Regional Exchange on Protecting Social Sector Spending in Times of Shocks

26-27 June 2023, Kathmandu, Nepal
EU-UNICEF Public Finance Facility for South and Southeast Asia
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EVENT OVERVIEW

The European Union-UNICEF Public Finance Facility for South and Southeast Asia is a four-year initiative (2019-2023) that contributes to the realization of children's rights by supporting the best possible use of public budgets. It covers seven countries: Cambodia, Lao PDR and Myanmar in Southeast Asia, and Bangladesh, Nepal, Pakistan and Sri Lanka in South Asia.

The two-day regional exchange brought together government partners in South and Southeast Asia¹, as well as other development actors, to share experiences related to protecting social sector spending in times of COVID-19 and other compounding external shocks. Officials in attendance were from ministries of finance, planning, cabinet ministries, and line ministry officials in the areas of education, health and nutrition, gender and social protection.

The EU-UNICEF Public Finance Facility

The EU-UNICEF Public Finance Facility for South and Southeast Asia was founded in 2019. The objective is to enhance the adequacy, effectiveness and efficiency of social sector spending for children's rights and development. To increase public finance management effectiveness in areas relevant to children, the facility provides technical assistance in three core areas:

• Analysis on budget allocations and expenditure.
• Generating evidence.
• Promoting transparency.

The key sectors supported are education, nutrition, health, WASH and social protection. The target groups are governments, including ministries of finance and/or planning, social sector ministries, parliaments and local authorities, as well as civil society organizations that advocate for improved public expenditure for children and the general public. While the objectives are common to all countries participating in the initiative, the activities for each country correspond to its specific needs and political context.

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¹ Following the military takeover of February 2021, the facility does not interact with the authorities in Myanmar.
DAY ONE
OPENING REMARKS

From Dr Marco Gemmer, Head of Cooperation, EU Delegation to Nepal and Sanjay Wijesekera, Regional Director, UNICEF ROSA.

• Despite the challenging outlook, it is important to recognize the many achievements that have taken place for children in the region: there has been notable growth and improvements in healthcare, education, and well-being in South and Southeast Asia.

• The impact of COVID-19 and the subsequent convergent economic crisis has cast a long shadow across the region: the poly-crisis has had a devastating economic impact, driving an estimated 100 million people into poverty, exacerbating child poverty.

• There has been an uneven recovery: some countries have seen a strong return to economic growth, while others have struggled with rising debt burdens and repayment costs.

• The importance of protecting social sector spending is arguably greater than ever: social sectors and the delivery of essential social services for children are critical to protect our children today, and to develop human capital for tomorrow. It is essential that these budgets are protected.

• Efficiency and equity are the key: in addition to protecting budgets, we must make the most out of these budgets by spending effectively and efficiently on our health, education and social assistance programs in Asia.
SESSION ONE: WHERE IS THE FISCAL SPACE FOR CHILDREN?

Government budgets are the most important public policy instruments for the realization of the rights and wellbeing of children. The decisions that governments make about how to fund social services are critical to the equitable development of children. If allocations are insufficient, concentrated on better-off groups or used poorly, then all children – especially the most disadvantaged – risk losing access to services and programmes that enable them to survive and thrive, learn, live free from violence and exploitation and have an equitable chance at life.

Under the EU-UNICEF Public Finance Facility for South and Southeast Asia, a regional budget analysis, *Where is the Fiscal Space for Children? Review of social sector budgets in selected countries in South Asia, East Asia and the Pacific Islands*, was published in April 2023. It examines trends in social sector spending in 21 selected countries across three subregions – namely, South Asia, East Asia, and the Pacific Islands, for the period 2017-2021.

The findings were stark.

- The impact of the COVID-19 has had a profoundly negative effect on education: 400 billion hours of learning have been lost across Asia since the pandemic and there is a real risk of long-term human capital loss.
- While health budgets were largely prioritized during the pandemic, the high prevalence of the triple burden of malnutrition across Asia continues to challenge children’s survival and development.
- Though social assistance initially increased at the peak of the pandemic, there has since been a decrease in investment, while tax-financed social assistance schemes are not addressing the inequities affecting children.

