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How Asia Can Close the Social Protection Gap by 2030

Social insurance coverage is particularly low in countries with a high number of informal workers. Photo credit: ADB.

A study looks at how countries can mobilize sustainable financing to reduce vulnerability among the poor and provide them access to social protection schemes.

Introduction

Countries in Asia have a good chance of achieving the social protection agenda under the Sustainable Development Goals (SDGs) if the right fiscal reforms and policies are in place.

Launched at the 2015 United Nations Summit, the SDGs have an explicit social protection agenda in the next 15 years. The social protection agenda has four dimensions: the provision of cash transfers for income security, health services, education services, and other essential goods and services. Eleven of the 17 SDGs have 27 social protection-related targets that define these four dimensions.

A study from the Asian Development Bank (ADB) examines the fiscal requirements to close the social protection gap in 16 countries, which account for 86% of the total population of ADB's developing member countries. Results of the study show that all of them can, with effort, afford to achieve the social protection agenda under the SDGs. However, none can afford *not* to do so.

The majority of the countries in the study will have to revamp their policies and open new fiscal space, while some exhibit capability in using existing resources to increase their revenues without dramatically increasing tax rates or introducing new taxes.

In the study, social protection systems are defined as combined cash transfer and goods and service delivery schemes aiming to guarantee income security and access to essential health care. Income security is considered achieved if all residents have access to essential goods and services.

This article is adapted from the report, *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the SDGs*.

Challenges

The report looks at the fiscal situation in 16 countries and the challenges in building and expanding their social welfare program. It covers Azerbaijan, Cambodia, People's Republic of China (PRC), India, Indonesia, Kazakhstan, Lao People's Democratic Republic (Lao PDR), Malaysia, Mongolia, Myanmar, Nepal, Philippines, Sri Lanka, Thailand, Timor-Leste, and Viet Nam. Of these countries, seven have about 20% of their population living below the national poverty line, highlighting the need to improve social protection efforts.

The study also explores the possible options to mobilize new public resources for social protection; analyzes the possible contributions of different types of social protection systems (i.e., means-tested social assistance schemes, universal transfer schemes, and social insurance schemes) to close social protection gaps; and tests the theoretical findings in three country case studies.

Country Cases and Solutions

The study chose Mongolia, Myanmar, and Timor-Leste to represent, to the extent possible, the large range of social development challenges faced by countries in the region.

Mongolia represents a case where the transition to a democratic system began about 25 years ago and where the adherence to the social protection agenda of the SDGs is expected to cause only slight "fiscal stress."

Myanmar is at the beginning of a political, economic, and social transition process and the expected fiscal stress caused by building a social protection floor is expected to be substantial but manageable by good social governance.

Timor-Leste represents a case with major governance challenges. The state and nation-building process is just about 15 years old, and the country faces dire fiscal stress and enormous economic challenges.

The report also explores options to close the affiliated gaps in population coverage and inadequacy of protection, reviewing the potential contributions of three systems: social assistance, health care, and social insurance systems (notably pensions and other social insurance cash benefit programs).

Results

In a nutshell, the fiscal challenges to closing the social protection gap will be substantial, but manageable, in most of the 16 focus countries.

Extrapolating recent fiscal trends, a “static” scenario to 2030 to close the social protection gap suggests that only four of the 16 countries will face major fiscal challenges (Cambodia, Lao PDR, Myanmar, and Timor-Leste), on a lower (less onerous) expenditure estimate. Six countries will have to open up new fiscal space (India, Indonesia, Kazakhstan, Nepal, Philippines, and Sri Lanka) to meet the lower estimate for resource requirements, which assumes the filling of the protection gaps through a perfectly targeted social assistance scheme. An upper estimate assumes the filling of the gap through universal transfers to children and elderly and an employment guarantee scheme for the active population, aged 15–64.

Another six countries should be able to meet the agenda without major effort, with their estimated fiscal deficit after the closure of the social protection gap being probably lower than 5% of gross domestic product (GDP): Azerbaijan, PRC, Malaysia, Mongolia, Thailand, and Viet Nam.

