SOCIAL DEVELOPMENT DIVISION

Financing Social Protection

Core financing options and the need to increase synergies with green, climate, humanitarian and alternative funding frameworks for a more climate resilient future

Author:

Stefan Urban

ESCAP Working Paper:

October 2024

Please cite this paper as:

Urban, S. (2024).

Financing social protection - Core financing options and the need to increase synergies with green, climate, humanitarian and alternative funding frameworks for a more climate resilient future. United Nations ESCAP, Social Development Division Working Paper No# 2024/04, October 2024. Bangkok.

About the author:

Stefan Urban holds an MSc in Economics from the University of Munich and a certificate in Financial Mathematics from the UK Institute of Actuaries. He has extensive experience on financing social protection, co-authored flagship and analytical publications on related topics and supported numerous social protection reforms around the world. Prior joining the UN system in 2015, he managed social policy projects for the European Union and worked as an associate actuary in the risk management department of Swiss Re.

Available at: https://unescap.org/kp/2024/financing-social-protection-core-financing-options-and-need-increase-synergies-green

Tracking number: ESCAP / 6-WP / 91

Table of Contents

Acknowledgements

This policy paper on "Financing social protection - Core financing options and the need to increase synergies with green, climate, humanitarian and alternative funding frameworks for a more climate resilient future" was prepared by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) under the overall direction and guidance of Srinivas Tata, Director of the ESCAP Social Development Division. Katinka Weinberger, Chief of the Sustainable Socioeconomic Transformation Section, ESCAP Social Development Division, led the research and drafting of the policy paper. The draft was prepared by Stefan Urban, Social Affairs Officer, with valuable inputs and support from Sayuri Cocco Okada, Social Affairs Officer, Selahattin Selsah Pasali, Social Affairs Officer and Areum Han, Associate Social Affairs Officer. Pornnipa Srivipapattana, Research Assistant from the ESCAP Social Development Division, formatted the document.

Abstract

The working paper analyzes the diverse financing options and fiscal strategies necessary to expand social protection in Asia and the Pacific, underscoring the critical importance of social protection amidst climate challenges. It examines the gaps in current social protection spending, where the region's average expenditure of 8.2 per cent of GDP falls significantly below the global benchmark. The paper presents an array of financing mechanisms, including social security contributions, innovative tax reforms, reallocation of fossil fuel subsidies, and green and social bonds, alongside newer frameworks like multilateral climate funds and the newly established Loss and Damage Fund. It further highlights the synergy between social and climate resilience, advocating for robust social protection frameworks that can buffer against climate-induced displacement, support mitigation and adaptation efforts, and address emerging health risks. The paper is organized into sections on core funding sources, innovative and targeted fiscal policies and green, climate and complementary funding sources, with a comprehensive evaluation of each approach. By promoting cross-sectoral cooperation and exploring synergies between social protection and climate action, the paper argues that nations can create sustainable social protection models and build resilience against future climate and other type of shocks.

I: Introduction

A wide range of revenue sources exist to strengthen financing of social protection amid heightened risks due to climate change. In counterpoint to arguments that social protection is not financially viable or that budgetary reductions are an inescapable consequence during periods of budgetary stress, this paper outlines core and alternative financing options, including financing instruments that can be explored to address the critical financing gaps in social protection, also specifically in the context of climate change and disasters.

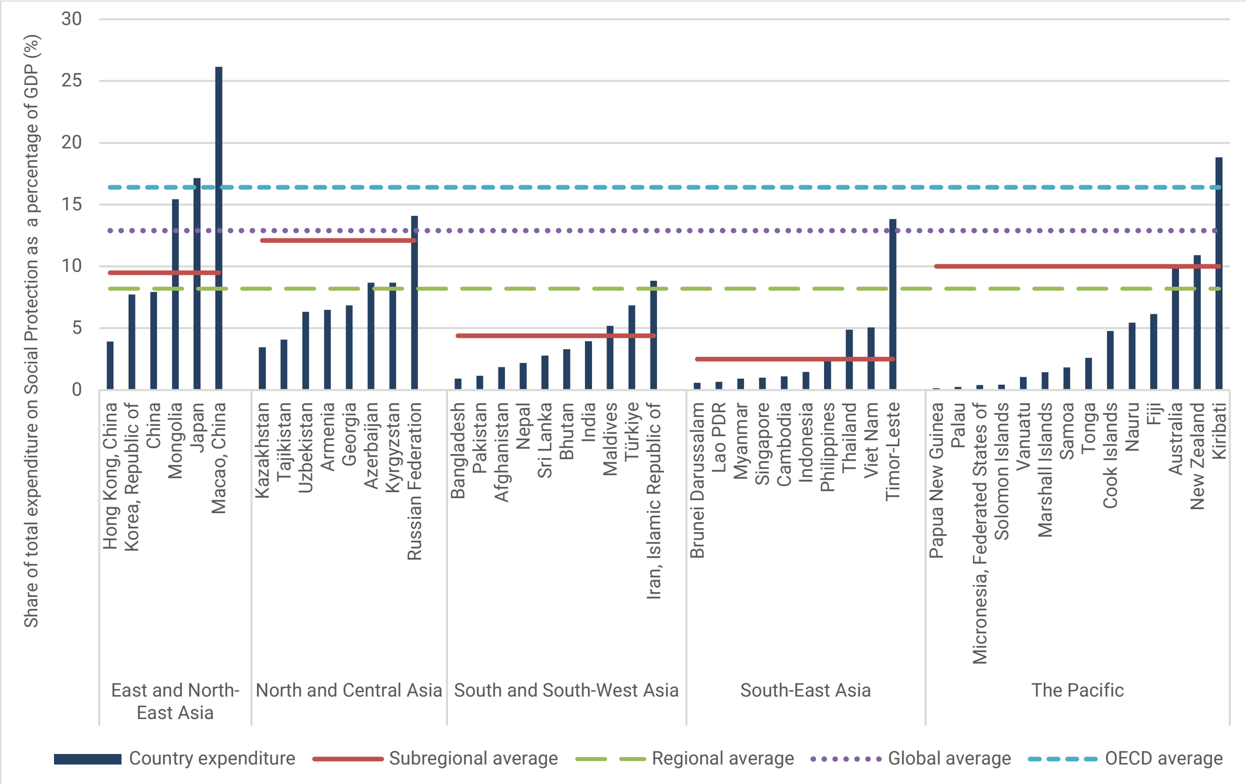
Social protection is an investment that reaps high and positive socio-economic returns. Various studies have shown that investment in social protection can generate high economic multiplier effects, often outperforming investments that are traditionally seen as superior, such as investment in infrastructure.[1] There is substantial evidence that increased investment in social protection is a powerful tool for reducing poverty and inequality, which in turn fosters political stability by mitigating social tensions and conflicts within a country. Research also highlights the positive effects of cash or in-kind transfer programs on human development and productivity by: (i) addressing hunger and malnutrition, improving access to food, and enhancing nutritional status; (ii) reducing reliance on out-of-pocket health expenditures, leading to more equitable and improved health outcomes; and (iii) supporting better educational outcomes and decreasing child labor by offering families critical assistance, such as free tuition, learning materials, school feeding programs, and reducing the need for children to engage in income-earning and caregiving activities. Viet Nam showed a significant multiplier effect, with an additional unit of investment in social expenditure, in particular social security expenditure and social insurance expenditure (which is a component of the former and includes pension, unemployment insurance and other social insurance benefits), generating more than one unit of increase in output in a relatively short period of time, reaching around 1.5 to 3.3 units increase in aggregate output over two and a half years.[2] Non-contributory social transfers in Cambodia resulted in positive effects on household consumption, health, education and labour market participation. After 12 years, the difference in total household consumption between policy and the baseline scenarios exceeded the investment. This evidence underscores social protection's role in diminishing poverty and inequality, as well as fostering favorable outcomes in areas such as nutrition, education, health, participation in the labor market and performance in entrepreneurship.