As a result, there will be an ever-greater need for efficiency and equity in social sector spending. However, alongside this, social sector budgets require reprioritization in national fiscal space, accompanied by deeper reforms in the public finance management systems in the countries. This includes improved monitoring and tracking of, and public access to, budget and expenditures at central and subnational levels. Improvements are also needed to enhance budget credibility and the efficiency of spending. The establishment of solution-oriented partnerships, such as the EU UNICEF Public Finance Facility, can serve to accelerate human development outcomes for their citizens.

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2 The “triple burden” of malnutrition comprises of three types of nutritional challenge: undernutrition, overnutrition or obesity and micronutrient deficiency in individuals, households and populations.
SESSION TWO-A: THE MACROECONOMIC OUTLOOK FOR ASIA: RISKS AND OPPORTUNITIES

This session focused on the macro-fiscal environment facing Asia. It was designed to inform and frame a discussion around the risks and opportunities facing the region at large and specifically those countries that are part of the EU-UNICEF Public Finance Facility for South and Southeast Asia. The session started with a presentation from Teresa Daban Sanchez, the IMF Resident Representative to Nepal. An overview of the key themes presented and subsequently discussed are provided below.

### Trends
While there are some setbacks – the rise in commodity prices and in domestic inflation – the overall trend indicates a gradual recovery. Asia remains one of the most dynamic regions in the world.

### Challenges
Inflation across the region is a major challenge – both in the region and globally. Other concerns are decreasing exports from Asia to the European Union and the United States. Furthermore, the uncertainty surrounding US monetary policy has significant implications for the economies of Asian countries.

### Solutions
Proactive measures are needed to maintain fiscal sustainability, promote investment, facilitate a green transition, address inflation and support vulnerable populations.

**DISCUSSION:**
An emphasis on the importance of sustainable growth and medium-term fiscal prudence to provide clarity for businesses and investors.

- **Uncertainties exist due to inflation**, “the worst tax on the poor,” and there is a strong need for policies to assist the most vulnerable.
- When discussing **declining aid and fiscal consolidation**, a prudent fiscal policy and protection for social sector spending, even in challenging times, is required. Possible tax increases on certain groups to provide more resources for social spending would be one way to navigate this.
SESSION TWO-B: COUNTRY PERSPECTIVES ON RESPONDING TO ECONOMIC CRISES

Building on the previous session, this session shifted from the regional outlook to consider country-level perspectives. The session started with a case for investing in children. It was followed by a discussion panel consisting mainly of representatives from ministries of finance, with a representative from a ministry of planning. Due to the difficult fiscal situations faced by several countries involved in the facility, much of the discussion focused on how to preserve fiscal space, acknowledging the difficult trade-offs between preserving fiscal balances and expenditures designed both to protect vulnerable households from economic uncertainty, including high rates of inflation, and to maintain quality social services upon which children depend.

PRESENTATION: The investment case for social sectors and the relationship between debt and social sector spending in Asia

- Early childhood is consistently shown to offer the highest returns on investment, and to support more equitable outcomes. Globally, as well as in our regions, we are under-invested in early years interventions, with substantially more funds invested in later years of children's lives.
- Similarly, investments in social sectors are consistently found to yield high economic and social returns. However, while the impact on children's well-being can be immediate, the economic returns often take longer to manifest.
- Importantly, analysis finds that in South Asia, since 2000, debt has been used by governments to support education spending. Yet current debt service costs are shown to have a negative relationship with education spending levels. It finds that, in South Asia, countries with high debt service costs are more likely to be reducing education and health budgets, and by greater amounts.
- There is a clear need to adopt measures to improve the allocative and operational efficiency of spending, with a focus on early childhood interventions. However, it is not possible to achieve greater efficiencies without investing enough in the first place: there is a need to protect and, where possible enhance, social sector budgets.

