

Indonesia Social Protection Technical Seminar (ISPTS)

FINANCING SOCIAL PROTECTION

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HOW TO FINANCE SOCIAL PROTECTION?

A WIDE RANGE OF SOURCES HAVE BEEN SUGGESTED

Ortiz et. al. (2017) in an ILO Working Paper cite various options:

- Re-allocating public expenditures;
- Increasing tax revenues;
- Expanding social security coverage and contributory revenues;
- Lobbying for aid and transfers;
- Eliminating illicit financial flows;
- Using fiscal and foreign exchange reserves;
- Managing debt: borrowing or restructuring existing debt
- Adopting a more accommodative macroeconomic framework.

SOCIAL IMPACT BONDS ARE ALSO AN OPTION

- “A SIB is a [pay-for-performance](#) instrument that incentivizes investors to take the risk of a certain project achieving specified social outcomes in exchange for a potential financial reward.
- [The basic structure of a SIB is like any other bond.](#) An issuer borrows funds from an investor for a certain period. Instead of offering a fixed return, SIBs are structured to pay coupons (and the principal itself) linked to successful performance of pre-identified metrics against baseline levels.
- These performance payments are usually financed by a donor, or “outcome funder”. Investors can lose some or all their money if outcomes are not achieved.”
- From Akinjan Jain, 2019, World Bank

OTHER INNOVATIVE EXAMPLES

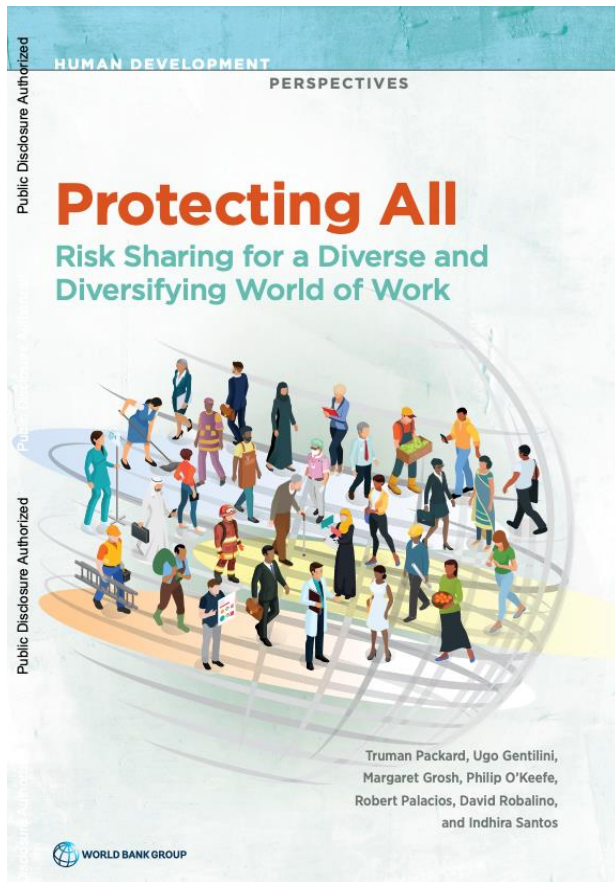
A review of international experiences finds many innovative examples;

- Earmarking extractive industries (Bolivia, Mongolia)
- Civil society initiatives (Pakistan)
- Micropensions (India)
- Investment in social enterprises (Haiti)
- Reallocation of military spending (Costa Rica, Thailand)
- Earmarked taxes on financial transactions (Brazil), tourism (Ghana, Liberia, Maldives),

From Bolton (2017)

LIMITATIONS

- While useful, especially as part of a concerted plan to expand SP, almost all of the ‘fiscal space’ created by these options could be used for any purpose that was a priority for the government.
- Social impact bonds may eventually have potential, but so far have failed to scale up (only around 425 million in the first ten years through 2019) and have met with very modest success, especially in developing countries.