Social protection systems also fulfill their role as economic stabilizers, enhancing resilience and fostering social cohesion. Employment retention benefits have played a significant role in preventing layoffs and supporting workers' incomes during the COVID-19 pandemic.[3] Alongside unemployment benefits and other cash assistance, these measures stabilized aggregate demand during the pandemic. Sickness benefits and paid sick leave were instrumental in safeguarding jobs, incomes, and public health by enabling workers to self-isolate. Social insurance schemes have been pivotal in providing income support and smoothing consumption in many economies. Additionally, income support measures, such as tax-funded social assistance and family-related benefits, were crucial, particularly for those not covered by contributory social protection mechanisms.

[1] Cardoso D., Carvalho L., Tadeu Lima G., Nassif-Pires L, Rugitsky F., Sanches M. 2023. The multiplier effects of government expenditures on social protection: A multi-country study. Made centro de pesquisa em macroeconomia das desigualdades. Working Paper No. 018.
[2] Lima G.T., Carvalho L., Sanches M., Cardoso D. 2021. Viet Nam: Multipliers of Social Protection. Product 3 – Drafting the country case studies. Department of Economics, University of São Paulo, Brazil.
[3] ILO, ISSA, OECD. 2021. Beyond COVID-19: Towards more inclusive and resilient social protection systems Prepared for the 1st Employment Working Group meeting under the 2021 Italian presidency of the G20.

Despite strong evidence that social protection is a key driver of inclusive socioeconomic development, countries in Asia and the Pacific on average spend only 8.2 per cent of GDP on social protection, compared to the global average of 12.9 per cent (2024).[4] One-third of countries in the region—mostly in the Pacific and Southeast Asia—spend less than 2 per cent of GDP on social protection (figure 1).

Figure 1: Social protection expenditure across Asia and the Pacific



Source: ESCAP. 2024. Protecting our Future Today: Social Protection in Asia and the Pacific. Social Outlook for Asia and the Pacific. Based on ILO estimates, 2024; World Social Protection Database, based on the Social Security Inquiry; ISSA Social Security Programs Throughout the World; ILOSTAT; national sources.

A recent study conducted by ESCAP on the cost of inaction illustrates that poverty will significantly rise if social protection spending is not increased in light of megatrends affecting the region.[5] Climate change is the leading driver of this increase followed by population aging and digitalization. The pessimistic scenario of the model considers i) annual losses in output in the event that global temperatures to rise by 2 degrees Celsius by 2040, ii) populations age in an unhealthy manner from 2020 to 2040 implying a significant increase in total healthcare expenditures and iii) countries improve their productive capacity in Information and Communications Technology (ICT) only in line with their recent trends which leads to limited positive impact of digitalization on economic growth and higher incomes, mainly due to lack of improvement in labour and capital productivity. The number of poor people in 2040 under the pessimistic scenario, would increase by 266.1 million, or 8.7 per cent of the total population in Asia and the Pacific. [6] The optimistic scenario[7] is not far off from the pessimistic scenario as it estimates an increase in poverty with almost 200 million additional people in 2040. The report also calculates the financial cost of inaction, showing that substantial increases in social protection expenditures will be required in 2040 to compensate for the effects under the pessimistic scenario implying on average almost 9 per cent of GDP to be

[4] International Labour Office (ILO) (2024). World Social Protection Report 2024. ILO, Geneva.
[5] Raihan, S. (2024). *Cost of Inaction and Need for Social Protection in Asia Pacific Countries Amid Global Megatrends.* Economic and Social Commission for Asia and the Pacific (ESCAP), Bangkok.
[6] The ICT Productive Capacities Index measures a country's ability to leverage information and communication technology (ICT) for economic growth, evaluating factors like infrastructure, access, usage, skills, and supportive policies.
[7] The optimistic scenario assumes that global temperatures rise by 1.5 degrees Celsius by 2040, populations age in a healthy manner and thereby releasing pressure on total healthcare expenditures and that countries improve their ICT productive capacity much higher than their recent trends and catch up to at least Asia-Pacific regional average.

directly transferred to individuals affected by these megatrends. The cost of action today can be much lower if universal non-contributory social protection schemes such as child, maternity, old age and disability benefits were implemented at global average benefit amount. This associated cost would be on average 3.3 per cent of GDP in 2030 and leave no one behind.

The affordability of comprehensive and universal social protection systems depends on a society's willingness to redistribute and finance social protection policies through taxes, contributions and other sources, and the political will of governments. The ability of governments to garner public support for social policy initiatives and people's trust in their governments and the respective systems drives the availability of financing sources described in the following sections. Societies that have a shared understanding of social justice, solidarity and fairness will find it easier to scale up investments in public goods, including social protection.[8] A culture of social justice, solidarity, and fairness is essential for building inclusive societies where all individuals have equal opportunities and rights. Nurturing such a culture involves addressing systemic inequalities, promoting equitable policies, and ensuring that marginalized groups are empowered to participate fully in social and economic life. This commitment fosters societal cohesion, enhances trust in institutions, and supports sustainable development by ensuring that no one is left behind. Societies that embrace these values also build resilience to challenges such as economic crises and climate emergencies. Social protection itself is at the core of addressing inequalities and promoting equity and a means to strengthen social justice and solidarity in societies. Universal social protection schemes for instance generally receive more public support compared to targeted schemes. This support arises because universal benefits foster a sense of fairness and inclusivity, ensuring that all citizens benefit from it and most importantly, when these benefits are cut or abolished, there is more public uproar and thus more support to protect these rights. In this spirit, societies that advance social progress for all build a sense of belonging and promote trust, solidarity, well-being and risk-taking, which, in turn, facilitate upward mobility including for disadvantaged groups, and foster inclusive and sustainable economic growth.[9]

No less important is the role of the private sector. Employers play a crucial role in financing social protection through several key mechanisms. Employers pay contributions on behalf of their employees, with at least 50 per cent of the share of contributions to social insurance schemes being usually covered by employers. Tax-funded schemes rely on tax revenues and thus on taxes paid by private sector enterprises, micro, small, medium and multi-nationals. Private sectors compliance with tax and social security legislation is hence fundamental. The private sector can also advocate for robust social protection policies and reforms and influence legislation that supports comprehensive social protection systems, thus paving the way to a level-playing field within and across countries and raising labour standards. The Fast Retailing Co. Ltd, which includes UNIQLO among other brands, has been supporting social security reforms across Asia and the Pacific, including the introduction of unemployment insurance scheme in 2023 in Indonesia.[10] International brands, including H&M, Primark, and Decathlon have also played a crucial role in supporting the establishment of Bangladesh's pilot Employment Injury Insurance (EII) scheme particularly within the ready-made garment (RMG) sector.[11]

The following sections will outline the broad spectrum of financing sources, including innovative approaches, that can be explored to address the critical financing gaps in social protection investment, and that have been proven to be successful in expanding fiscal space for social protection.[12] In addition, this section will outline financing instruments that can be explored specifically in the context of climate change and disasters and that provide an opportunity to strengthen people's resilience in times of compounding crisis and challenges (e.g. climate change, demographic transition, economic and financial crisis, health shocks, etc.).

[8] Ortiz I., Chowdhury A., Duran-Valverde F., Muzaffar T., Urban S. (2019). Fiscal Space for Social Protection: A Handbook for Assessing Financing Options. ILO, Geneva.
[9] ibid
[10] https://www.fastretailing.com/eng/sustainability/news/1909040900.html.
[11] https://eis-pilot-bd.org/the-eis-pilot
[12] Ortiz I., Cummins M., Karunanethy K. (2017). Fiscal Space for Social Protection and the SDGs: Options to Expand Social Investments in 187 Countries; International Labour Office. Geneva: ILO, 2017 (Extension of Social Security Series No. 48).