Governments across the region are considering and implementing measures to manage their economies, restore fiscal sustainability, and protect vulnerable households amidst global crises and the aftermath of the COVID-19 pandemic. Following a challenging time in terms of revenue generation, several governments are seeking to generate revenue sustainably and create fiscal space to expand social sector expenditures. A key challenge in designing and implementing new fiscal revenue measures is ensuring that burdens fall upon those who can afford to pay. Another common challenge is the management of high rates of inflation, which have had a heavy impact on low-income households. Governments face a difficult balancing act of managing inflation, partially through the tightening of monetary policy without stifling economic growth amidst a precarious global economic outlook.
SESSION THREE: IMPLICATIONS FOR SOCIAL SECTOR INVESTMENTS TO DATE

This session brought together line and planning ministry officials to consider the implications for social sector investments in light of the wider macroeconomic and fiscal challenges discussed in the previous session. It elaborated on the key issues that social sectors are facing, measures taken so far to address them and the risks and opportunities moving forward.

Governments across the region are facing fiscal tightening and are looking for ways to more efficiently use social sector budgets, with an emphasis on protecting the most vulnerable, including children and people with disabilities. Efficiency in fund utilization, robust monitoring and evaluation systems and partnerships with external organizations were all stressed. The integration of fragmented health and social schemes was seen as one key driver of efficiency. Education has suffered significantly across the region as a result of the COVID-19 pandemic. Reforming education systems, especially through the development of online learning, was considered important.

SPOTLIGHT: Nepal’s Economic Innovation Lab (EcoLab)

The EcoLab is the first innovation centre within Nepal’s government system. The lab fosters creative thinking, collaboration and solutions to emerging socio-economic challenges. One of its key roles is to gather and understand economic data. The lab’s vision is to form evidence-based policy decisions and become an innovative solutions hub. Priorities include social spending and aligning economic policies with national goals. The lab offers courses in artificial intelligence, data science, conducts training and organizes visits. Lastly, the lab produces a range of publications and is developing a dashboard to manage data.

DAY TWO

SESSION FOUR: BUILDING ON PROGRESS TO STRENGTHEN SOCIAL PROTECTION SYSTEMS TO MITIGATE AGAINST FUTURE CRISES.

This session focused on social protection systems, and how to ensure they are designed to mitigate against future crises. The initial presentation set out the investment case for social protection, covering the need and rationale for investments that support and protect children and vulnerable households. This was linked to the benefits of social protection systems, including an overview of evidence that demonstrates and quantifies these benefits. This was followed by country examples of social protection systems, and a breakout discussion between countries to discuss lessons learned from the response to recent crises.

SOCIAL PROTECTION: THE CONTEXT

- Investing in robust social protection systems for children has profound effects, particularly in light of crises like COVID-19 and climate change;
Despite every child having the right to a decent standard of living, a significant percentage of children live in poverty and are vulnerable to social exclusion.

- **Social protection has a far-reaching impact across different sectors**, linking it to progress in various Sustainable Development Goals (SDGs) like poverty reduction, nutrition, health, education and gender equality. However, the effectiveness of social protection measures is dependent on programme design, including aspects like coverage, transfer size and frequency.
- The **first 1,000 days in a child’s life as a critical period for interventions**: investments made during this stage can yield higher returns than those made later, underscoring the need for adequate and targeted social spending, including policies such as maternity leave and sufficient coverage for all children.
- There is a need to **maximize the effectiveness of financing mechanisms for social protection** in the face of climate change, which includes developing Disaster Risk Financing (DRF) strategies linked to social protection to mitigate the impact of climate change and protect vulnerable children and families. Only a few countries have currently developed such strategies thus far.