Social Assistance

To combat poverty, tax-financed, means-tested social assistance or tax-financed universal income transfers in cash or in kind are the most important social protection tools. Yet the coverage of all forms of transfers to the poorest population quintiles among these 16 countries is far from complete in most. Coverage of cash transfers is generally far lower. This means that large shares of the poor and vulnerable population are still excluded from social assistance. Overall, transfers cover about one-fifth of the amount needed to eradicate extreme poverty. Social assistance and universal benefit transfers represent as little as 5% of average household consumption of the poorest quintile in the focus countries (Azerbaijan and Mongolia aside). Unsurprisingly, the poverty reduction effect of many social assistance programs is minimal, even tokenistic.

Health Care

Use of health-care services exposes families to financial risks. The SDGs refer to achieving universal health coverage—all people receiving high-quality, essential health-care services they need without being exposed to financial hardship—which requires good service coverage and financial risk protection. The poor particularly are vulnerable to financial risks.

The World Health Organization recommends reducing out-of-pocket spending to 20% of total health expenditure to reduce the risk of impoverishment from catastrophic health spending. In the 16 focus countries, 14 have out-of-pocket spending of more than 30%. Out-of-pocket spending is regressive and can potentially push people (more deeply) into poverty.

Countries need to shift to prepayment either by expanding the level of public spending or by pooling funds in a national health insurance system. Countries' options include expanding their fiscal space for health, strategic purchasing, and stronger regulations.

Social Insurance

Social insurance schemes are primarily designed to protect formal sector workers, and their dependents, during and after their economically active life. The main contingencies covered are sickness, maternity, unemployment, invalidity, loss of the breadwinner's income, and old age. In countries with high levels of informality in the labor market, coverage is often particularly low. As a central indicator of coverage, the International Labour Organization estimates that only 26.5% of Asia's working-age population contributes to any social insurance pension scheme. On our estimates for the sample countries, only the pension schemes in Azerbaijan, PRC, Kazakhstan, Malaysia, Mongolia, and Viet Nam reach more than half of employees, and in the Philippines, Sri Lanka, and Thailand, about half.

These rates are, of course, an indicator of entitlement to future coverage. Present coverage (the share of retired people receiving a social insurance pension) is also low: above 60% in Mongolia, and 30%–60% in Azerbaijan and the PRC.

Closing Financing Gaps

Reality checks in three country case studies—Mongolia, Myanmar, and Timor-Leste—show that these societies should be able to adapt their social protection systems to facilitate often difficult economic and social transitions, even with tight budgetary purse strings. Their main challenge may well be setting up and running a coherent system, and securing necessary resources.

While a few countries may have to make difficult choices between social protection priorities, most countries can at least theoretically achieve the SDG agenda according to the lower estimate without having to make trade-offs among different social protection investments. Except for Cambodia, Lao PDR, Myanmar, and Timor-Leste, the often painful choices between investments in social cash transfers, education, health, and other essential goods and services can probably be avoided and a well-balanced set can be financed.

Six countries will have to open up new fiscal space (India, Indonesia, Kazakhstan, Nepal, Philippines, and Sri Lanka) to meet the lower estimate requirements. In all save Nepal, bringing up their revenues to the regional average will likely abolish their fiscal stress.

Another six countries should be able to meet the agenda without major effort, i.e., their overall deficit will probably be lower than 5% of GDP even after they introduce new transfers: Azerbaijan, PRC, Malaysia, Mongolia, Thailand, and Viet Nam. Lifting the revenue–GDP ratio to the regional average will virtually abolish fiscal stress in Malaysia and Thailand.

Finally, almost all countries can use existing fiscal instruments to increase their revenues without dramatically increasing their tax rates or introducing new taxes. Only Azerbaijan, PRC, Malaysia, and Mongolia might have to increase their tax rates to meet the resource requirements of the lower estimate.

