

Inequality, Inclusive Fiscal Policy, and Social Safety Nets in Asia

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Conference on Enhancing Social Spending in Support of Inclusive
Growth in Asia**

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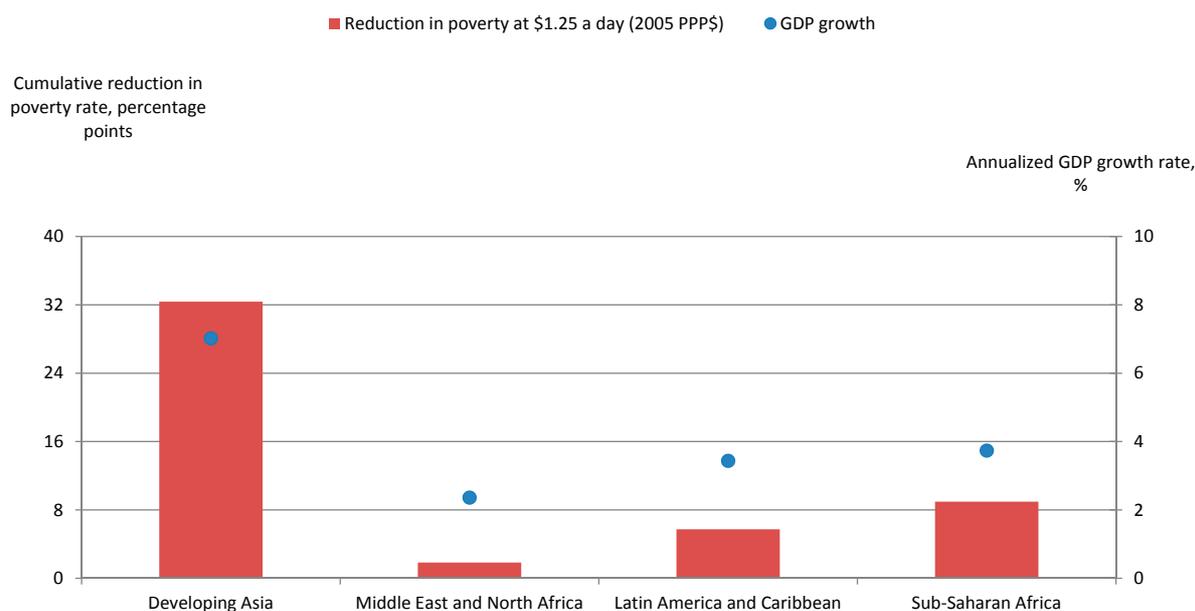
Outline of presentation

- 1. Emerging case for inclusive fiscal policy**
2. Public spending to foster inclusive growth
3. Public revenues to safeguard fiscal sustainability
4. Fiscal planning and innovation for a more inclusive Asia
5. Role of social safety nets in inclusive fiscal policy
6. Conditional cash transfers as a tool for growth- and equity-promoting fiscal policy
7. Concluding observations

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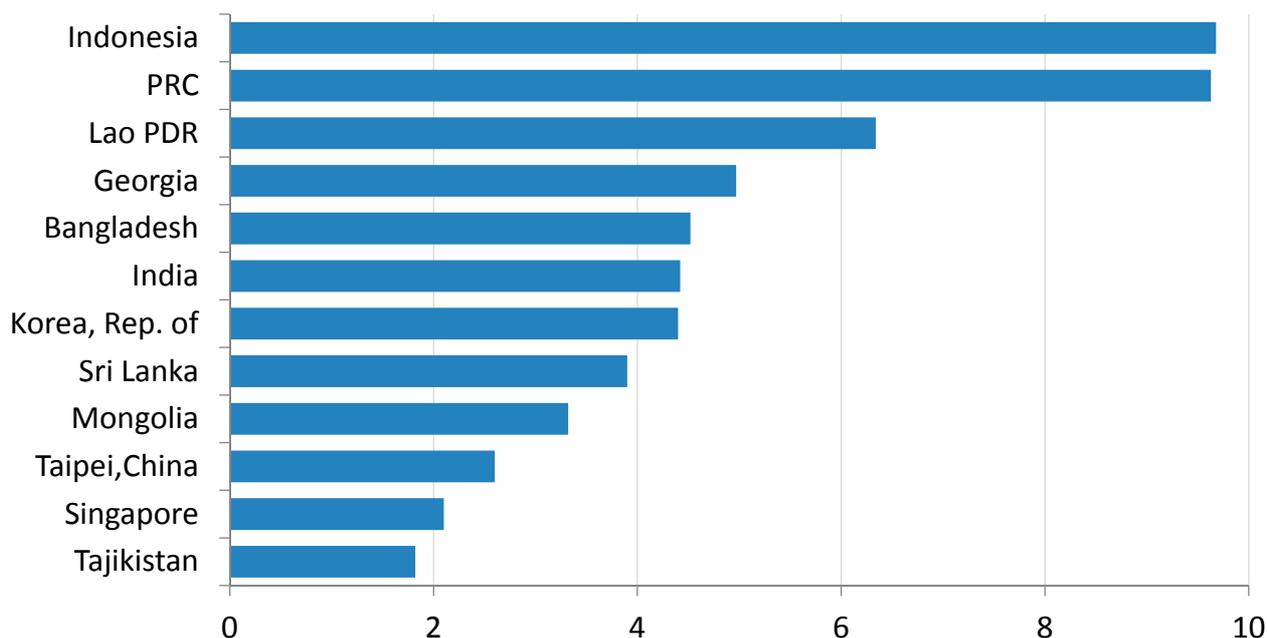
1 Rapid growth has sharply reduced poverty in Asia

