THE SOCIAL PROTECTION AGENDA OF THE SDGS AND ITS FISCAL CHALLENGE

- THE PRICE OF SOCIAL JUSTICE IN ASIA

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ADB–ADBI Learning Program on Financing Social Protection for Sustainable Development Goals
15-16 February 2017, Seoul, Republic of Korea

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Objective

- This chapter establish the general order of magnitude of the fiscal challenges that developing ADB member states will face when they seek to meet the social protection related SDG targets.

- In doing so it will implicitly estimate the “cost” of increasing social justice in Asia.

Policy context and conceptual background

- In September 2015 the UN summit adopted a the new set of global development goals (the *Sustainable Development Goals (SDGs))* to be achieved by 2030.

- The SDGs consist of 17 Goals and 169 targets. They can broadly be separated into economic, social, environmental and civil rights objectives

- Some of them define a far reaching social or social protection agenda.

Policy context and conceptual background

- In addition to **Goal 1** *("End poverty in all its forms everywhere.")* With the major target 1.3, i.e. "*Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.*"
- and **Goal 3** ("*Ensure healthy lives and promote well-being for all at all ages.*") With target Target 3.8, i.e. "*Achieve universal health coverage, including _financial risk protection, access to quality essential health-care services and access to safe, effective , quality and affordable essential medicines and vaccines for all.*"
- other goals and targets have a direct relationship to social protection

A set of 11 goals and 27 targets can be considered to define the *social protection agenda of the SDGs*.

The relationship between these targets is explained by the "impact" matrix

Governance targets		Outcome targets												
social transfer targets	Infrastucture targets	1.1 Eradicate extreme poverty (1)	1.2 Half relative poverty by 2030 (2)	1.5 Reduce vulnerability to climate change (3)	2.1 Access to nutritious food (4)	2.2 End malnutrition (5)	3.1 reduce maternal mortality to 70/100000 (6)	3.2 reduce neonatal mortality to 12/1000 and under 5 mortality to 25/1000 (7)	3.4 reduce premature mortality from non.com. diseases (8)	3.7 Universal access to reproductive health (9)	10.1 income growth of the bottom 40 per cent higher than the average (10)	10.2 Full social, economic and political inclusion (11)	11.5 Reduce disaster related losses (12)	13.1 Strengthen disaster related resilience (13)
1.3 Appropriate SP systems including		x	x	x	x	x	x	x			x	x	x	x
	1.4 Access to basic services and resources	x	x	x	x	x	x	x			x	x		x
3.8 Achieve Universal health			x				x	x	x	x	x	x		
	4.1 Complete free primary and secondary education (4)	x	x			x					x	x		x
	4.2 Access to pre-primary education (5)	x							x		x	x		
	4.5 Equal access to all levels of education (6)	x	x			x			x		x	x		x
	5.4 Recognition of unpaid care and domestic							x		x	x	x	x	x
	5.6 Universal access to sexual and reproductive	x	x					x		x				
	6.1 Access to safe drinking water (9)	x	x		x	x		x	x		x	x	x	x
	6.2 Access to hygiene (10)	x	x				x	x	x		x	x	x	x
	7.1 Access to energy (11)	x	x	x	x						x	x	x	x
8.5 Full employment and decent		x	x		x	x			x			x	x	x
	10.4 adopt policies to reduce inequality (13)	x	x		x	x	x	x	x		x	x		
	11.1 Adequate housing (14)	x	x	x					x		x	x		