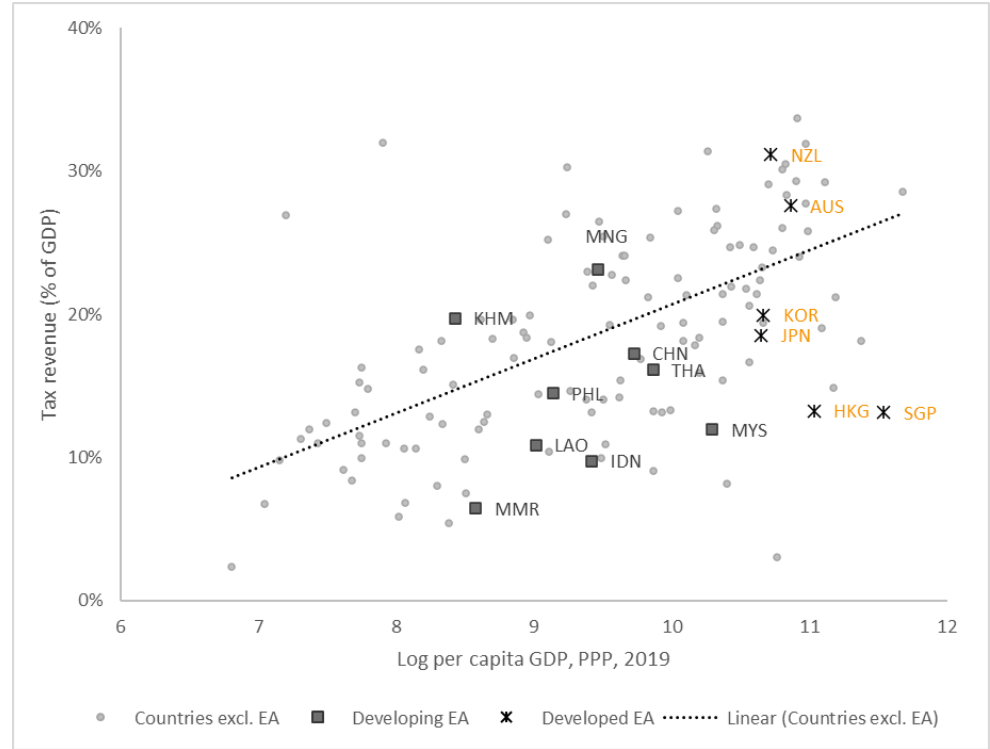


The World Bank's 2019 publication, "Protecting All", focused on three areas to create fiscal space –

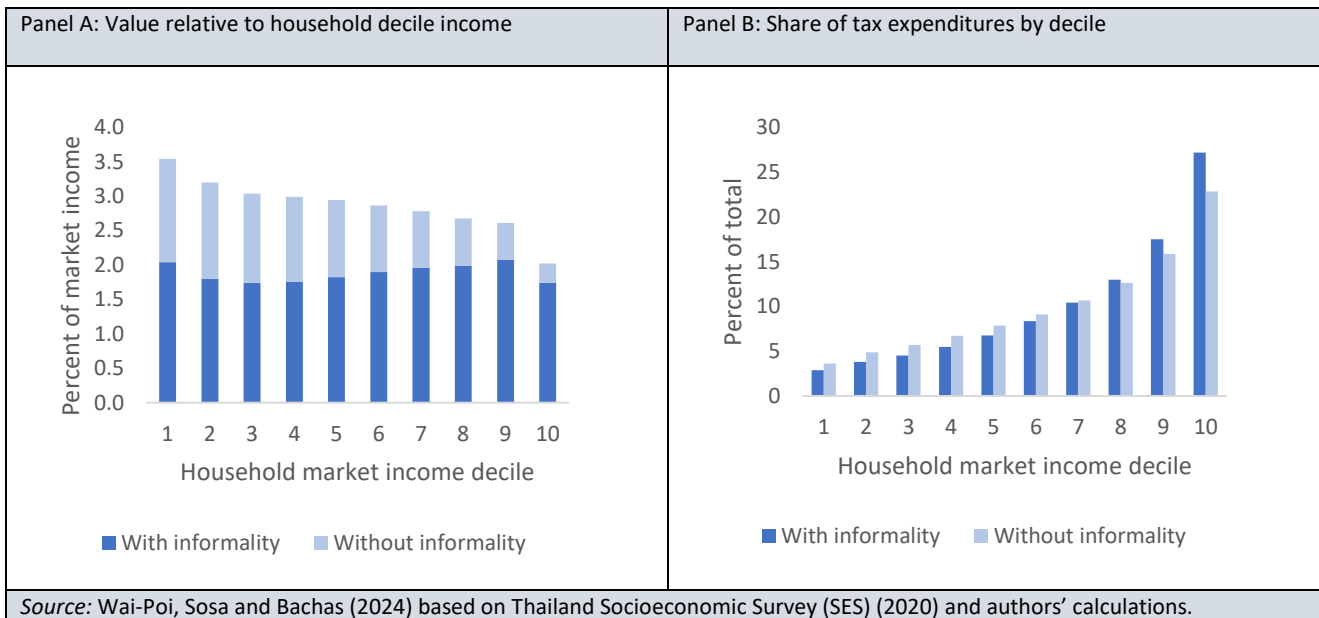
- VAT exemption reforms
- Energy subsidy reform
- Pension reforms