GDP growth and poverty reduction, 1990 - 2010



1 but income gaps are widening

Increase in Gini coefficient, economies with rising inequality, 1990s - 2000s



1 Asian governments are beginning to respond via fiscal policy

- International experience shows that public spending can reduce income inequality.
 - For example, education and health
- But in Asia, policymakers traditionally used fiscal policy primarily to support growth rather than to redistribute income
- More recently, growing concern about rising inequality is prompting a major re-think
 - e.g. PRC's Harmonious Society

1 Asian countries now face a tough dilemma

- How can the region use fiscal policy to promote inclusion while maintaining fiscal sustainability?
- Some expansion of public spending will be required, but this may jeopardize fiscal sustainability
 - Korea's scale-back of basic old-age pension
 - Thailand's price subsidy for rice farmers
 - India's food subsidy
- Therefore, Asian countries must strengthen their revenue base while they calibrate their spending

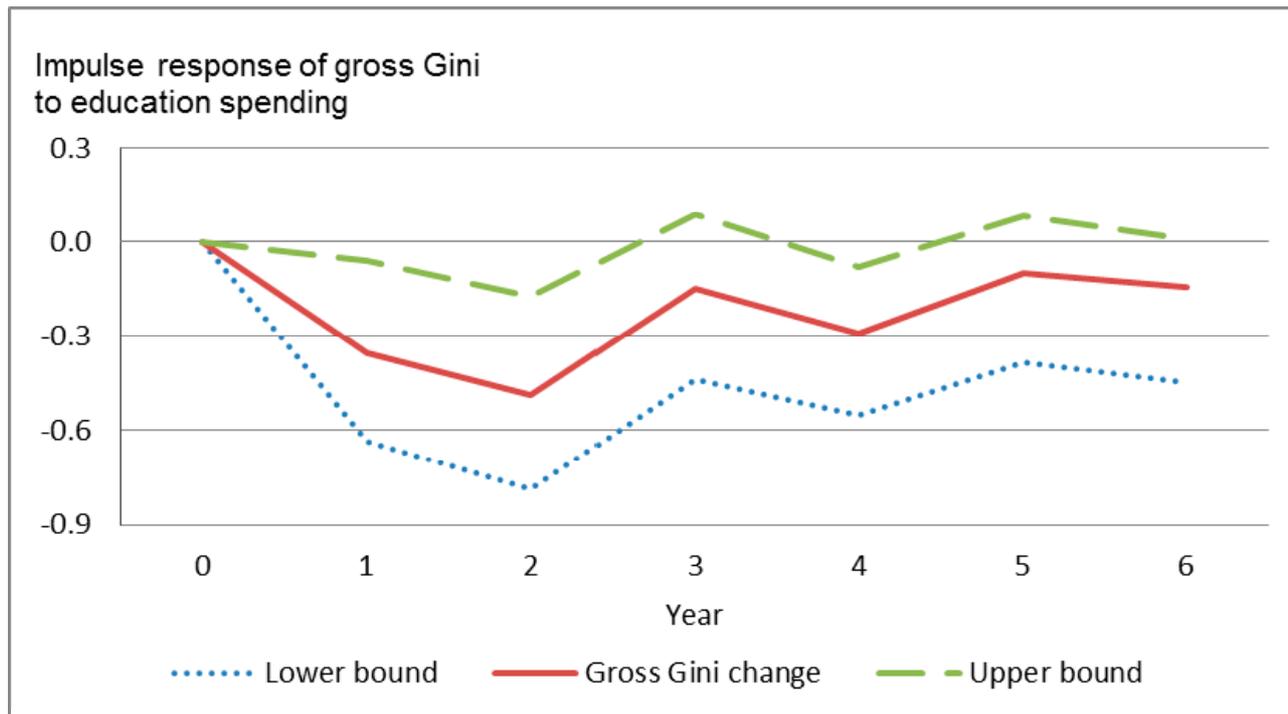
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2 Public spending has a bigger effect in reducing inequality

- The evidence from advanced and developing economies alike suggests that government expenditures have somewhat stronger impact on income distribution than revenues
- This general pattern is also true in developing Asia [Claus et al (2014)]
- However, crucially, revenues provide the resources required for inclusive spending

2 Policy simulations re-confirm equity impact of public spending on education (and health care).....



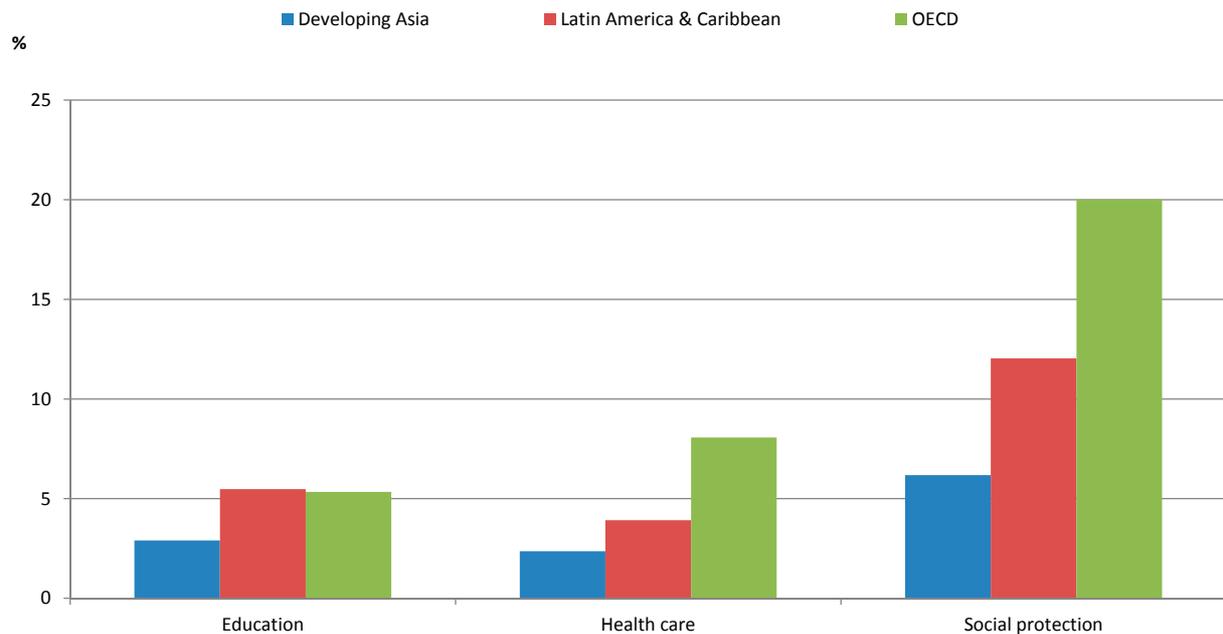
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2transfers and infrastructure can also contribute