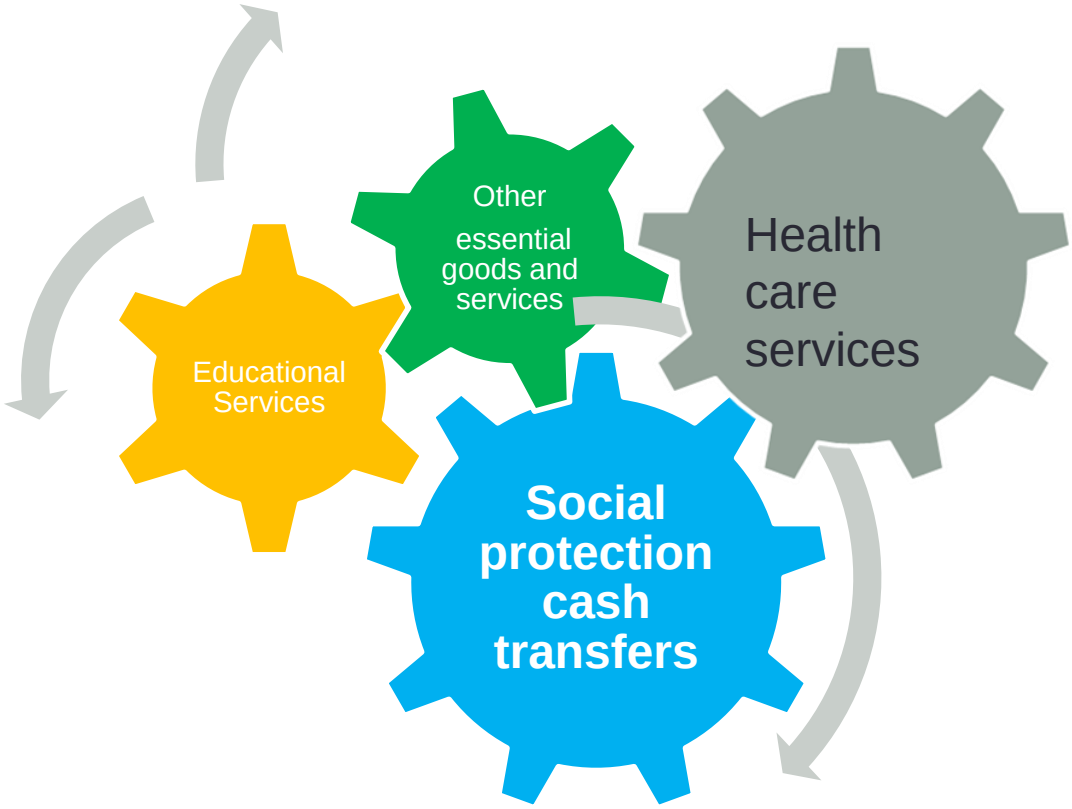
Policy context and conceptual background

- The definition of social protection used here is *much wider than the commonly used one*. It consists of
  - Social protection cash transfers
  - Health services
  - Education services
  - Other essential goods and services.

- This solves an old dilemma: Social protection systems mostly provide cash benefits and secure access to services generally only in the case of health care or nursing care services and could never assure the availability of other essential goods and services.
- Social protection is only really complete and effective when cash income transfers and services with an adequate delivery infrastructure complement each other in such a way, that all people have *de facto* access to essentially goods and services of adequate quality.
- That is compatible with the definition used by the ILO and ADB.

Policy context and conceptual background: the SP agenda of the SDGs

The Social Protection Clockwork



Modelling methodology

- The methodology used here is an abbreviated social budget methodology and are as such essentially deterministic scenario projections.
- "Cost" or "resource requirement" estimates are provided for the period 2015 to 2030 and they are anchored to long-term economic and demographic scenarios.
- The model is applied to 16 countries, i.e. Azerbaijan, Cambodia, the Peoples' Republic of China, India, Indonesia, Kazakhstan, Lao PDR, Malaysia, Mongolia, Myanmar, Nepal, Philippines, Sri Lanka, Thailand, Timor-Leste and Vietnam).
- They account for about 86 % of the total population of developing member states of the Asian Development Bank.

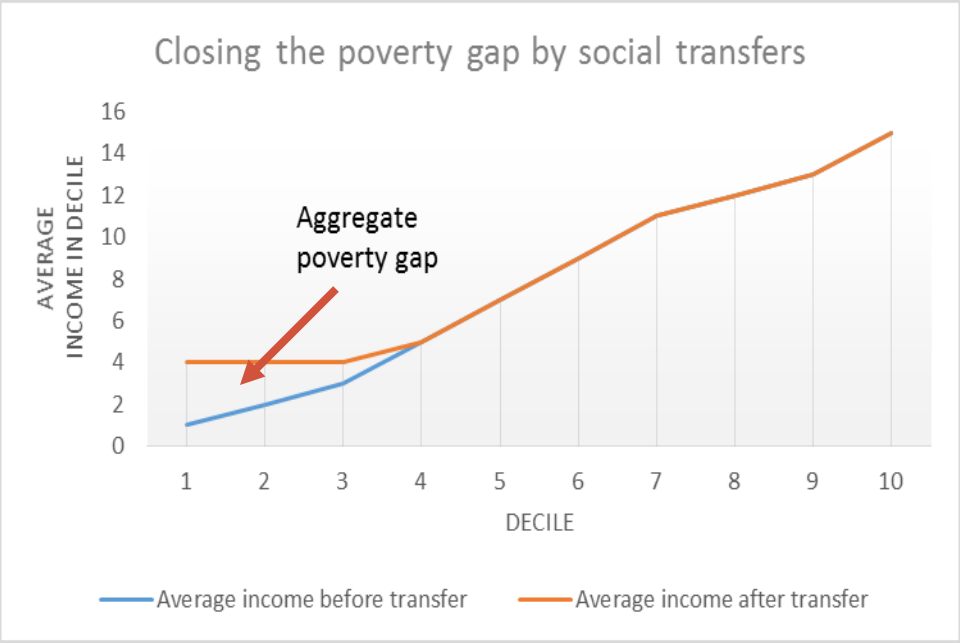
Modelling methodology: basic scenario assumptions