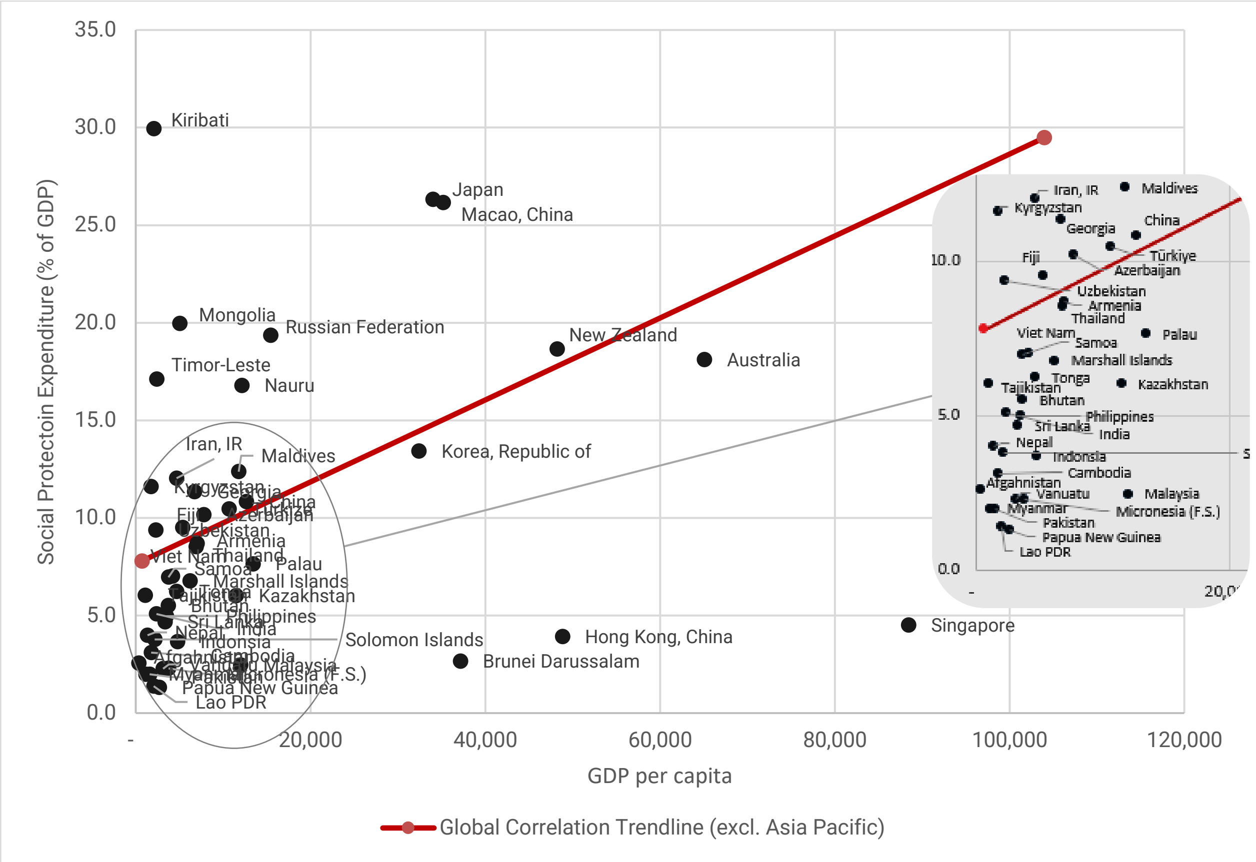
II: Core financing sources

2.1. Social contributions

Contrary to tax, social security contributions are tied to legal entitlements and should be viewed as a deferred wage and a social and economic investment, rather than merely a labor cost. Expanding coverage of contributory schemes is a dependable means to finance social protection. Contributory schemes, such as social insurance programs, are primarily funded through contributions from employers and employees, rather than government revenues. This self-financing mechanism means that the costs of these programs are covered by those who benefit from them, creating a sustainable system that does not directly draw on the state's fiscal budget. As a result, governments can allocate public funds that would otherwise be spent on those who are now covered through contributory schemes towards other critical areas of social expenditure. However, this function remains untapped in Asia and the Pacific, with revenue from contributions to social security averaging 2.14 per cent of GDP,[13] compared to 9.2 per cent of GDP across OECD countries in 2021.[14] In about two-thirds of the regions' countries, coverage of social protection programmes is relatively low considering the income levels of countries. Growth in social spending has often lagged behind GDP growth for many countries in Asia and the Pacific. Figure 2 illustrates the level of social protection expenditure (including health) in relation to GDP per capita. The red global correlation trendline indicates the global average level of social protection expenditures (excluding Asia Pacific countries) for each level of GDP per capita. 17 out of the 48 countries for which data was available in Asia Pacific are above the trendline and 31 countries are below the trendline, indicating the below average social protection spending when taking into account country' level of development (measured by its GDP per capita). There is therefore ample opportunity to establish new and expand coverage among existing contributory schemes, including the enforcement of collection of contributions where it is lagging behind.

[13] Data was only available for 26 out of 50 countries in Asia and the Pacific, based on sources from OECD and IMF GFS.
[14] International Monetary Fund Government Finance Statistics. Available at https://data.imf.org/regular.aspx?key=60991467 (accessed on 12 April 2024).

Figure 2: Social Protection expenditure (incl. health) and level of GDP per capita



Note: Data on social protection expenditure (including health) has been extracted from the latest ILO World Social Protection Report 2024. GDP per capita data has been extracted from the World Bank World Development Indicators database. The Global Correlation Trendlines has been calculated using social expenditure (including health) and GDP per capita data for all countries excluding Asia Pacific. 17 out of the 48 countries for which data was available from Asia and the Pacific are above the trendline and 31 countries are below the trendline, indicating the below average social protection spending when taking into account country's level of development.

Countries that have been successful in extending contributory schemes in recent years include Indonesia, Mongolia and Viet Nam among others. Indonesia established a compulsory national health insurance system in 2014. Those in formal employment contribute 5 per cent of their salary, 4 per cent paid by employers and 1 per cent paid by employees. Workers in informal employment, the self-employed, and investors make fixed monthly contributions ranging from 25,500 IDR (about US$ 2) to 59,500 IDR (about US$ 4.5). This tiered system offers first, second, and third-rate healthcare based on the chosen contribution level. The scheme covered 74 per cent of the population (≈197 million people) in 2018. Mongolia has increased its contributory revenue by 7.2 percentage points since 2010 through the extension of contributory coverage, with the share of revenue from social security contributions now totaling 20.3 per cent of total revenue. Likewise, Viet Nam has increased its revenue share from social security contributions by 2.1 percentage points since 2010, expanding contributory coverage of its pension scheme from 23 per cent in 2015 to 38 per cent in 2023.[15, 16] A contributory benefit that has received more attention in recent years, especially since COVID-19, and also due to the regions elevated economic development, is unemployment insurance. Indonesia for instance has introduced an unemployment insurance scheme in 2021, now covering 16 million employees, and other countries are considering the

[15] Organisation for Economic Cooperation and Development (OECD) (2023). *Revenue Statistics in Asia and the Pacific 2023: Strengthening Property Taxation in Asia*. OECD Publishing, Paris. Available at https://doi.org/10.1787/e7ea496f-en.
[16] International Labour Organization (ILO)(2023). *Multi-tier pensions in Viet Nam: Features and Option*. Available at https://www.social-protection.org/gimi/gess/Media.action?id=19198.

extension or the introduction of new unemployment benefit schemes, such as the Maldives and Myanmar.[17] [18]

While in some instances the low proportion of social contributions is an indication that systems consist mainly of tax financed schemes, in most countries across the Asia and Pacific region, it is rather an indication that countries are still at an early stage of developing contributory social protection schemes.

There are various options that governments can explore to expand fiscal space for social protection through social contributions[19]:

- Broadening the legal coverage of social security systems by extending existing schemes to additional population groups and creating new contributory social security schemes.
    - Identify gaps in legal coverage and define categories of groups social security schemes should be extended to.
    - Reform the national social security laws and regulations and design or expand programs. Ensure systemic coherence and coordination with other major public policies.
    - Ensure compliance through effective enforcement and incentives.
- Increasing effective coverage to expand the contributions' collection base. This is closely linked to formalization policies, including taxation, employment, and enterprise development.
    - Identify social protection gaps and causes of informality and generate metrics to assess and monitor progress.
    - Design specific policies and programs to cover those excluded from existing social security schemes and address informality, coordinating with other public policies (e.g. employment, taxation, etc.).
    - Monitor results and make necessary adjustments over time.
- Assess the feasibility of extending contributory schemes and evaluate whether current contribution rates are adequate and explore ways to simplify contribution collection.