Unlike other sources of fiscal space, these have in common that they are directly linked to social protection programs

MOST OF EAST ASIA UNDERPERFORMS TAX COLLECTION AND MUCH OF THIS IS DUE TO LOW VAT RATES AND MANY EXEMPTIONS

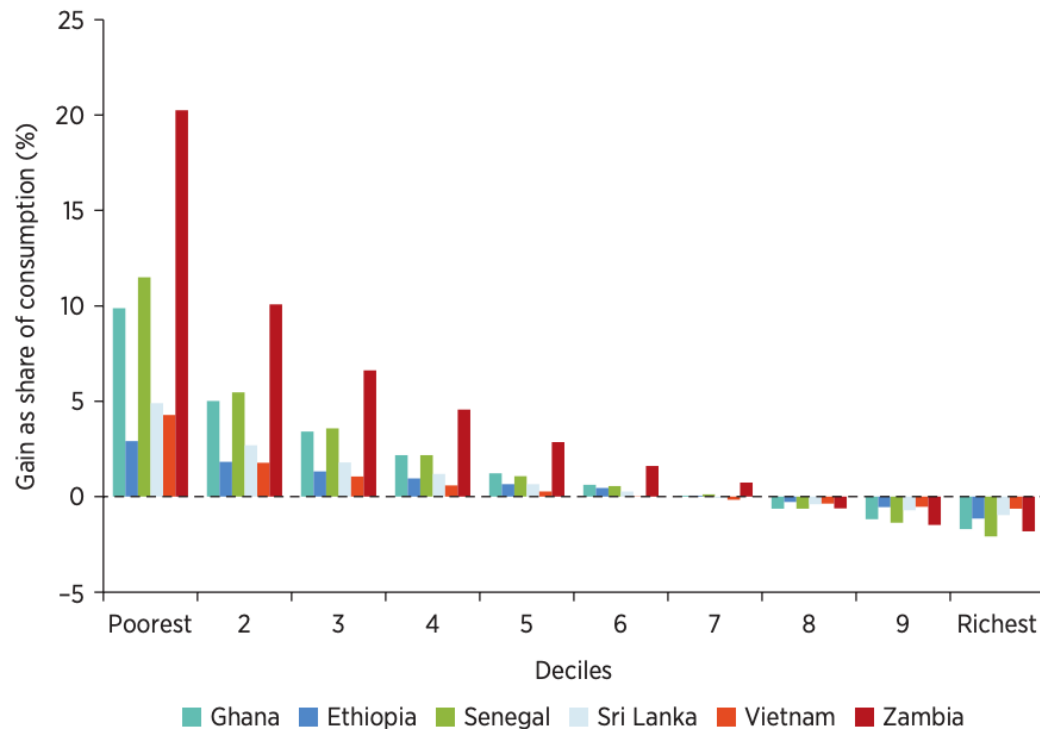


BUT THE EXEMPTIONS TEND TO ACCRUE TO THE WELL-OFF INCIDENCE OF VAT REVENUE LOSS IN THAILAND



CASH TRANSFERS ARE MUCH MORE PROGRESSIVE THAN VAT EXEMPTIONS

Figure 5.3 Eliminating Value Added Tax Exemptions to Finance a Broad Cash Transfer Can Be a More Progressive Policy



Source: Harris et al. 2018, using GHATAx, ETHTax, and CEQ/World Bank fiscal incidence analysis.