- *Economic and labour market scenarios:* Real GDP growth, GDP deflator, price inflation, productivity in 2015 are calculated as the geometric mean of the "post crisis" growth rates from 2010 to 2014 and then kept constant throughout the projection period.
- *Labour market scenarios:* Labour force participation are kept constant during the projection period. Likewise the proportion of informal employment at total employment.
- *Poverty:* The national poverty lines are established for 2015 and then adjusted in line with the rate of change of GDP per capita . Poverty headcounts are reduced or increased by changes in projected formal employment. This is a pragmatic simulation of a key "trickle-down" effect of economic growth.
- *Fiscal scenarios :* General government revenue and expenditure forecasted for 2015 and then kept constant (in % of GDP) throughout the projection period.
- The scenario chosen here appeared to be the most conservative.

Modelling methodology: calculating the resource requirement for the closure of SP gap.

- First the “resource requirements” in the stationary state in 2030 are calculated.
- A **lower estimate** for the cash transfer part 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 population in active age are established for the social transfer targets.
- In education, health and other essential services only one variant is estimated bringing national expenditure up to international benchmarks
- In a second step assumptions are made about the progression of “costs” from 2015 to 2030

Modelling methodology: calculating the resource requirement, example closing the aggregate poverty gap



RESULTS: Expected Resource Requirements

Summary Table A17.
Composition of necessary expenditure to close the social SDG related financial gap stationary state in % of GDP (2030)