- Targeted subsidies and transfers protect the most vulnerable and deprived segments of society.
- Moreover, replacing distortionary general subsidies with targeted assistance to the poor can contribute to growth
 - ADB analysis of fuel subsidy reform in India, Indonesia and Thailand
- Spending 1 percentage point of GDP more on infrastructure can boost growth by an estimated 1.3 percentage points

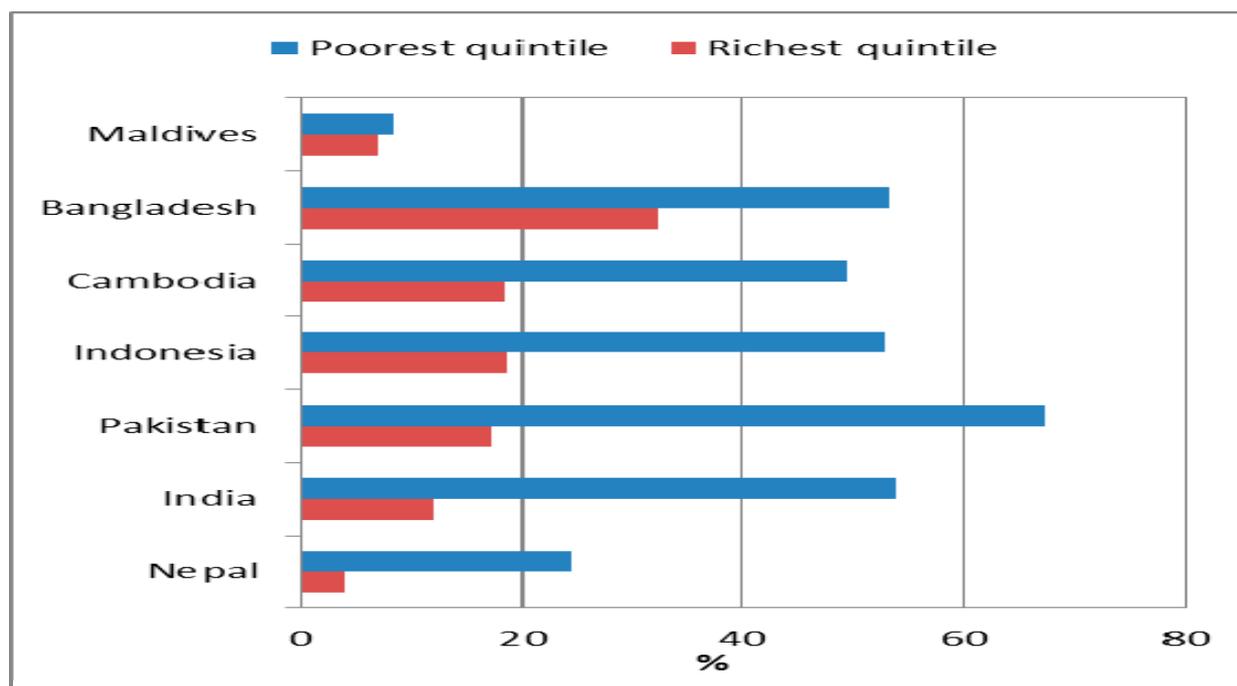
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2 Asia lags other regions in fiscal spending to promote equity