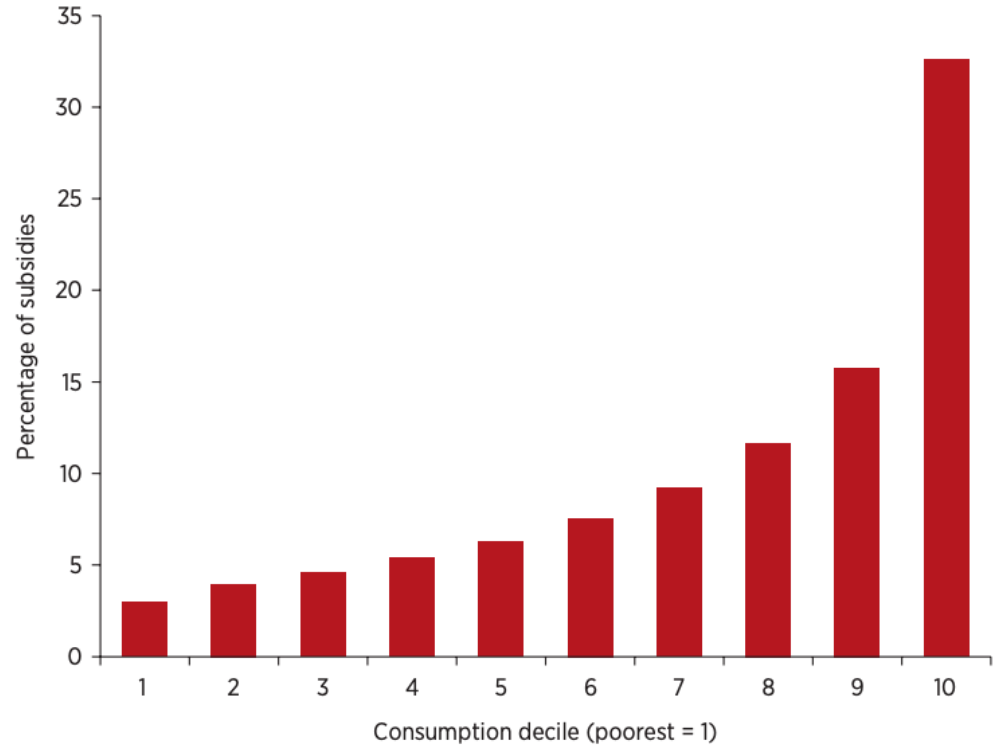
Note: This figure shows the distributional impact of implementing a uniform value added tax (VAT) and using 100 percent of revenue gains to fund a universal basic income (UBI). Population deciles are ranked by per capita consumption; the UBI is funded with the full revenue gain from implementing the VAT (which excludes only public services, financial services, and hotel lodgings) at the standard rate in each country and is distributed per capita.

THE SAME IS TRUE FOR ENERGY SUBSIDIES

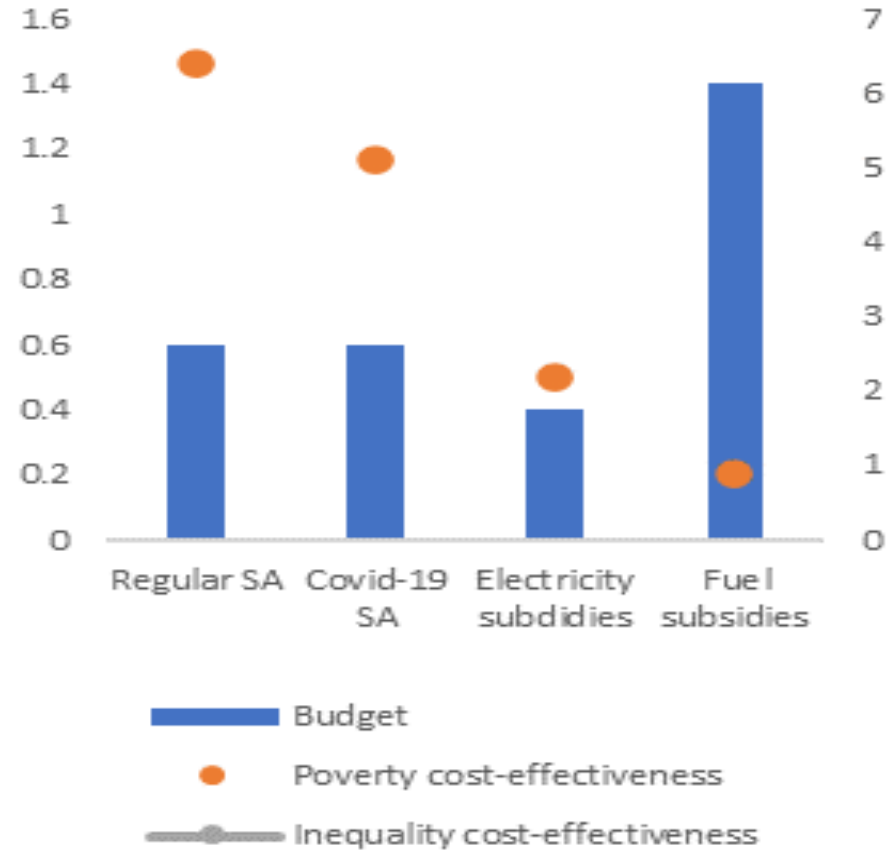
Source: Coady and Prady 2018, based on IMF staff calculations using data from India's 2011-12 National Sample Survey.