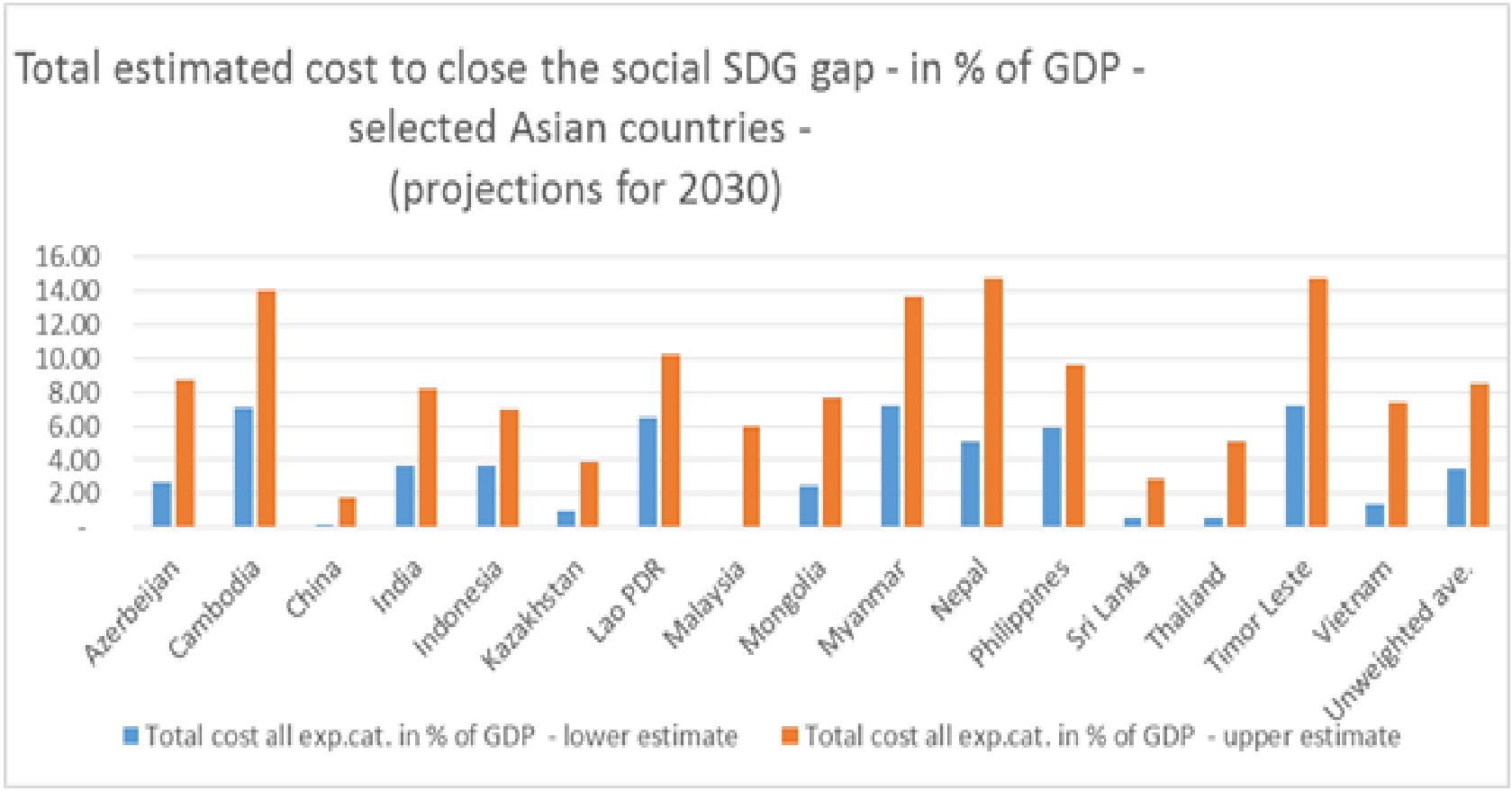
Lower estimate

	Education	Other Services	Health care	Social protection cash benefits	Total
Azerbaijan	0.0	0.0	2.0	0.7	2.6
Cambodia	4.1	0.5	1.9	0.6	7.1
China	0.2	0.0	0.0	0.0	0.2
India	0.2	0.2	1.8	1.5	3.6
Indonesia	1.5	0.0	2.1	0.1	3.7
Kazahkstan	0.0	0.0	0.8	0.2	1.0
Lao PDR	3.4	0.0	2.3	0.8	6.5
Malaysia	0.0	0.0	0.0	0.1	0.1
Mongolia	1.4	0.3	0.6	0.2	2.5
Myanmar	3.0	0.0	2.2	2.1	7.2
Nepal	2.6	0.0	0.9	1.5	5.1
Philippines	4.1	0.0	1.6	0.2	5.9
Sri Lanka	0.6	0.0	0.0	0.0	0.6
Thailand	0.2	0.0	0.0	0.4	0.6
Timor Leste	0.0	0.1	1.9	5.2	7.2
Viet Nam	0.0	0.0	0.7	0.6	1.4
Simple average lower estimate	1.3	0.1	1.2	0.9	3.5

