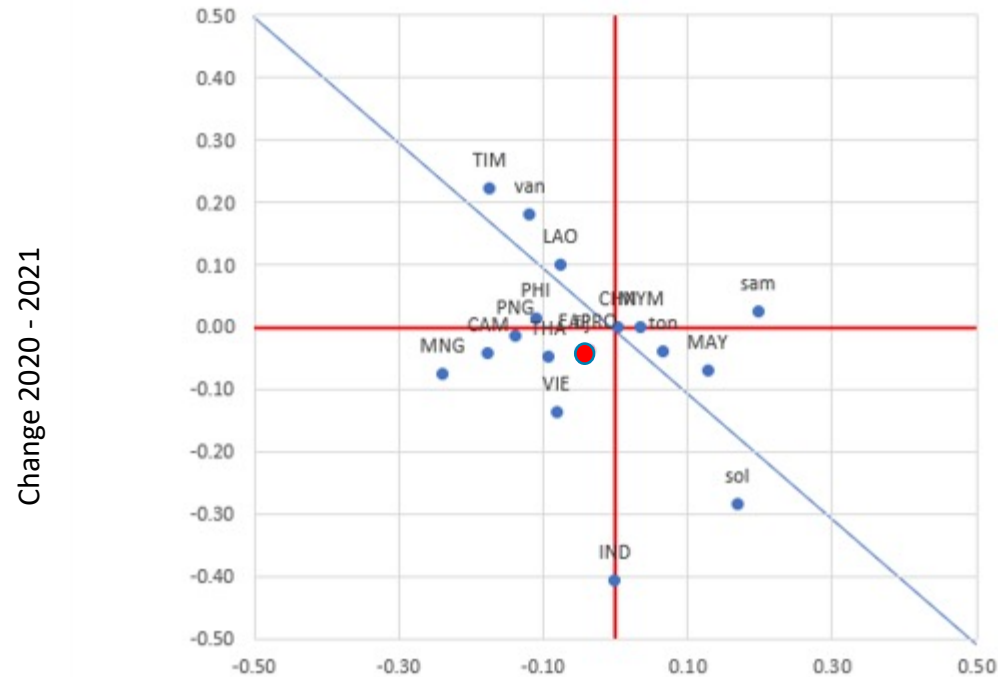
Education

Gaps in spending in Education even pre-COVID

De-prioritization?



Education as change % of National Budget



UNICEF EAPRO calculation based on Regional Budget Briefs

Risk Financing Social Protection

Applying available evidence on risks including poverty, disasters and climate risks

- **Analytical framework** essential for linking up PFM, DRM, poverty and vulnerabilities and Social Protection.
- **Findings** are critical to inform ongoing and future discussions around **public, disaster risk and climate finance** for social protection in the region.
- **Policy recommendations** to strengthen financing mechanisms for social protection for resilience building and disaster response in EAP.



European Union
Civil Protection and
Humanitarian Aid



Framework for Financing SRSP

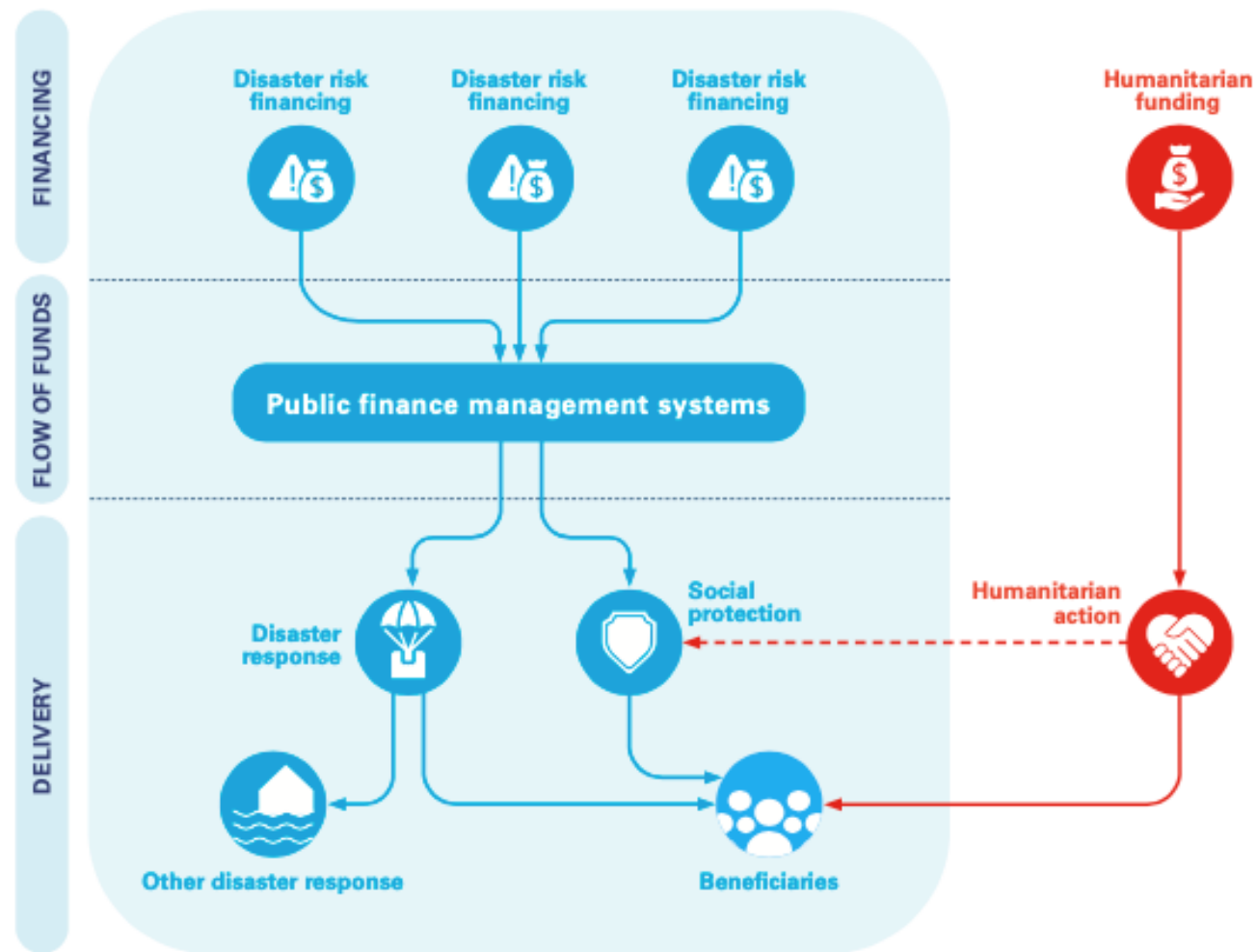
Improve the **efficiency and transparency** of risk retention instruments, especially **budgetary** ones.