Governments across the region have implemented strategic approaches to enhance their social protection systems. Some have adopted a lifecycle framework for social protection, and there was a recognition that more money needs to be focused on early life. There was wide agreement that a multidimensional approach was helpful in addressing issues such as poverty, childhood nutrition and the empowerment of mothers. This was discussed alongside challenges, which include the need for increased programme funding for the adjustment of benefits to account for inflation and dietary needs. Digitizing social protection systems was considered as a way to address inefficiencies found in fragmented social protection systems, with overlapping coverage that also produces gaps. Governments recognize the need for social protection systems to be shock-responsive, and comprehensive national strategies were seen as key for this. Universal coverage was the overall aspiration across all governments.

**LESSONS LEARNED**

- **Importance of targeted social protection programmes** for the economically disadvantaged and vulnerable groups, which necessitates the collection of relevant data.
- **Reactive and scalable systems can effectively mitigate crisis impacts**, especially for vulnerable individuals. Such systems require the collection of pertinent data and the ability to update and target assistance effectively.
- **Need for persistent efforts to expand and sustain social protection investments**, even in challenging economic situations. This can involve leveraging local and provincial budgets and decision-making authority, demonstrating the effectiveness and value of social protection programmes.
- **Importance of having shock-responsive systems and innovative strategies during crises**, such as the COVID-19 pandemic, was highlighted.
SESSION FIVE: ENSURING ALL CHILDREN HAVE ACCESS TO QUALITY EDUCATION FOLLOWING THE LEARNING LOSS RESULTING FROM COVID-19

This session commenced with an investment case for education, highlighting the increasing needs and demands facing the sector following concurrent crises. This was followed by country presentations which set out an overview of the financing bottlenecks affecting countries in the region, and a breakout discussion session which explored the current outlook for the sector.

PRESENTATION: Investing in education – increasing needs and demands, meeting SDG goals, and PFM bottlenecks

The challenges of education financing in the Asia Pacific region are significant, with insufficient allocation of resources, dominance of recurrent expenditures over capital needs and inefficient budget distribution across educational levels. The potential economic benefits of improved educational funding, including increased lifetime earnings and reduced poverty, are profound. It is important for there to be a reallocation of resources to early education, improved budget credibility and the need for technological advancements in the education sector to address infrastructure deficits and enhance learning outcomes.

Governments across the regions have clear challenges when it comes to education – especially in light of the learning loss that resulted from the COVID-19 pandemic. Some governments are looking at ways to sustainably increase government revenue in order to bolster social spending. Challenges in budget utilization, attributed to planning, coordination and quality assurance issues, are being addressed through measures including teacher training programmes and education reform. Infrastructure development, the digitization of the curriculum, along with school feeding and motivational measures are all being considered to attract children back to the classroom. Education is starting to be given a whole-of-society emphasis, with teachers, parents and communities all being seen as critical partners in the education of children – especially in online learning. Inequities in education are being challenged, and the need for budget tracking and reporting across all government tiers is well understood.
REFLECTIONS ON FUTURE COOPERATION BETWEEN THE EUROPEAN UNION, UNICEF AND GOVERNMENTS IN SOUTH AND SOUTHEAST ASIA

Country teams consisting of officials from ministries of finance, planning and social sector line ministries were asked to consider the critical issues they are facing in responding to converging crises, and how to continue to build on their progress to support equitable, effective and efficient policies that would support inclusive progress.

Governments agreed that enhancing cooperation, planning and accountability across various governmental and regional branches was necessary for improved budget response to crises. Other key points included engaging in evidence-based discussions between ministries to influence budget allocations; exploring innovative financing such as blended finance; building on past achievements; emphasizing evidence generation and social accountability; and strengthening monitoring and evaluation systems, especially in education and health. The discussions also highlighted importance of enhancing planning through a more strategic focus, prioritizing communication (both internal to the government and external with the public), and encouraging regional engagement and learning. Future priorities include training in public financial management, citizen engagement, enhancing primary teaching quality, a greater focus on special needs education and collaboration with development partners to leverage sustainable financing and innovative tools.
7 countries
Over 500 million people
2 partners
1 goal

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