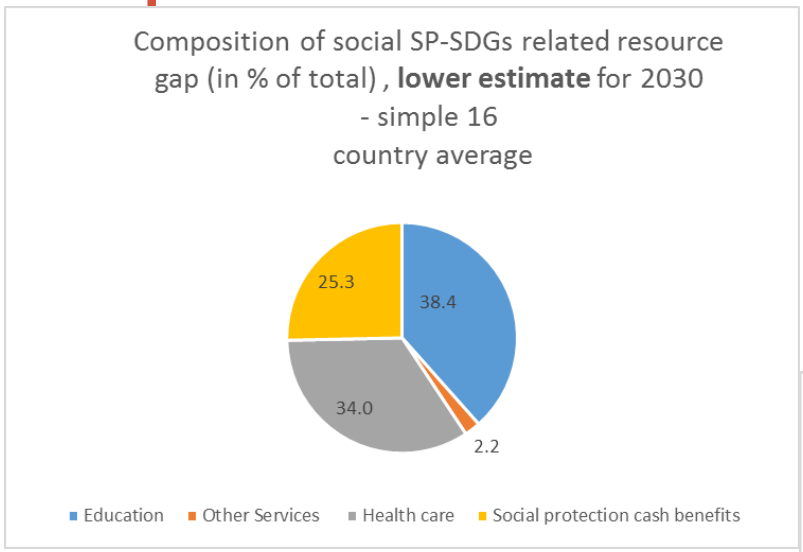
Upper estimate

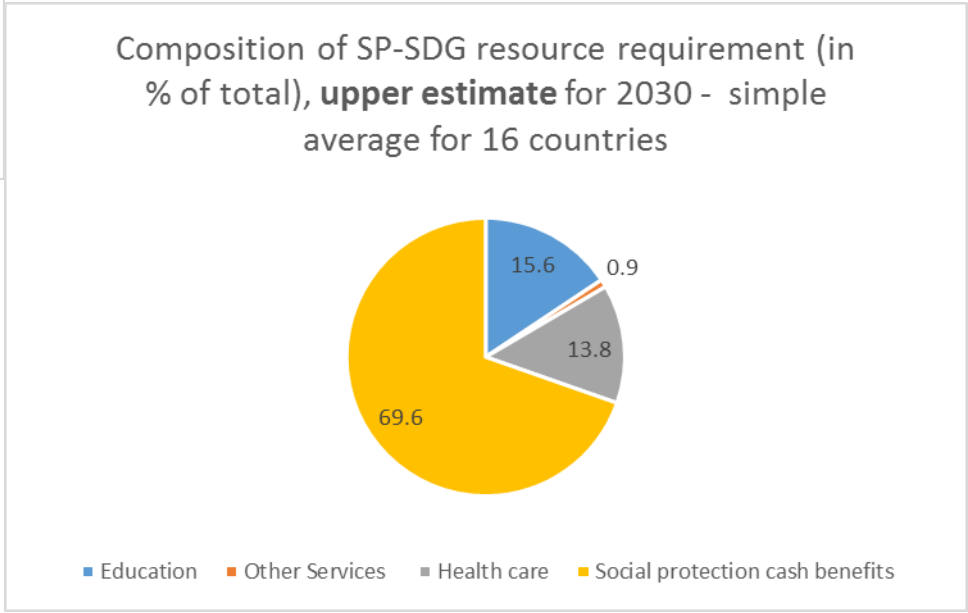
	Education	Other Services	Health care	Social protection cash benefits	Total
Azerbaijan	0.0	0.0	2.0	6.8	8.8
Cambodia	4.1	0.5	1.9	7.6	14.1
China	0.2	0.0	0.0	1.5	1.7
India	0.2	0.2	1.8	6.1	8.3
Indonesia	1.5	0.0	2.1	3.4	7.0
Kazahkstan	0.0	0.0	0.8	3.1	3.9
Lao PDR	3.4	0.0	2.3	4.6	10.3
Malaysia	0.0	0.0	0.0	6.0	6.0
Mongolia	1.4	0.3	0.6	5.4	7.7
Myanmar	3.0	0.0	2.2	8.4	13.6
Nepal	2.6	0.0	0.9	11.2	14.7
Philippines	4.1	0.0	1.6	3.9	9.6
Sri Lanka	0.6	0.0	0.0	2.2	2.9
Thailand	0.2	0.0	0.0	4.9	5.1
Timor Leste	0.0	0.1	1.9	12.7	14.7
Viet Nam	0.0	0.0	0.7	6.6	7.4
Simple average upper estimate	1.3	0.1	1.2	5.9	8.5