Improve the flow of funds and **PFM disaster arrangements** in order to **increase utilization** of funds.

Focus on improving the availability of financing, flow arrangements and delivery systems **at the local level**, where the vast majority of shocks occur.

Think **beyond expenditure and disbursement** to understand risk-informed PFM (i.e. enhancing budget tagging and expenditure tracking mechanisms for DRR, preparedness, **response and recovery**).

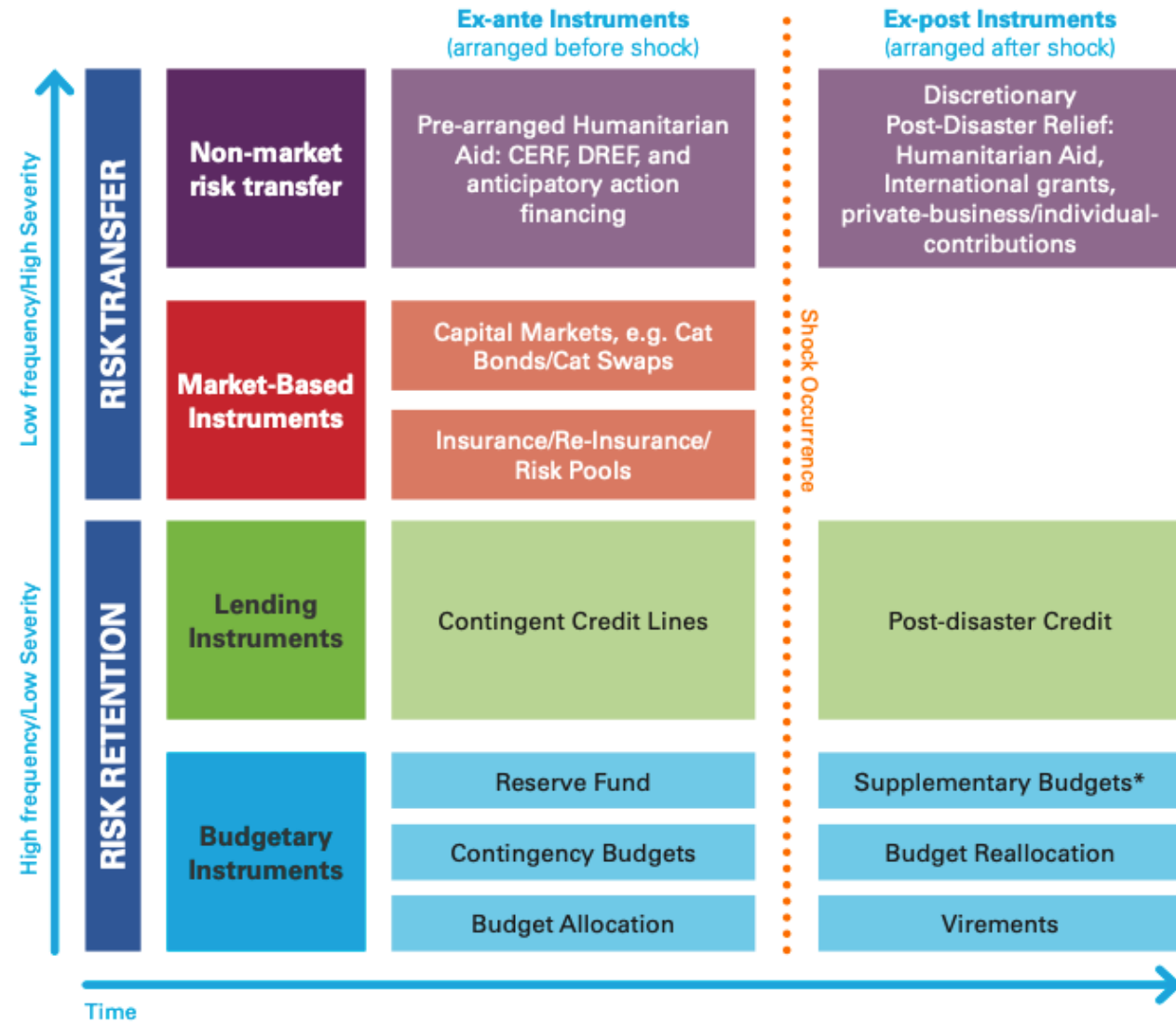
Money-in



Money-out

Funding sources and instruments

- Significant **differences** in DRF instruments in the EAP region:
- Overall, **reliance on risk retention instruments** and international assistance
- Limited **market-based risk transfer mechanisms** but **regional efforts’ focus**
- **Ex-ante** DRF arrangements provide **inadequate fiscal capacity**:
- Gaps met through **ex-post budgetary arrangements** (risk retention for all shocks)
- Shortfall between budgeted funds and **actual spending increasing**



Where is the fiscal space?

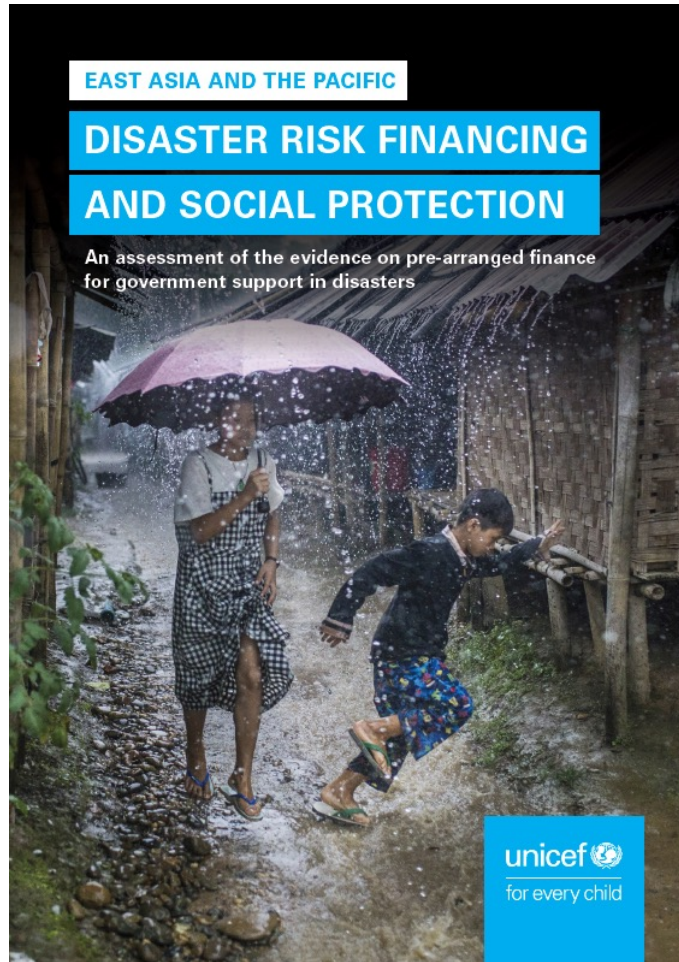
1. Fiscal Space as a **political choice** (size and distribution)
2. New challenges require **new priorities**, not only new resources
3. Social protection as a **key component** of future for the region, but not in isolation
4. We need to avoid the **zero-sum** (or negative) approach on social sectors, and we need to protect our investments
5. **Risk-informed PFM** processes, linked to social protection.
6. Consider **innovations** for expanding the role of non-traditional stakeholders (i.e. Risk Pools) in regional DRF for social protection.

Adaptive Policies

- We don't change the rights of children
- We improve the policies we make

(Finnish EY school instructions, as children always play outside at least 2 hours)





For every child Social Protection

bit.ly/m/AROSSI_UNICEF 

Economic crisis **always** crashes
over poor children in big waves

But economic recovery and growth
seldom trickle down to them

Challenges

- **Overall complexity** due to the large number of countries under consideration, which differ in size, level of economic development and political and economic transparency.
- **UNICEF standards** and formats used for National Budget briefs cannot be applied to a multicounty analysis. The level of ambition and breadth of the current analysis have been adjusted to present an overarching, snapshot picture of budgetary trends in the region
- **Budget execution data** are not always available and often the financial reports of the government are not published and presented for the general public
- **Importance of data validation.** The initial data collected was validated with national partners through the UNICEF country offices and through discussions with national partners directly.