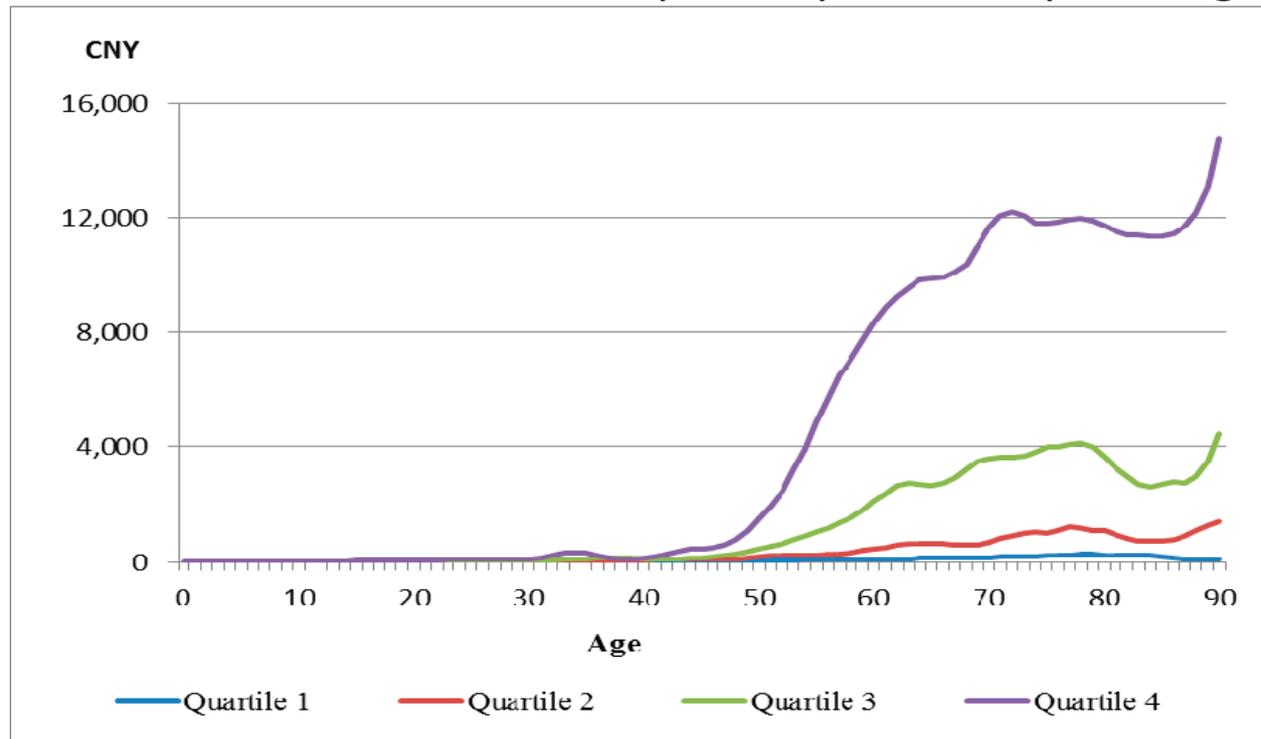


2and the poor lag in access to vital services

Percentage of children not in secondary school



2 Benefit incidence and need for better targeting: some evidence from PRC – public pension spending



2 Besides size of fiscal spending, its composition matters

- Education policy can amplify how public spending promotes inclusion by prioritizing basic education or expanding technical and vocational training to give students the practical skills and knowledge they need for work.
- Public health policy can do the same by dedicating the last dollar to a new rural clinic rather than to the latest medical marvel for the urban rich.

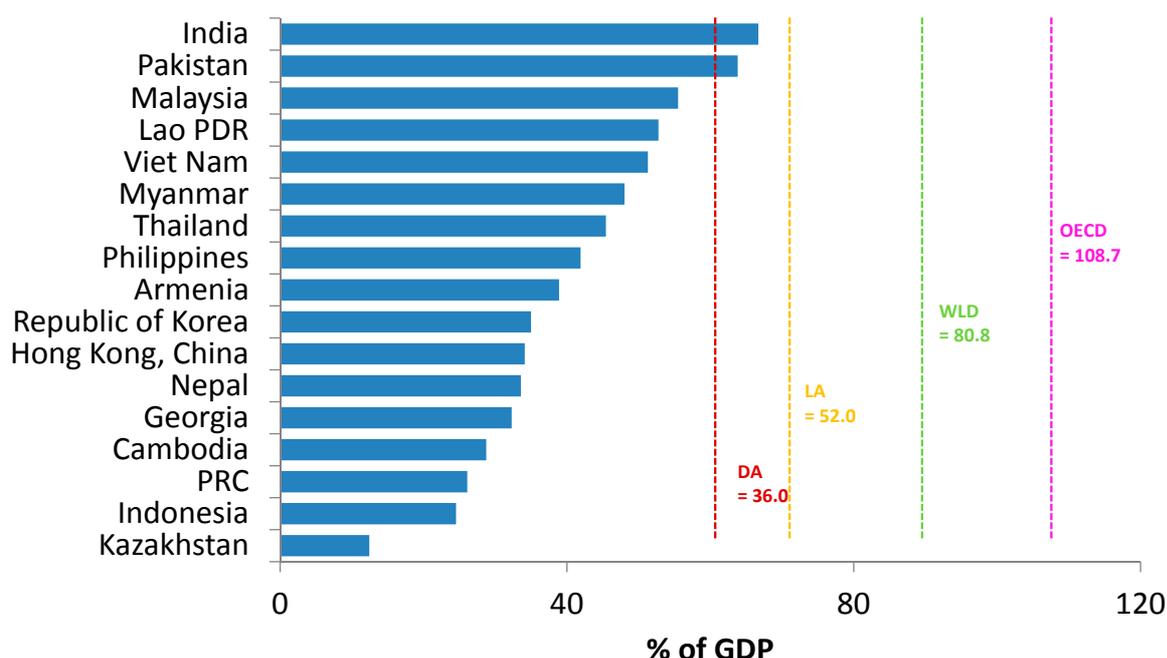
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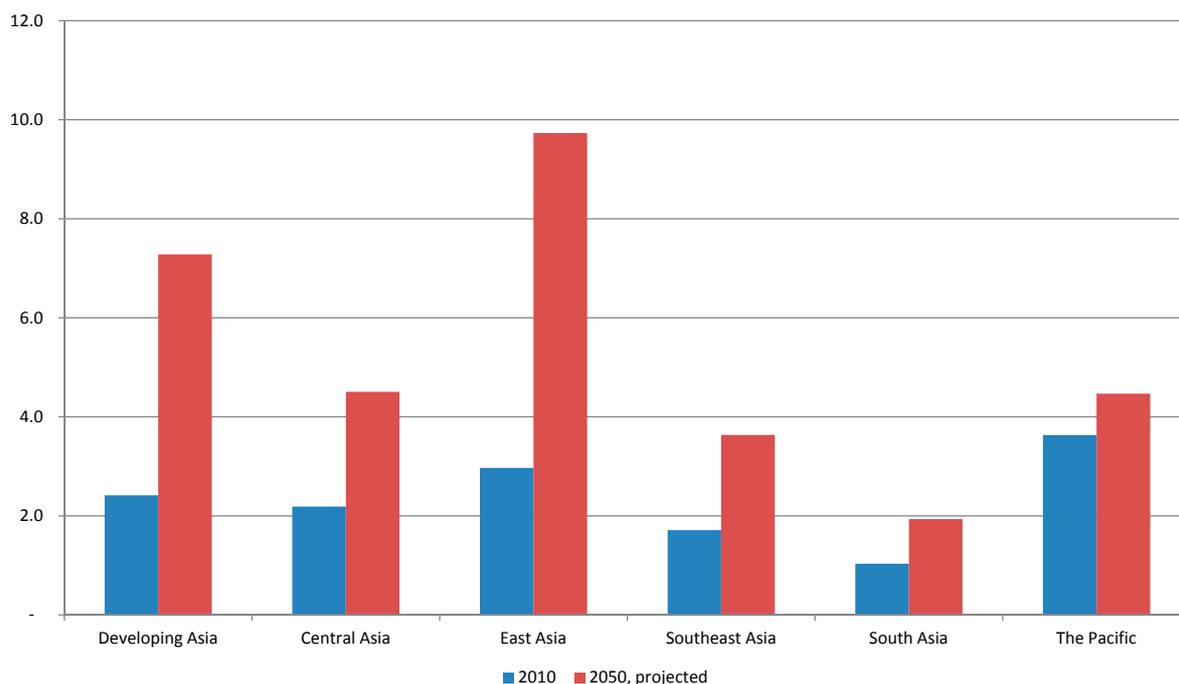
3 Much of Asia currently has fiscal space....