RESULTS: Expected Resource Requirements

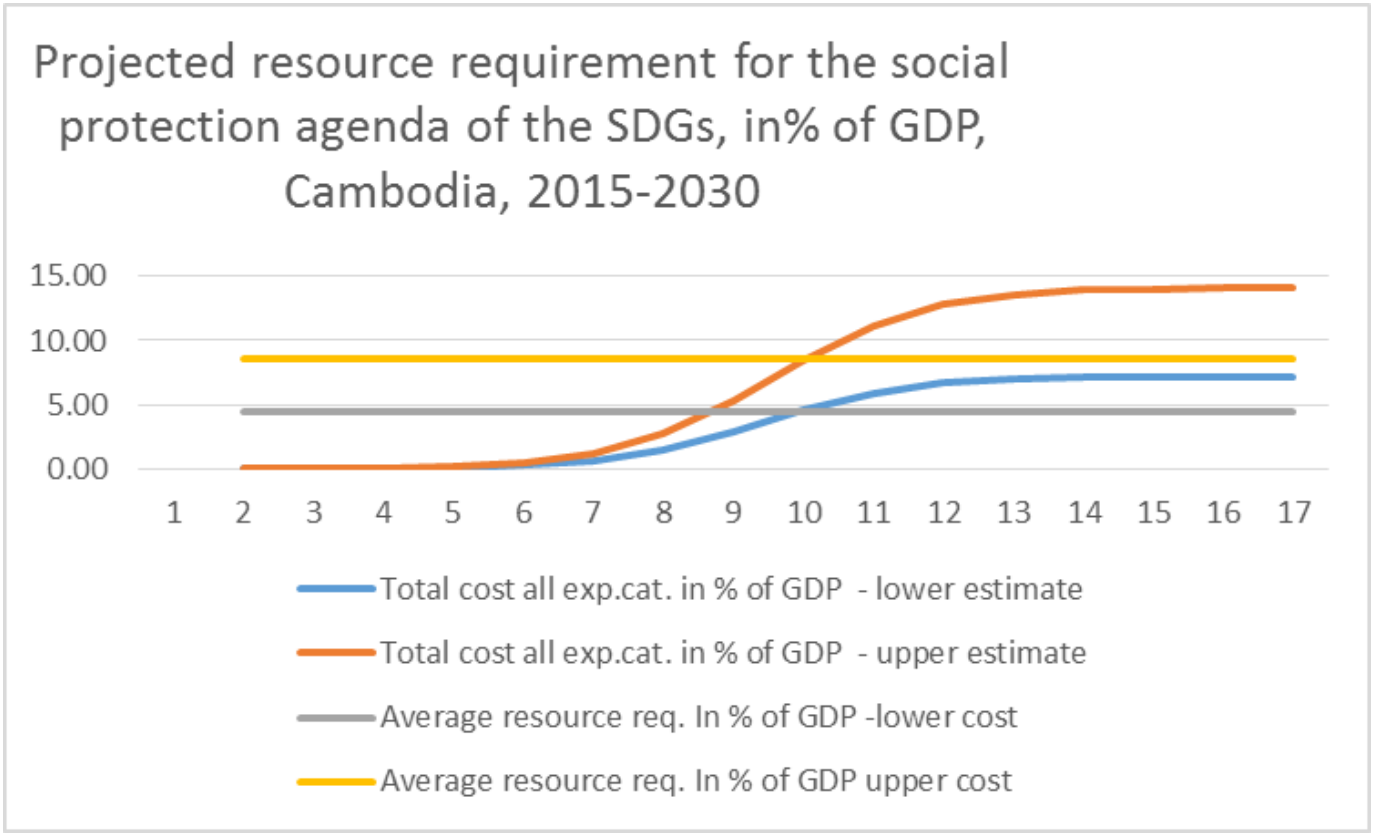


RESULTS: Composition of Resource Requirements

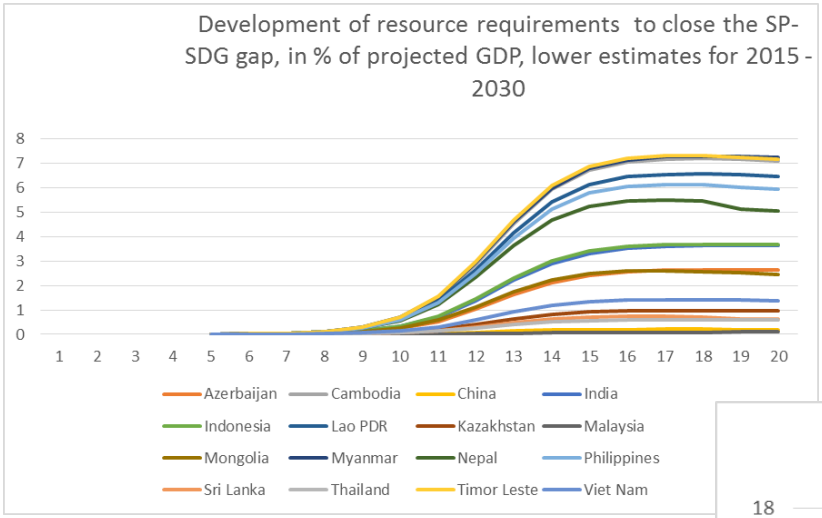


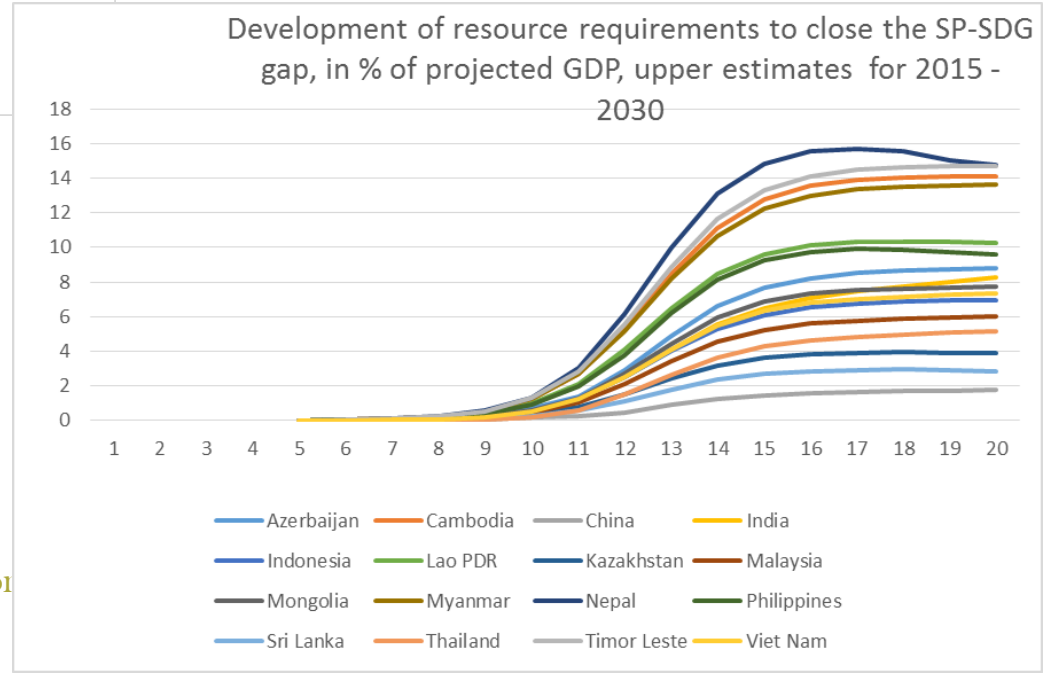


RESULTS: Development of resource requirements. Example Cambodia



RESULTS: Development of resource requirements

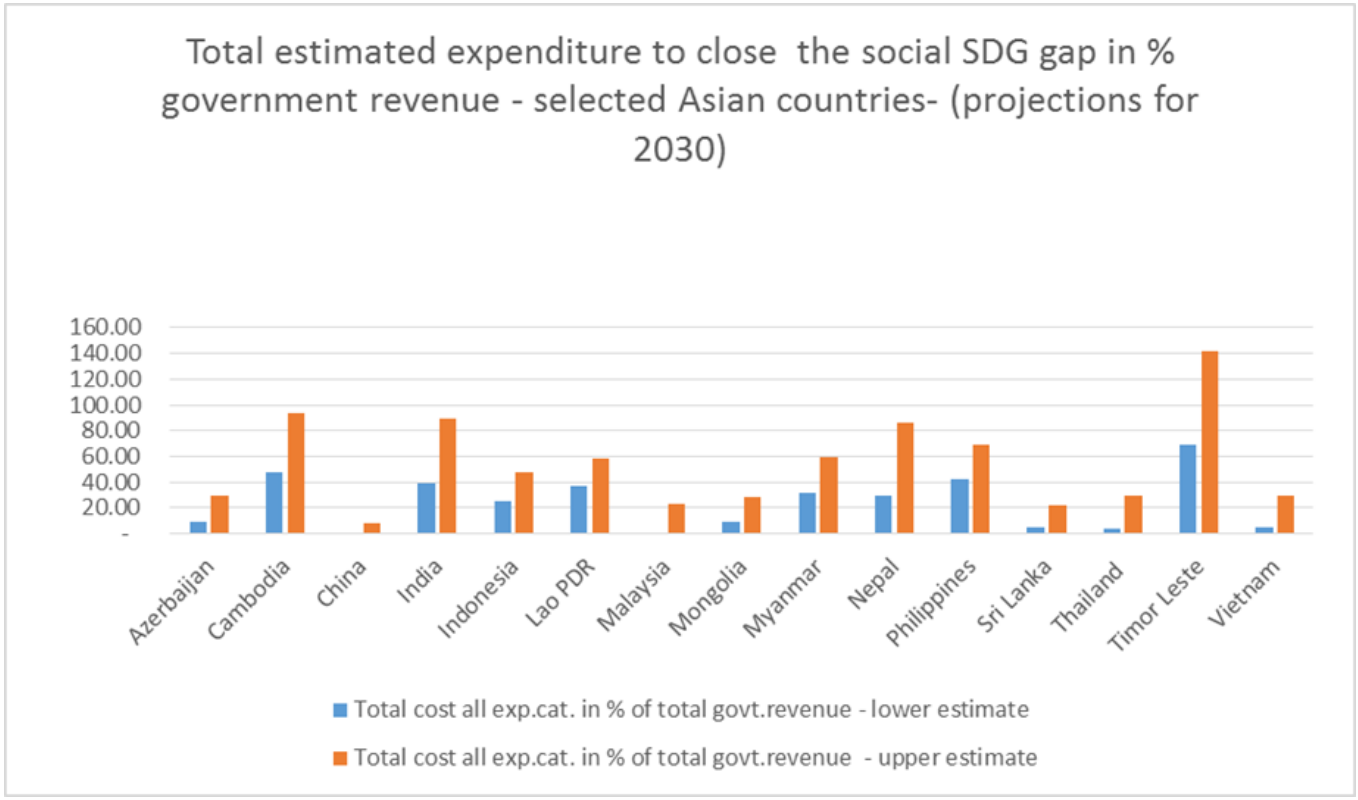




RESULTS: Average resource requirement indicator throughout 2015 - 2030

Country	Lower estimate	Upper estimate
Azerbaijan	1.4	4.4
Cambodia	4.4	8.6
China	0.1	1.0
India	2.0	4.1
Indonesia	2.2	4.0
Kazakhstan	0.5	2.1
Lao PDR	4.1	6.5
Malaysia	0.0	3.4
Mongolia	1.6	4.5
Myanmar	4.6	8.5
Nepal	3.0	8.5
Philippines	3.5	5.6
Sri Lanka	0.4	1.7
Thailand	0.3	2.5
Timor Leste	4.4	8.6
Viet Nam	0.8	4.0
Simple average upper estimate	2.1	4.9