As contributory schemes are designed to identify, quantify and pool risks in advance and aim to prevent people from vulnerabilities, they are also well placed to reduce the vulnerability of people against climate risks and to support transitions towards a net-zero economy. Through risk-pooling and mechanisms of redistribution, social insurance schemes have the potential to strengthen solidarity between the healthy and the sick, economically active persons and people in old age and children, those with high incomes and those without employment or low salaries, and most importantly between those who are affected negatively by climate change events and policies and those who are not. Taking into account probabilities and planning for certain climate events, as well as the effects of mitigation and adaptation measures, contributory (social insurance) schemes can be adapted and provide a tool to enhance financial sustainability of the overall social protection system.[20]

---

[17] Ruck, M., Tsuruga I. (2022). The process leading to the establishment of an employment insurance scheme in Indonesia from an ILO perspective. ILO brief. July 2022.
[18] Myanmar: Government and social parnters priorities. Available at: https://www.social-protection.org/gimi/ShowCountryProfile.action?iso=MM.
[19] Ortiz I., Chowdhury A., Duran-Valverde F., Muzaffar T., Urban S. (2019). *Fiscal Space for Social Protection: A Handbook for Assessing Financing Options*. ILO, Geneva.
[20] Lambeau, J.-L., Urban, S. (2022). *Social Protection and Climate Change. The role of Social Insurance*. ILO. Geneva, Switzerland.

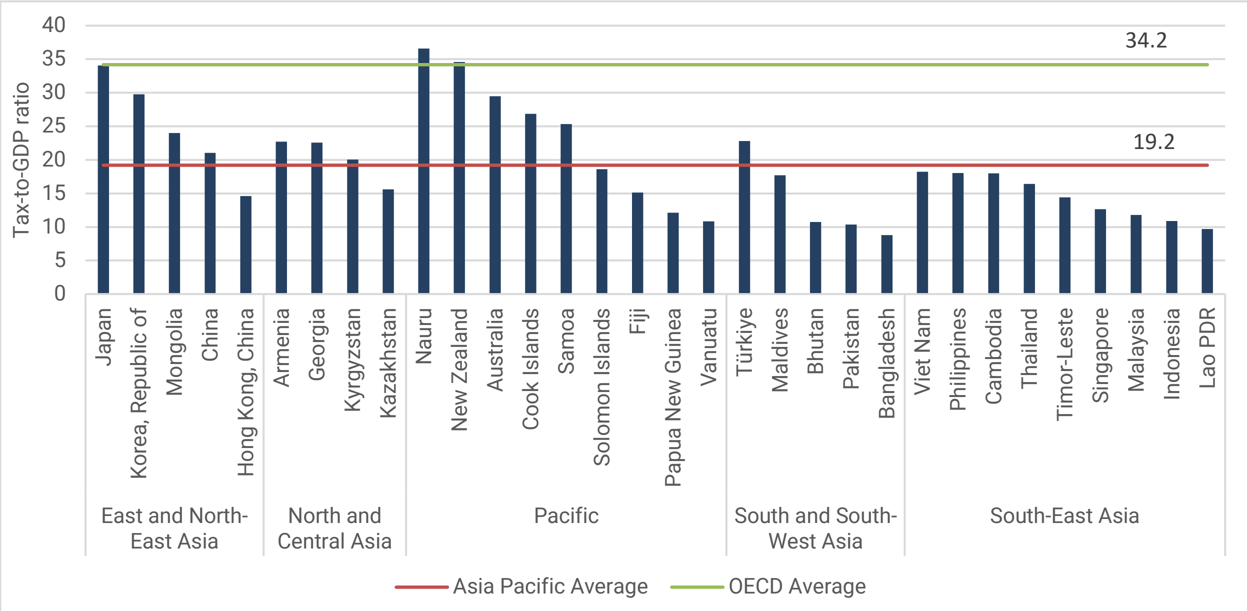
2.2. Taxation

Taxation is the most important fiscal tool for developing countries in the Asia-Pacific region. On average, it accounts for nearly 70 per cent of total government revenue in South and South-West Asia and approximately 60 per cent in East and North-East Asia, North and Central Asia, and South-East Asia. Only in the Pacific taxes account for a lower share of government revenue. Governments must enhance the effectiveness of tax collection and overall compliance and assess the redistributive capacity and fairness of their tax systems, with a view to increasing the share of progressive taxation. This entails moving away from indirect and regressive taxes, such as consumption and value added tax (VAT), and enforcing direct taxes, such as on personal and corporate income, including taxes on the financial sector, wealth, property and inheritance. A tax is considered progressive if the tax burden increases as income increases, and regressive if the burden decreases with income. As a result, progressive taxes generally redistribute from high income earners to low income earners and thus have a positive redistributive effect. Raising tax revenue can be done by adjusting tax rates, such as on corporate profits, financial activities, property, imports/exports, consumption and natural resources, or introducing new taxes. The developmental advantages of higher taxes hinge on prudent and effective policymaking, efficient public service delivery, and the productivity of private investment and household spending compared to public expenditures. For governments plagued by corruption, inefficiencies or weak accountability, redirecting resources from the private sector and households to the public sector through higher taxes or stricter enforcement may be difficult to implement and justify and would be counterproductive.

In Asia and the Pacific, Tax-to-GDP ratios are well below the OECD average, currently averaging 19.2 per cent compared to 34.5 per cent for OECD countries.[21] When OECD countries in the Asia-Pacific region are excluded, the regional average drops to 17.5 per cent. This indicates that there is potential to strengthen tax authorities and increase tax collection across the region. At the same time, there is heavy reliance on indirect taxes in many countries, which indicates that a shift from regressive to progressive tax systems is yet to take place in many countries. Taxes on goods and services accounted for 51.6 per cent of total tax revenue in Asia and the Pacific in 2021, with only 16.5 per cent coming from personal income taxes.[22]

[21] Organisation for Economic Cooperation and Development (OECD) (2023). Revenue Statistics – OECD countries: Comparative tables. OECD Tax Statistics Database. Retrieved from OECD Tax Statistics | OECD iLibrary (oecd-ilibrary.org).
[22] Organisation for Economic Cooperation and Development (OECD) (2023). *Revenue Statistics in Asia and the Pacific 2023: Strengthening Property Taxation in Asia*. OECD Publishing, Paris. Available at https://doi.org/10.1787/e7ea496f-en.

Figure 3: Tax-to-GDP ratio, 2022 or latest available data



Source: OECD Statistics.

Countries that have successfully increased their tax revenue in Asia Pacific in the recent past include the Philippines, Kyrgyzstan and Cambodia. Despite heavy opposition by the tobacco and alcohol industry, the Philippines implemented tobacco and alcohol tax reforms in 2012 through the Philippines Sin Tax Law (STL). The reform aimed to promote better health, improve financial sustainability, and good governance. It included simplifying the tax regime and introducing automatic tax increases, abolishing preferential treatment, and earmarking a significant part of the revenues to finance universal health care for the poor.[23] Since implementing the reform, tobacco prices have gone up, sales have gone down and revenues increased substantially. Excise tax collections from tobacco and alcohol products increased to approximately $2.44 billion, an increase of more than 86 per cent from the previous year's collections. In 2015, total sin tax collections reached approximately $3.1 billion (over 1 per cent of GDP).[24] The Department of Health's (DOH) budget nearly doubled following the reform and financed the extension of fully subsidized health insurance to the poorest 40 per cent of the population. The number of poor and near-poor families enrolled in the National Health Insurance Program increased from 5.2 million to 14.7 million. Kyrgyzstan increased its tax revenues from VAT by 2 and income taxes by 0.5 percentage points between 2020 and 2021, mainly through improvements in administration and through digitalization, such as e-invoicing and e-filing.[25] The increase in revenues from income taxes can be linked to increased revenue from the mining industry due to the rise in gold prices and the start of a new gold mining operation. The increase in VAT can be associated with VAT on imports, custom duties and excise on imports.[26] Cambodia has implemented various administrative and regulatory reforms, including digitalization of tax services (e.g. e-invoicing and e-filing), simplification of procedures, improvements of audits and the revision of some tax rates to ease compliance. As part of these reforms, the General Department of Taxation improved compliance through increasing its tax auditing capacity and services and the General Department of Customs and Excises has rolled out an automated system for custom data and enhanced anti-smuggling measures. The reforms led to an increase of tax revenue by 10.7 percentage points between 2010 and 2021 and have