Gross government debt, selected economies, 2012



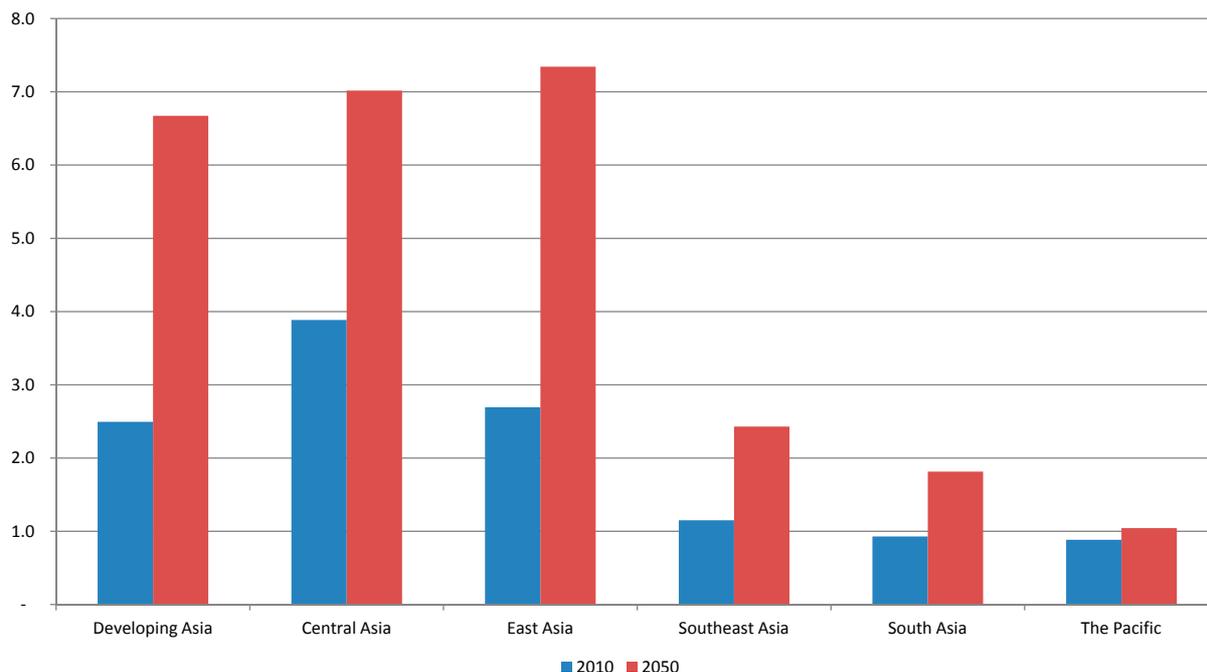
3but faces big future fiscal demands – e.g. health

Share of public spending on health in GDP, 2010 (actual) and 2050 (projected)



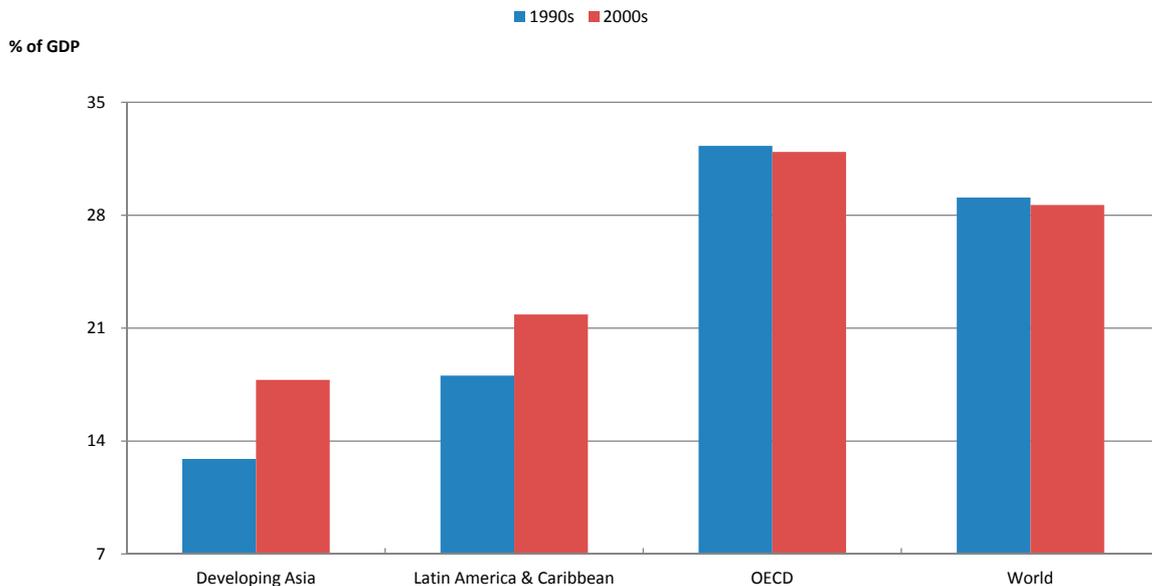
3big future fiscal demands – e.g. social security