RESULTS: Expected fiscal stress



RESULTS: Expected fiscal stress

Country	**Absolute fiscal stress** (deficit after closure of gap in % of GDP) - lower estimate	**Absolute fiscal stress** (deficit after closure of gap in % of GDP) - upper estimate	**Relative fiscal stress** * (percentage-point increase of "normal"government revenues required to meet the SDG targets) - lower estimates	**Relative fiscal stress** (percentage-point increase of "normal"government revenues required to meet the SDG targets) - upper estimates
Azerbaijan	-4.9	-11.1	16.7	37.4
Cambodia	-6.5	-13.5	30.2	62.7
China	-1.3	-2.8	5.8	12.7
India	4.1	-0.6	-18.8	2.6
Indonesia	1.2	-2.1	-5.7	9.6
Kazakhstan	0.8	-2.1	-3.9	9.8
Lao PDR	-10.2	-14.0	47.3	64.9
Malaysia	-2.8	-8.7	13.0	40.5
Mongolia	-3.1	-8.3	11.1	30.2
Myanmar	-11.9	-18.3	52.4	80.4
Nepal	-2.4	-12.0	10.9	56.0
Philippines	0.0	-3.7	0.2	17.2
Sri Lanka	1.6	-0.7	-7.3	3.1
Thailand	0.4	-4.1	-1.9	19.2
Timor Leste	-30.0	-37.5	139.4	174.5
Viet Nam	-3.9	-9.9	15.4	39.3

Source : Auhor's calculations
* negative values indicate the absence of fiscal stress

Conclusions

- Four countries out of our sample will face major fiscal challenges if they want to adhere to the social protection agenda of the SDGs (Cambodia, Myanmar, Lao PDR and Timor-Leste). They would probably have to make choices and develop priorities. Timor-Leste would face the biggest challenge and would probably remain dependent on some form of foreign aid for some time to come.
- Other countries may have to make some effort to open up new fiscal space (such as India, Indonesia, Kazakhstan, Nepal, Sri Lanka, Philippines) to meet the requirements as specified by the lower estimate. In all these cases bringing up their revenues to the regional average would abolish their fiscal stress (except for Nepal where the relative fiscal stress would remain in in the order of 11%).

Conclusions

- A few countries should be able to meet the social protection agenda of the SDGs without a major effort, i.e. their overall deficit would be lower than 5% of GDP even after the introduction of necessary new transfers in cash or in kind. These countries are Azerbaijan, China, Malaysia, Mongolia, Thailand and Vietnam. Lifting the revenue to GDP ratio to the regional average would virtually abolish fiscal stress in Thailand and Malaysia.
- Four countries would probably need no major further additional resources and the resource requirements to complete at least a basic level of social protection could probably be met by a combination of a tolerable increase of the deficit and a reallocation of existing resources (Azerbaijan, China, Mongolia and Vietnam).

Conclusions

- Seven countries would probably have the fiscal space to even introduce higher levels of social protection (i.e. universal benefits for children and the elderly and self-targeted benefits for the unemployed) provided they are able to maintain their present levels of revenues or are able to increase it to the present regional average. These countries are China, India, Indonesia, Kazakhstan, Philippines, Sri Lanka and Thailand.
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Central conclusion

- The overall good news comes in two parts.
  - The first is that
    - 15 out of the 16 countries will probably be able to make substantial progress during the next 15 towards achieving the social protection targets set by the SDGs by their own means. One will probably require some international assistance.
    - 12 out of the 15 countries would probably be able to achieve the social protection agenda of the SDGs provided they take appropriate action to mobilize additional resources.
  - The second – equally important - part of the good news is that except for four countries a competition between social cash transfers, education, health and other essential services can probably be avoided.

RECOMMENDATIONS

- **Financial planning and benefit design for the medium to long-term future has to start NOW**.

Without long-term social budgeting the closing of the resource gaps related to the social protection agenda of the SDGs is not likely to happen.

Real changes in social conditions require policy changes and policy changes require long-term budgetary commitments.