[23] World Health Organization (WHO)(2014). *Raising tax on tobacco – What you need to know.* WHO, Geneva.
[24] Kaiser, Kai, Caryn Bredenkamp, and Roberto Iglesias (2016). Sin Tax Reform in the Philippines: Transforming Public Finance, Health, and Governance for More Inclusive Development. Directions in Development. Washington, DC: World Bank.
[25] Organisation for Economic Cooperation and Development (OECD) (2023). *Revenue Statistics in Asia and the Pacific 2023: Strengthening Property Taxation in Asia*. OECD Publishing, Paris. Available at https://doi.org/10.1787/e7ea496f-en.
[26] World Bank Group (2021), Kyrgyz Republic – Monthly Economic Update - September 2021. Available at: https://thedocs.worldbank.org/en/doc/30d9cf7b486b029759dd27d663ddeca3- 0080062021/original/KG-Monthly-Economic-Update-September-2021.pdf.

compensated for the decline in foreign aid grants. Tax collection is now above the average for lower middle-income countries.[27] [28]

Countries exploring options to expand budgets through tax revenue can evaluate all tax codes and consider potential modifications to maximize public revenue. This may include designing personal income and corporate tax rates to support equitable outcomes, adapt collection methods to enhance revenue streams, leverage digital technology to increase transparency, accountability and efficiency, or earmark existing taxes, or introduce new taxes, specifically to finance social investments (box 1).

Box 1: Combating illicit financial flows

Resources illicitly escaping developing nations each year, estimated to be over 10 times the size of all official development assistance received, represent a colossal challenge. Activities such as money laundering, bribery, tax evasion, trade mispricing and other financial crimes[29] are depriving countries of the tax revenues vital for their social and economic development. Approximately $200 billion in potential tax revenue was lost in 2016 in Asia and the Pacific due to trade misinvoicing.[30] Addressing these issues by introducing fully digital trade facilitation alone could bring in additional tax revenue of $119–$183 billion annually.

Countries exploring ways to capture and curtail illicit financial flows, can define steps to be taken to curb tax evasion, money laundering, bribery, trade misinvoicing and other financial crimes that deprive governments of essential revenues. Countries should also establish stricter and more robust enforcement measures.

2.3. Reallocating public expenditure

Reallocating expenditure can increase the share of government expenditure allocated to social protection by cutting expenditures in areas with less desirable social outcomes. For instance, phasing out fossil fuel subsidies in favor of universal cash transfers is a prominent example of such expenditure reallocation. The criteria for evaluating a policy typically encompass effectiveness, efficiency and sustainability, possibly following a value-for-money approach, and alignment of fund usage with national development priorities.[31] In the late 1990s, Indonesia reprioritized fuel subsidies in favour of extending social services, including educational assistance and health care.[32] Iran liberated fiscal space for social protection through the reallocation of energy subsidies. The negative effects of the energy subsidy reform was cushioned by the introduction of universal cash transfer and health care schemes. The positive redistributive effects of the reform helped significantly reduce poverty and inequality, with the Gini coefficient improving from 0.41 in 2010 to 0.37 in 2011 and poverty decreasing by 50 per cent.[33] Thailand similarly reallocated military expenditure to its universal health care scheme following the Asian financial crisis of 1997.[34] Though

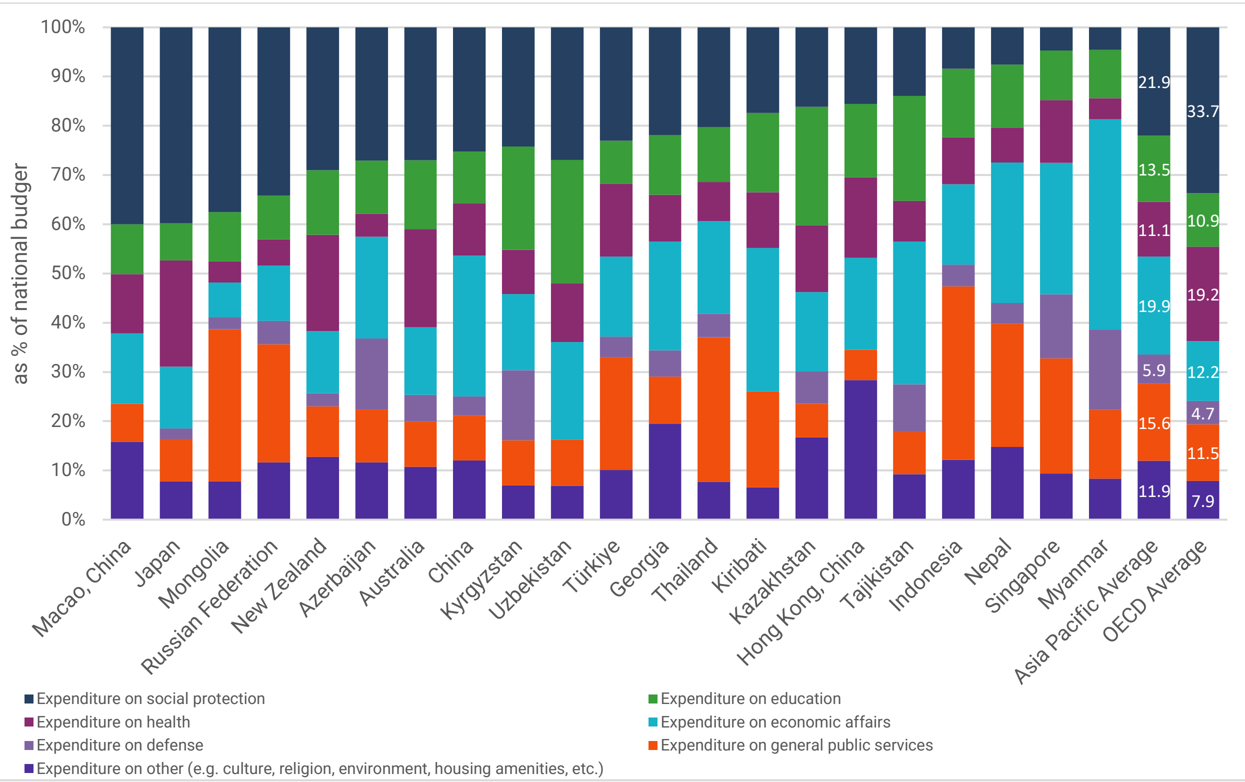
---

[27] Organisation for Economic Cooperation and Development (OECD) (2023). *Revenue Statistics in Asia and the Pacific 2023: Strengthening Property Taxation in Asi*., OECD Publishing, Paris. Available at https://doi.org/10.1787/e7ea496f-en.
[28] World Bank, 2019. Improving the effectiveness of public finance. Cambodia Public Expenditure Review. D.C.: World Bank Group.
[29] Ortiz I., Chowdhury A., Duran-Valverde F., Muzaffar T., Urban S. (2019). *Fiscal Space for Social Protection: A Handbook for Assessing Financing Options*. ILO, Geneva.
[30] Y. Duval, C. Utoktham, and Kravchenko, A. (2018). "Impact of implementation of digital trade facilitation on trade costs". (No. 174). ARTNeT Working Paper Series.
[31] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) (2023). *Economic And Social Survey of Asia and The Pacific 2023: Rethinking Public Debt for the Sustainable Development Goals*. ESCAP, Bangkok.
[32] International Labour Office (ILO) (2016). "Indonesia: Financing social protection through contributions and the removal of fuel subsidy". Social Protection in Action Country Brief. ILO, Geneva.
[33] Urban. S. (2019). Iran - Creating fiscal space for social protection through energy subsidy reform. Social Protection Floors in Action. ILO, Geneva.
[34] Duran-Valverde, F.; Pacheco, J. F. (2012). "Fiscal space and the extension of social protection: Lessons from developing countries". Extension of Social Security (ESS) Paper No. 33. ILO, Geneva.

expenditure reprioritization is the most commonly recommended financing measure by IFIs and donors, it is not straightforward and difficult to implement, as it often faces resistance from those affected by budgetary cuts.