Share of public spending on social security and welfare in GDP, 2010 (actual) and 2050 (projected)



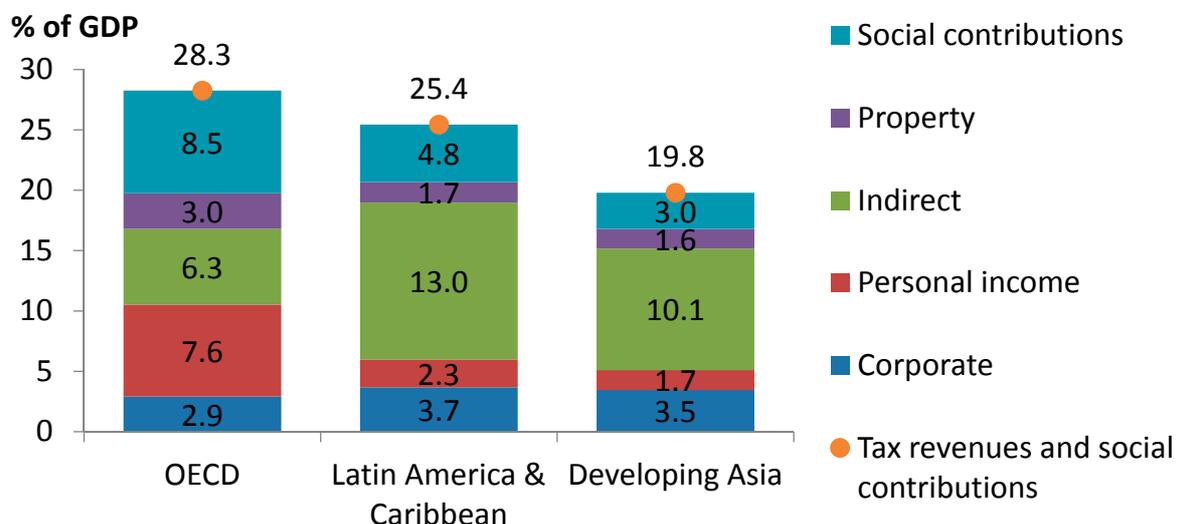
3 Also, Asia has comparatively limited revenue base....

Tax revenues, share of GDP



3.....implying a clear need to improve revenue mobilization across all categories

Composition of tax revenues and social contributions, 2010



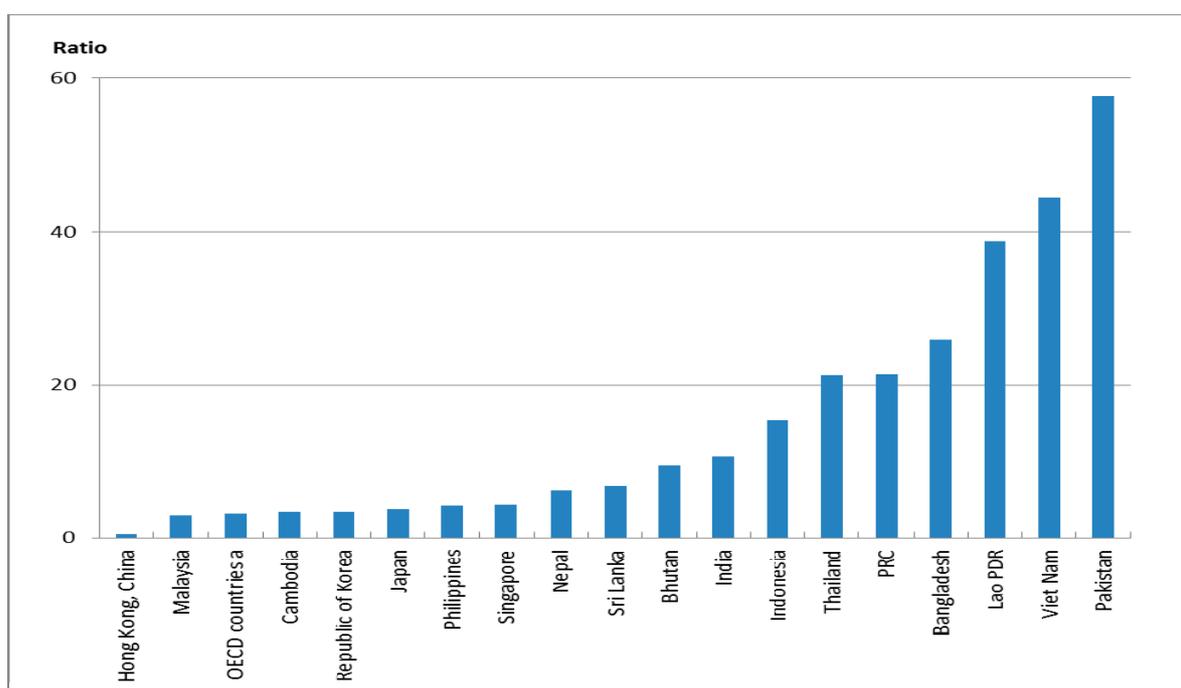
3 A wide range of options should be explored

- Broaden base for personal income tax and VAT
- Increase use of corrective taxes and nontax revenues
- Introduce progressive taxes on property, capital gains, and inheritance
- Improve collection and tax administration through ICT