Note: This figure shows the percentage of fuel price subsidies in India received by each consumption decile (poorest = 1).

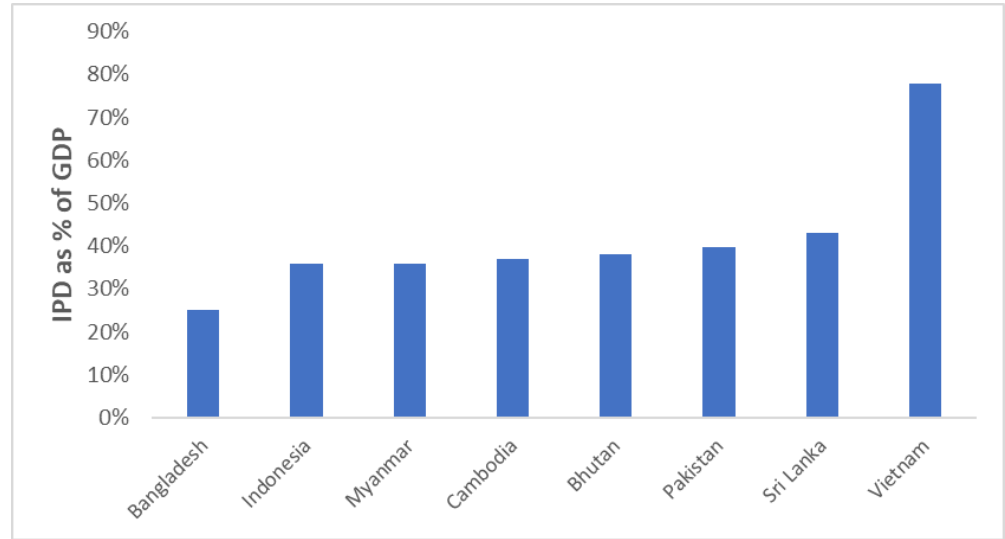
Figure 5.2 Despite Stated Objectives of Poverty Alleviation, in Many Countries the Benefits from Fuel Price Subsidies “Taper Away” toward the Bottom of the Welfare Distribution



TARGETED CASH TRANSFERS ARE MUCH BETTER AT REDUCING POVERTY THAN ENERGY SUBSIDY SPENDING



**IN THE ABSENCE OF REFORMS,
PENSION DEFICITS WILL
BALLOON AND CROWD OUT
OTHER TARGETED SOCIAL
PROGRAMS AS HAS HAPPENED
IN OLDER COUNTRIES WITH
MATURE PENSION SCHEMES**



Jain and Palacios (2022)

CONCLUSIONS

- There are many sources of possible financing of social protection programs but only energy subsidy reform and an increase in VAT rates or removal of exemptions require a compensating, targeted cash transfer
- As pension schemes in the region mature and the population ages, pension deficits will arise and crowd out other, more progressive SP programs. To avoid this, reforms must be gradually phased including to reduce the huge civil service pension liabilities in many countries
- Together, the resources that can be redirected to targeted cash transfers can easily **double or triple current social protection spending** in most East Asian countries with revenues left over

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