Data using the Classification of the Functions of Government (COFOG), which splits government expenditures into 10 functions or sectors, gives an indication on the composition of and prioritization of public spending in Asia and the Pacific. Figure 4 presents data for 20 countries, including the averages for Asia Pacific and OECD countries. The figure illustrates the share of expenditure for general public services, defense, public safety, economic affairs, health, education, social protection and expenditure on other (e.g. culture, religion, environmental, housing). When comparing OECD and Asia Pacific averages, one can notice the difference in allocation, with social protection and health playing a significantly larger role in OECD countries, while expenditure as a share of general government expenditure in economic affairs and public services is larger in Asia Pacific. Countries listed on the left, including Macao (China), Japan, Mongolia, the Russian Federation, New Zealand, Azerbaijan and Australia put more emphasis on social protection in the region, countries on the right side of the graph indicate significantly lower levels of social protection spending and more emphasis on economic affairs, general public services and to some extent defense. This international comparison indicates that there is room for a number of countries in the region to create fiscal space and shift public resources to social protection.

Figure 4: Government expenditure by function of government (COFOG), % of national budget, 2022 or latest data available



Source: IMF Government Finance Statistics (GFS).

Countries exploring ways to reallocate public expenditure to create fiscal space can evaluate whether current allocations for economic affairs (e.g. infrastructure, commercial sector development), defense (e.g. military) or other sectors are justified given the existing poverty rates and inequality. Reducing expenditures related to general public services and economic affairs, as well as defense, public order and safety, and aligning it with regional standards can free up significant resources to finance social protection. It is also advisable to identify measures that can enhance the efficiency of current investments, including steps to prevent corruption and mismanagement of public funds, ensuring that resources are used effectively to benefit those most in need, paying attention to redistribution effects of government spending.

2.4. Foreign aid and transfer

Advocating for Aid and Transfers: This entails engaging with various donor governments or international organizations to secure increased North-South or South-South transfers. While the average ODA level across Asia and the Pacific is 8.2 per cent of GNI, the data is distorted due to a number of outliers to the upside in the Pacific. If we exclude the Pacific from our analysis, ODA across the region averages 1.7 per cent of GNI, with Kyrgyzstan, Tajikistan, Timor-Leste and Cambodia reaching the highest levels with 6.7 per cent, 4.8 per cent, 6.9 per cent and 5.5 per cent of GNI respectively. Thus, there are opportunities to expand fiscal space for social protection in a number of countries and as cooperation through South-South transfers and from non-OECD DAC countries is increasing, new opportunities for cooperation and funding social policies, in particular the expansion of social protection in the context of climate change could become available, especially in low and lower-middle income countries. The increasing recognition among donors to address the social dimension of climate change policies and with respect to climate events could further spur the policy interlinkages and collaboration through development corporation across social, environmental and economic sectors.[35]

[35] Ortiz I., Chowdhury A., Duran-Valverde F., Muzaffar T., Urban S. (2019). Fiscal Space For Social Protection: A Handbook for Assessing Financing Options. ILO, Geneva.

III: Other financing sources

3.1. Fiscal and foreign exchange reserves

Countries can tap into fiscal savings and state revenue, such as that stored in sovereign wealth funds, or utilize excess foreign exchange reserves.[36] Social protection is an investment and not just a cost, with the potential of generating positive economic multiplier effects as shown in recent studies.[37] Relaxing restrictions on investment of fiscal and foreign exchange reserves in favour of social investment could strengthen social development and generate positive economic multiplier effects in the medium term, which in turn would strengthen general government revenue.[38] Twelve countries across Asia and the Pacific, among them India, Nepal, the Philippines, Fiji, Timor-Leste, Azerbaijan and Uzbekistan, have foreign exchange reserves larger or equal to 1.5 times the three-month value of imports benchmark (Triffin criteria) (i.e. more than 4.5 months) as of 2022, while also having a short-term debt to foreign exchange reserves ratio under 25 per cent (Greenspan-Guidotti criteria).[39] These are two popular measures to assess the adequacy of foreign exchange reserves and are referred to as safe-level benchmarks. Based on this assessment, these countries could invest excess reserves in socioeconomic development, including social protection.

3.2 Borrowing and restructuring external debt

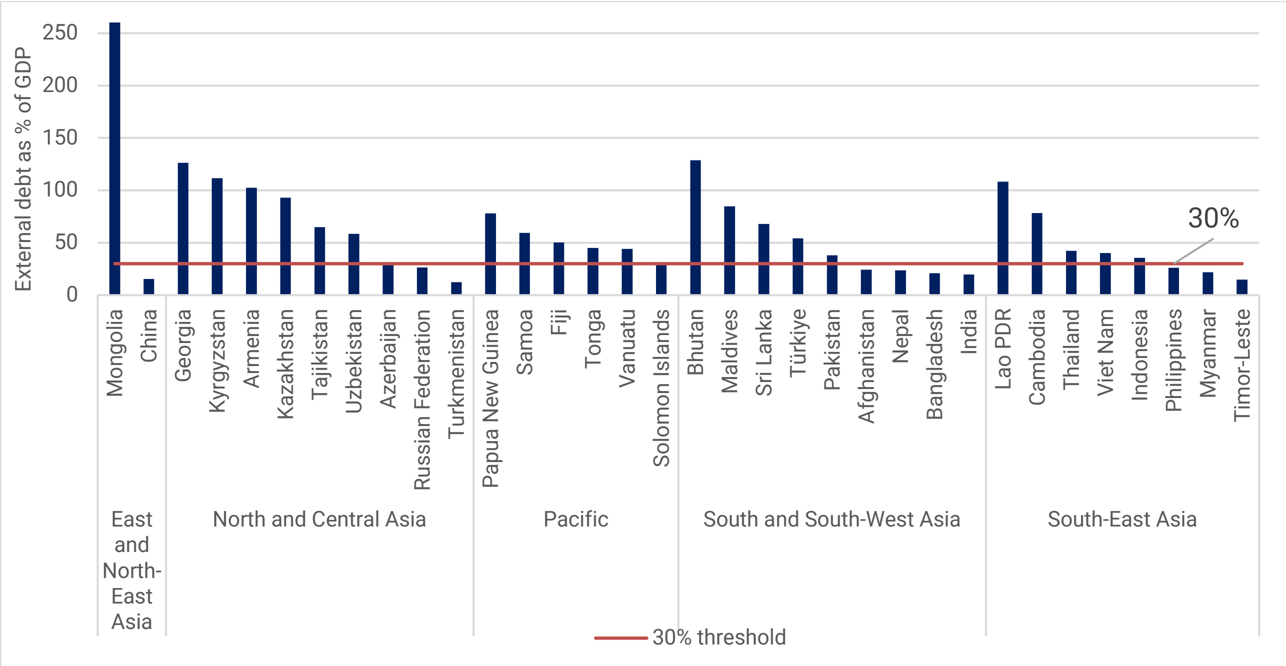
Countries could consider borrowing or restructuring existing debt. This entails seeking out borrowing options, both domestically and internationally, at favorable terms, which might include concessional borrowing, following a careful assessment of debt sustainability. Applying a conservative parameter, a number of developing countries with external debt below 30 per cent could consider borrowing. At a 30 per cent threshold, there are 11 countries in Asia and the Pacific, including Turkmenistan, Azerbaijan, India, Bangladesh, Nepal, Timor-Leste, Myanmar and the Philippines, that could potentially borrow to invest in social protection (see figure 5). At the 40 per cent threshold, the number of countries increases to 14. However, assessing the viability of increasing public debt for a specific nation necessitates conducting a thorough and dynamic analysis, such as the IMF-World Bank debt sustainability assessments (DSA). These assessments aim to ascertain whether a country's aggregate debt would exceed manageable levels under a defined set of assumptions, incorporating fiscal and GDP growth trajectories.