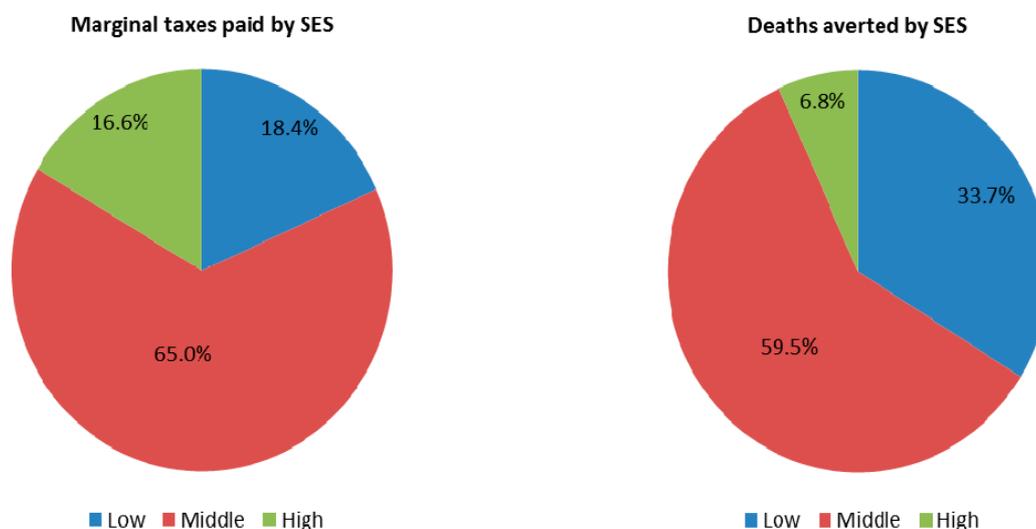
3 Broaden base for personal income tax and VAT

Ratio of top personal income tax threshold income to per capita GNP



3 Corrective taxes and non-tax revenues

Some evidence from an on-going ADB study on tobacco taxes in the Philippines



Note: SES = socioeconomic status group

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4 Medium term fiscal framework for inclusive growth

- MTFFIG should systematize plans for incorporating equity objectives into fiscal policy.
- Such frameworks require careful annual review of inclusive government programs
- They must align concrete medium-term targets with the means
- Importantly, the inclusive elements must be integral to the overall medium-term fiscal framework to preserve fiscal sustainability.
- MTFFIG requires more and better fiscal data, as well as strong political commitment



4 Fiscal innovation for inclusive growth

- Innovative measures can amplify how fiscal policy contributes to inclusive growth.
- For example, forging public–private partnerships in social infrastructure can extend the reach of education and health care services.
- Such measures can provide additional financing for public services and improve their delivery, thus promoting equity.



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5 Role of social safety nets in inclusive growth

- Definition of social safety nets (SSN)
 - The State of Social Safety Nets 2015, World Bank
 - *Social safety nets* are noncontributory measures designed to provide regular and predictable support to poor and vulnerable people.
 - They are also referred to as *safety nets*, *social assistance*, or *social transfers*, and are a component of larger social protection systems.
 - Worldwide, 1.9 billion people are enrolled in social safety net programs.
 - 44% receive in-kind transfers, 37% receive cash-based transfers, and 19% receive fee waivers.
 - The largest social safety net programs are in China, India, Brazil, Ethiopia, and South Africa, and reach over 526 million people

5 Role of social safety nets in inclusive growth

- Types of social safety nets (SSN)
 - Conditional cash transfers (CCT)
 - Unconditional cash transfers (UCT)
 - School feeding programs
 - Unconditional in-kind transfers
 - Public works programs
 - Fee waivers



5 Role of social safety nets in inclusive growth

- The portfolio of social safety net programs is large and diverse.
 - A developing country runs about 20 different safety net programs, on average.
 - Cash transfers and school feeding programs are present in almost all countries.
- Cash transfers are becoming more popular and increasingly complex.
 - Conditional cash transfer programs are now present in 64 countries, a dramatic increase from 2 countries in 1997 and 27 countries in 2008.



5 Role of social safety nets in inclusive growth

- Most of the poor remain outside the social safety net system, despite remarkable progress
 - Only one quarter of the poorest quintile are covered by social safety net programs in low income and lower middle income countries.
 - The coverage gap is especially acute in Sub-Saharan Africa (10%) and South Asia (20%).
 - Coverage rises to 64% in upper middle income countries
- All countries are investing in social safety.
 - 1.5% in low income countries, 1.6% in middle income countries, and 1.9% in richer countries



31

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5 Role of social safety nets in inclusive growth

- Growing evidence, based on rigorous impact evaluation studies, shows that social safety nets have a positive impact on development
 - For example, cash transfers increase school enrollment and attendance
 - They also have major positive spillover effects on the local economy of targeted communities
 - Health programs improve prenatal and postnatal care
- Impact on poverty reduction depends on how well the poor are covered and on the adequacy of benefits.
 - In most countries, the size of social safety nets is not adequate to close the poverty gap, especially in low-income countries



32

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5 Role of social safety nets in inclusive growth

- Targeting of social safety nets is generally pro-poor.
 - But there is room for improvement
- Better coordinated systems are required to increase the efficiency of social safety nets
 - Protecting the poor and vulnerable requires multiple social protection programs to work together, under a solid overall social protection framework
- More generally, spending efficiency can be improved by strengthening institutional capacity, coordination, and program administration and evaluation.
 - Efficient implementation requires tools that facilitate beneficiary selection, service delivery, and monitoring of both process and outcomes.
 - Countries are increasingly investing in management information systems and targeting approaches of varying complexity and sophistication.



33

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5 Role of social safety nets in inclusive growth

- In Asia, the Asian financial crisis and global financial crisis gave further momentum to the establishment of social safety nets
- ADB working paper (2013) --- “Safety nets and food programs in Asia: a comparative perspective” --- Jha, Kotwal, and Ramaswami
 - The paper examines the performance of safety net programs in Bangladesh, India, Indonesia, and the Philippines in terms of people covered, food distributed, and income support provided.
 - These countries spend 1%–3% of their gross domestic product on safety nets.