A “dynamic” scenario also offers an upbeat interpretation. It assumes that, after a certain time lag, the formal employment rate and tax revenues increase once basic investments in social protection are made, largely stemming from gains in health status, nutritional status, and educational outcomes and, in turn, workforce productivity. Under that assumption, the predicted fiscal deficit—after the SDG-related social protection gap is closed—falls considerably relative to the static scenario. Even after a quite short period, investments in social protection begin to pay off and the systems start to pay for themselves, hence the net fiscal burden of social transfers gradually falls. By inverse logic, this demonstrates that *not* investing in social protection could have severe long-term opportunity costs.

The overall assessment of the resource requirements in the various chapters makes it obvious that—for the time being—the majority of countries in Asia will have to make a well-functioning, preferably non-means-tested social assistance scheme one of the major policy pillars when trying to achieve the social protection agenda of the SDGs. A few other countries can afford a more universal approach to social protection. Either way, governments have to take action, starting soon. They need, for example, to revamp policy and open new fiscal space.

Governments need to start drafting and executing new laws and regulations (or revising current ones) and in building new administrative setups (or again, upgrading present ones). And, as these measures will have budgetary consequences, they should now start undertaking detailed cost estimates and fiscal space analysis. Most major social protection policy changes require budgetary investment in implementing new (or extending current) benefit systems, likewise demanding financial resources be mobilized or reallocated, which in turn requires, beyond long-term fiscal planning, sound financial governance.

Fiscal Action

Public resources for social protection have to be increased in all countries and that means, most likely, government revenues will have to be increased. While most of these hikes appear bearable by all international and regional standards, the financial, logistical, and conceptual planning for extending social protection and essential goods and services has to start now if countries want to achieve the social protection agenda of the SDGs by end of 2030.

Table 1 summarizes the findings on the fiscal stress that countries will face if they set out to achieve the social protection agenda of the SDGs. Fiscal action is most urgently required by Cambodia, Lao PDR, Myanmar, and Timor-Leste.

Essential sources of revenue mobilization for the countries in the study are, in rough descending order, increasing the tax effort (including, for some countries, raising tax rates), reallocating energy subsidies, and reallocating natural resource taxes. In particular, Myanmar, Nepal, Philippines, and Thailand could generate considerable revenues from stricter tax enforcement. Potential revenues from increased tax effort and reallocation of energy subsidies alone could close the resource gap of the lower estimates in 12 of 15 countries (excluding Timor-Leste).

Table 1: Assessment of Likely Fiscal Stress Invoked by the Social Protection Agenda of the Sustainable Development Goals

Countries without any or with low expected fiscal stress ____________________ **= relative stress < 10%**	**Countries with manageable expected fiscal stress** ____________________ **= relative stress between 10% and 20%**	**Countries with major expected fiscal stress** ____________________ **= relative stress > 20%**
People’s Republic of China	Azerbaijan	Cambodia
India	Malaysia	Lao People’s Democratic Republic
Indonesia	Mongolia	Myanmar
Kazakhstan	Nepal	Timor-Leste
Philippines	Viet Nam	
Sri Lanka		
Thailand		

Note: The underlying calculations include the assumption that countries whose tax–gross domestic product (GDP) ratio is currently below the regional average of 21.5% of GDP (i.e., Cambodia, India, Indonesia, Kazakhstan, Lao People’s Democratic Republic, Malaysia, Nepal, Philippines, Sri Lanka, Timor-Leste, and Thailand) increase their ratios to the regional level before the additional fiscal demands of closing the Sustainable Development Goal-related social protection gap are calculated.

Source: Authors' calculations.

Recommendations

A four-point to-do list for governments, development partners, and civil society emerges from this study:

- Immediately start long-term fiscal and financial planning for implementing the social protection agenda of the SDGs;
- Create national policy dialogues on the shape of national social protection systems;
- Start national social protection reviews and budgeting processes, as well as public expenditure and revenue reviews, immediately; and
- Create the capacity for sound national social protection planning, administration, and financial and fiscal management.

Resources

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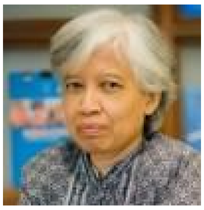

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