While borrowing is not a long-term solution, it can be justified to fill funding gaps in the shorter term. It can also be used for investment capital to set up a new scheme, especially in view of the positive economic multiplier effects that investment in social protection can generate in the medium and long term. Thus, the same way that other government expenditures can be funded through

[36] Foreign exchange reserves consist of official public sector foreign assets that are readily available to and controlled by monetary authorities for direct financing of external payment imbalances and to intervene in the exchange markets (IMF, 1993).
[37] Cardoso D., Carvalho L., Tadeu Lima G., Nassif-Pires L., Rugitsky F. & Sanches F. (2023). The multiplier effects of government expenditures on social protection: A multicountry study. (Working Paper nº 18). MADE/USP.
[38] Sirimaneetham, Vatcharin (2021). Boosting sustainable investing in Asia and the Pacific by public institutional investors. MPFD Policy Brief, No. 120. Bangkok,ESCAP.
[39] Olivier J., Romain R. (2006). "The Optimal Level of International Reserves for Emerging Market Countries: Formulas and Applications". IMF Working Paper, WP/06/229. Washington D.C.

borrowing, borrowing can be also justified to fund social protection in the short term.

Figure 5: Total external debt as per cent of GDP, 2022



Source: World Development Indicators, World Bank.

Debt restructuring and debt relief are other options to expand fiscal space for socioeconomic investment. However, these options are often available only to low-income countries that are overburdened by high levels of sovereign external debt and lack the capacity to invest in socioeconomic development. Debt restructuring and debt relief are in line with the United Nations Secretary-General's call for immediate actions to reduce government borrowing costs and make debt longer term.[40]

[40] United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)(2024). *Economic and Social Survey of Asia and the Pacific 2024: Boosting affordable and longer-term financing for government*. ESCAP, Bangkok.

IV: Green, climate and complementary funding sources

Social protection is an indispensable policy tool for responding to climate related shocks and crises and for assisting in the implementation of adaptation and mitigation policies. Countries seeking to finance social protection should therefore look for synergies with policies and measures supporting climate action, disaster risk reduction, humanitarian efforts and related measures. Some of the instruments funding climate action include the newly created Loss and Damage Fund, multilateral climate funds (see paragraph below), humanitarian assistance and disaster risk reduction frameworks, insurance alliances (e.g. risk- and microinsurance), green bonds, Islamic finance and other financing instruments.

The Loss and Damage Fund's main purpose is to respond to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow-onset events. The role of social protection to facilitate such responses, supporting people during economic losses (e.g. income, food, employment etc.) and non-economic losses (e.g. health, environmental, displacement, etc.) and building resilience, and the importance of compliance with international social security standards, have been increasingly acknowledged, including at the latest UN Climate Change Conference (COP 28).[41] The loss and damage fund could significantly contribute to bridging the protection gap that exists in many developing countries, both for life-cycle contingencies as well as for specific social protection measures that directly address climate change vulnerabilities, use existing social protection infrastructure for delivering benefits and services, and support the scaling of existing schemes and programs when need arises.

Likewise, multilateral climate funds—such as the Global Environmental Facility (GEF), Green Climate Fund (GCF), Climate Investment Fund (CIF) and Adaptation Fund (AF)—have been set up to support climate change adaptation and mitigation measures. The relevance of social protection to address the social dimension of climate change policies has been acknowledged and is increasingly recognized in the frameworks of these funds.[42] The GEF Trust Fund's seventh replenishment, for instance, funded social protection projects for mitigation efforts in Mongolia in 2022. The AF has a diverse portfolio of social protection-related projects. For example, the fund supported Kyrgyzstan in the subsectors of education, agriculture and disaster risk reduction. The GCF, established by the UNFCCC in 2010, is mandated to support developing countries pursue low-emissions, climate-resilient pathways.[43] It aims to redistribute the financial burden of the ecological, economic and social transition[44] from wealthier nations to developing ones. The GCF supports social protection initiatives, recognizing their significance in the context of adaptation and mitigation. The GCF, for instance, funded flood mitigation measures and ecosystem solutions in the Vaisigano River Catchment in Samoa, providing cash-for-work options for flood-related catchment rehabilitation (anti-erosive measures, landscaping options). In the Philippines, the fund aims to reduce the exposure of vulnerable communities to climate-induced hazards, strengthening their absorptive and adaptive capacities to better manage or adapt to climate shocks and climate change, including through shock-responsive social protection. The CIF,[45] established by the World Bank in 2008, pursues a comparable mission.

[41] Kaltenborn M. (2023). "The Relevance of Social Protection Systems for the Loss and Damage Fund and Funding Arrangements". Submission to the UNFCCC Transitional Committee, July 2023.
[42] R. Hopper, M. Hurworth, Z Lowndes-Bull (2024). "The Realities of Climate Finance for Social Protection". Social Protection Technical Assistance, Advice and Resources (STAAR) Facility. DAI Global UK Ltd, United Kingdom.
[43] Green Climate Fund. Available at: Homepage | Green Climate Fund.
[44] Rotondo, F., Perchinunno, P., L'Abbate, S. *et al.* (2022). "Ecological transition and sustainable development: integrated statistical indicators to support public policies". *Sci Rep* 12, 18513 (2022). Available at: https://doi.org/10.1038/s41598-022-23085-0.
[45] The Climate Investment Fund. Available at: The Climate Investment Funds (CIF).

One component of CIF is focused on strengthening people's adaptive capacities and resilience to the impacts of climate change on their communities, ecosystems and infrastructure, and thus the Fund includes social protection in its programmatic agenda.

Humanitarian assistance is crucial in addressing climate-related shocks and crises and offers significant potential for synergy with social protection systems.[46] With overlapping goals and mutual need to rapidly channel funds and assistance, integration of humanitarian assistance and social protection can transform short-term humanitarian aid into long-term development processes. By creating synergies between humanitarian and social protection interventions, countries can enhance their financial leverage, pool funds and create economies of scale and efficiency gains. Vice versa, leveraging existing social protection infrastructure, humanitarian assistance can enhance resilience, ensure more efficient resource allocation and foster sustainable development in affected communities. This kind of collaborative approach helps bridge immediate relief efforts with broader development goals, promoting stability and growth. A notable example is the response to Typhoon Haiyan in the Philippines.[47] In the aftermath of the typhoon, humanitarian agencies used existing social protection infrastructure, specifically the Pantawid Pamilyang Pilipino Program (4Ps), to distribute emergency cash transfers to affected families. This approach not only expedited the delivery of aid but also ensured that funds reached the most vulnerable populations. By building on established social protection mechanisms, the intervention fostered resilience and supported longer-term recovery and development efforts.

Insurance alliances, such as the Caribbean Catastrophic Risk Insurance Facility and the African Risk Capacity, are multi-country climate risk-pooling systems that aim to limit the financial impact of natural hazards.[48] They offer parametric insurance policies[49], which pay out according to the severity of an event, such as cyclone, earthquake and excess rainfall. While these insurance facilities have not been designed specifically to work with national social protection systems, their payments could be channeled through existing social protection systems, creating synergies and complementing related social protection measures.

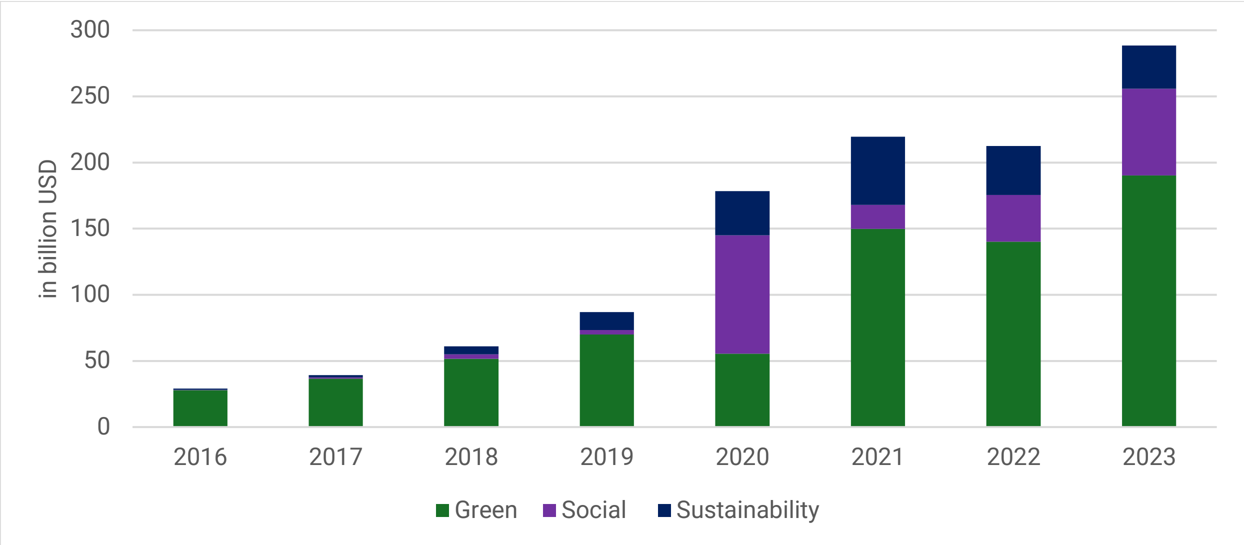
[46] European Commission DG DEVCO, ECHO, NEAR (2019). *Tools and Methods Series Reference Document No 26:Social Protection across the Humanitarian-Development Nexus: A Game Changer in Supporting People through Crises*.
[47] Smith, G., & Mohiddin, L. (2015). A case study of the use of cash transfers in humanitarian and post-disaster response in the Philippines. Overseas Development Institute (ODI).
[48] Lambeau, J.-L., Urban, S. (2022). *Social Protection and Climate Change. The role of Social Insurance*. ILO. Geneva, Switzerland.
[49] Parametric insurance policies offer pre-defined payouts following trigger events (e.g. natural disasters, weather conditions, etc.). These insurance policies are not to be mistaken with social protection as they serve individuals who can afford paying premiums. These schemes lack any form of redistribution or solidarity and do not comply with international social security standards.