34

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5 Role of social safety nets in inclusive growth

- The paper finds across-the-board failure of targeting in the four countries
 - Elite capture
 - Incorrect identification of the poor
 - Their lack of access
 - Barriers to participation
 - Regional allocation bias



5 Role of social safety nets in inclusive growth

- Furthermore, even with good targeting, the target groups may not receive the full subsidy.
 - Illegal diversions
 - Operational inefficiencies
 - Excess costs of public agencies
- Success of safety nets will depend on increasing the participation of the poor and minimizing program waste.
- Computerization of supply chains to track grain supplies can reduce diversion, and switching from in-kind to cash transfers can cut administrative and other costs of physical handling.



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6 Conditional cash transfers and inclusive fiscal policy

- In principle, conditional cash transfers can promote both equity and growth
 - Beneficiaries must fulfill education- or health-related conditions for receiving cash
 - For example, in Brazil's Bolsa Familia, poor households receive monthly payments only if their school-aged children (6 to 15) are enrolled in school and if their younger children (under 6) received vaccinations
- While unconditional cash transfers can also promote growth, conditional cash transfers have a more direct, immediate and tangible growth impact
 - CCT enhance households' human capital, which has positive long-term effect on their productivity and at the aggregate level, economy-wide productivity

6 Conditional cash transfers and inclusive fiscal policy

- Latin America has a long history and rich experience of using conditional cash transfers to promote more inclusive growth.
 - Brazil's Bolsa Familia CCT program and Mexico's Oportunidades (formerly Progresa) CCT program are widely viewed as highly successful benchmarks.
 - Bolsa Familia in particular is credited with promoting more inclusive growth in Brazil
 - Reaches around 50 million and cost 0.4% of GDP
- Asia has much less experience, but interest is growing
 - Bangladesh, Cambodia, Indonesia, Pakistan, Philippines, and others have programs



6 Conditional cash transfers and inclusive fiscal policy

- Pantawid Pamilyang Pilipino (PPP) of the Philippines is a promising CCT program
 - Provides cash grants to poor households based on their fulfillment of health and education related conditions
 - PPP grew rapidly from a small pilot with 6,000 families in 2007 to almost 4.5 million families at the end of 2014, covering 21% of population
 - PPP is among the world's largest CCT programs, and its budget grew from 0.1% of GDP in 2010 to 0.5% of GDP in 2014.



6 Conditional cash transfers and inclusive fiscal policy

- PPP is expected to have a major poverty-reduction impact
 - Cash grants help poor and vulnerable families make ends meet.
 - But the real poverty reduction gains are expected in the future, when healthier and more educated children finish school and join the work force.
 - CCTs are a form of results-based financing that aim to prevent the transmission of poverty from parents to their children.
 - The cash helps cover the direct and indirect costs of accessing health care and schooling.



6 Conditional cash transfers and inclusive fiscal policy

- What are the PPP conditions?
 - Pregnant women must have pre- and post-natal checkups, and births should be in a health facility or attended by a trained health professional
 - 0-5 year old children must receive regular health check-ups and vaccines
 - Elementary school children must receive deworming pills twice per year
 - Children 3-5 must enroll in a day care program or kindergarten and maintain an 85% attendance rate
 - Children 6 to 18 must enroll in elementary or secondary school and maintain an 85% attendance rate
 - Parents must attend monthly family development sessions



6 Conditional cash transfers and inclusive fiscal policy

- How much do families get under PPP?
 - Households can receive PHP 500 per month for complying with the health conditions (which includes the family development sessions).
 - For education, each child in day care or elementary receives PHP 300 per month and each child in high school receives PHP 500 per month.
 - A maximum of 3 children per household may receive the education grant for 10 months of the school year.
 - Households actually received an average of about PHP 8,300 per year in 2013, equivalent to about \$16 per month.



6 Conditional cash transfers and inclusive fiscal policy

- Is PPP working?
 - Most of the project's output indicators have been met or exceeded and the outcome of increased consumption and utilization of education and health services is expected to be achieved.
 - Rigorous impact evaluation findings include that *Pantawid* improves children's access to health services, keeps children in school, and reduces child labor.
 - Other important findings are that *Pantawid* does not encourage dependency (adults continue to seek work) and that *Pantawid* parents are more optimistic about their children's future than non-*Pantawid* parents.



6 Conditional cash transfers and inclusive fiscal policy

- There are limitations to CCTs
 - CCTs can be a powerful, effective tool to empower the very poor, but they are not a "magic bullet" to reduce poverty.
 - Countries that provide conditional cash transfers must have the social services in place to meet the demand created by such programs.
 - In many developing countries, children, particularly in rural areas, face supply-related problems
 - Programs can be difficult to administer and have limited impact in the absence of a graduation strategy of beneficiaries. In addition, CCTs can be perceived as demeaning.
- But overall, CCTs hold a lot of promise for middle income countries with adequate institutional capacity
 - Especially if they are adapted to local conditions



45

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46

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7 In a manner of conclusion.....

- Fiscal policy can and should play a bigger role in promoting inclusive growth in Asia.
- To put the region on a growth path of broadly shared benefits, Asian governments need to actively target inclusion in their fiscal plans.
- Because achieving inclusive growth is necessarily a long-term challenge, Asian policy makers must plan and act now.

7 In a manner of conclusion.....

- Social safety nets must be an integral part of more inclusive fiscal policies in Asia, especially to help the most vulnerable and poorest Asians
- Conditional cash transfers, which are beginning to play a bigger role in Asia, can help to promote both growth and equity in the region
 - Asia is largely middle-income now
 - Asia still needs to grow rapidly, but in an inclusive way