Box 2: Green, social and sustainability bonds

Green, social and sustainability bonds offer financing framework for both social as well as climate related goals, including mitigation and adaptation, and great potential to align climate and social agendas. Green and social bonds are debt instruments that enable investors to support the green transition and social initiatives. There are three categories of bonds relevant in the context of climate change and social protection:

- Green bonds: proceeds are used for financing or re-financing eligible projects aimed at achieving climate mitigation and adaptation goals, or other environmental goals.
- Social bonds: proceeds are used for financing or re-financing eligible projects aimed at improving various social issues or achieving positive social outcomes.
- Sustainability bonds: combine green and social purposes.

Figure 6: Green, social and sustainability bonds volume in Asia and the Pacific, 2016 – 2023



Source: Climate Bonds Initiative

Over the past 15 years, the climate bonds market has expanded significantly, reaching USD 4.4 trillion in total issuances by 2023, consisting of USD 2.3 trillion in green bonds, USD 821 trillion in social bonds and USD 768 trillion in sustainability bonds.[50] In 2023, climate bonds captured a total volume of USD 871 billion, with Asia and the Pacific capturing approximately 33 per cent of the market, totaling USD 288 billion, of which USD 190 billion is invested through green bonds, USD 65.5 billion in social bonds and USD 32.8 billion in sustainability bonds (see figure 6). With a growing green, social and sustainability bond market, there is great potential to form synergies and to more closely align and link social agendas, including social protection with climate goals and thus leveraging financing for inclusive development.

[50] Climate Bonds Initiative (2023). Global State of the Market, 2023. Available at: https://www.climatebonds.net/files/reports/ cbi_sotm23_02h.pdf

International development organizations and multilateral development banks also offer a diverse array of financing instruments. For example, the Asian Development Bank (ADB) offers contingent disaster financing as an option under its policy-based lending, providing swift and adaptable support for disaster preparedness and response. Contingent disaster financing addresses financing gaps from events that would exhaust dedicated national reserves or contingency budgets but are too frequent to be covered cost-effectively through insurance.[51] Grant funding is another avenue, demonstrated by the ADB's Integrated Disaster Risk Management Fund (2013–2020) and Urban Climate Change Resilience Trust Fund (2013–2021). The Asia-Pacific region also uses insurance and reinsurance instruments for disaster risk reduction, such as the Pacific Disaster Risk Financing and Insurance Program, a joint initiative of the World Bank Group and the Secretariat of the Pacific Community and their partners.

Islamic finance is another source of funds for, and synergy with, social protection. Payments could be channeled directly to people in need through existing social protection infrastructure, making shared use of social registries and payment infrastructure. Islamic finance, a rapidly expanding sector within global finance with total assets valued at $3.06 trillion, includes a range of instruments with potential to support both climate and social development goals. This encompasses Islamic banking assets, sukuk issuances (similar to bonds), Islamic fund assets, takaful (insurance), as well as charitable giving instruments like zakat and waqf. According to the National Waqf Agency (Indonesian acronym BWI), a waqf of around IDR 180 trillion ($11 billion) was raised in 2022 in Indonesia.[52] Zakat on the other hand, administered by Indonesia's Ministry of Religious Affairs through the Badan Amil Zakat Nasional (BAZNAS), amounted to approximately IDR 21 trillion ($1.46 billion) in 2022.[53, 54] This reflects a substantial engagement in waqf and zakat practices across Indonesia, underlining the critical role these instruments play in Indonesia's efforts to address social development and climate related issues.

Recent social, ecological and economic crises have revealed the gaps in social protection systems across the world and drawn global attention to the ways international financial architecture has failed to support development of universal social protection systems and floors. Within this context, the idea of a **global fund for social protection** has emerged as a potential solution to these structural failings. Such a fund could in principle be a key mechanism for mobilizing new resources and facilitating global solidarity around the multiple life cycle contingencies and challenges in the context of climate change that affect the well-being of millions of people.[55]

[51] ADB (2019). Contingent Disaster Financing under Policy-Based Lending in Response to Natural Hazards. ADB Policy Paper, June 2019.
[52] Badan Wakaf Indonesia (2022). Analisis Kinerja. Pengelolaan Wakaf Nasional 2022. Available at: Indeks Wakaf Nasional 2022 - Badan Wakaf Indonesia | BWI.go.id.
[53]ANTARA, Indonesian News Agency (2024). Ministry to empower religious affairs offices to collect zakat funds. Available at: https://en.antaranews.com/news/308922/ministry-to-empower-religious-affairs-offices-to-collect-zakat-funds (accessed on 26 July 2023).
[54] Pusat Kajian Strategis BAZNAS(2024). "Outlook Zakat Indonesia 2024". Available at: https://puskasbaznas.com/publications/books/1857-buku-outlook-zakat-indonesia-2024.
[55] M. Cichon 2022. Blog post: The Global Fund for Social Protection and the Global Accelerator for Jobs and Social Protection: can these two initiatives be strategically combined?

V: Conclusions and recommendations

Weighing the expected cost of inaction and underinvestment in social protection amid climate change across Asia and the Pacific, where more than half of people lack access to any form of social protection, governments should explore the wide variety of financing instruments and sources at their disposal. Domestic resource mobilization is at the core of any social protection system, yet the potential to explore expanding fiscal resources from these sources are often not fully exploited and more can be done to extend the funding base in most countries across Asia and the Pacific. Social security contributions as a share of national budgets and tax-to-GDP levels are relatively low compared to OECD countries as well as relative to the region' countries socio-economic status. Curbing illicit financial flows could also free up significant resources, which could benefit social development in the region. Borrowing and tapping into fiscal reserves can be also considered as an alternative funding source in the short run, filling funding gaps in the interim or when covering set-up costs of new or reformed schemes and programs. With climate change related events exacerbating existing life cycle contingencies and producing new risks, governments should specifically explore synergies between social protection, climate funds, humanitarian assistance, disaster risk finance, green, social and sustainability bonds and other funding instruments. Paris aligned investments, in support of mitigation and adaptation measures, have been steadily growing and increasingly take into account the social dimension of climate change, creating greater potential for synergies.

The success of any resource mobilization effort to build comprehensive and inclusive social protection systems will depend on a society's willingness to redistribute and finance social protection policies and the political will of governments. This requires a collective recognition of the importance of social protection systems and a readiness to support them through taxes, social security contributions or other means. Only when political leaders and decision makers see the value of social protection as an important investment, that can create positive economic multiplier effects, fostering inclusive growth and productivity, can it create lasting support for expanding fiscal space for social protection. It is therefore essential to foster political support across government as well as public support, prioritizing these policies, ensuring that they are effectively implemented and adequately and sustainably funded.

ESCAP

Economic and Social Commission
for Asia and the Pacific

Follow us:

unescap

unitednationsescap

united-nations-escap

unescap.org