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Where is the money coming from?

Ten stylized fact on financing social protection responses to COVID-19

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SUMMARY

The unprecedented and ongoing scale-up of social protection responses to the COVID-19 pandemic dwarf the response to the Great Recession. But how are countries financing such scale-up efforts? This note lays out 10 stylized findings from a rapid review of social protection financing sources in 31 countries, including in terms of composition between external and domestic resources, and specific modalities within each.

I. Introduction

Since the onset of the COVID-19 health crisis, and associated stringency measures, governments have acted in support of businesses and individuals by activating fiscal stimulus measures and introducing or expanding social protection programs. Initiatives to collect, analyze and monitor social protection responses have generated a wealth of evidence on the most aspects

1 The note presents preliminary findings for discussion and only reflects the personal views of the authors. We are grateful to Penny Williams, Amjad Zafar Khan, Delphine Prady and David Coady for precious comments and support. Almenfi and Gentilini are with the World Bank; Breton, Dale and Richardson with UNICEF; and Pick is with the OECD. For more info: ugentilini@worldbank.org.

of the crisis (Gentilini et al 2020; ILO 2020; IMF 2020a; Oxford University 2020). However, limited information is available on how these responses are financed.

This rapid review maps and compares sources of financing for COVID-19 social protection measures in a selection of countries. Its objective is to understand how COVID-19-related social protection responses are financed, but it may not go into extensive detail on the implications for sustainability and affordability[2].

Practically, this rapid review involved web-based searches for official reports from governments or international organizations on the finance sources for the 41 countries with the largest horizontal expansion since the onset of the COVID-19 crisis[3]. Findings are reported for 31 countries where sufficient evidence was available. This is only our initial attempt to map and compare sources of finance, and the results reported here are preliminary. Preparation for a more comprehensive initiative is underway.

Understanding how COVID-19 responses are financed is important to the future of social protection in at least five ways. First, the financial sustainability of social protection responses is increasingly unclear in many countries, especially given that there is no end in sight to the global pandemic. In examining this query, it is important to bear in mind that most programs are short-term by design and not intended to 'compete' with established schemes. In a way, there is a question on whether, and to what extent, programs that worked well during the crisis, and that addressed preexisting gaps in coverage, could become permanent. Or whether other emergency programs would subside, become 'dormant' and be activated in crises only.

2 The authors are developing a comprehensive initiative generating in-depth, detailed information on the financing of social protection.

3 See Gentilini et al (2020), IMF (2020a) and Oxford University (2020).

Second, depending on the scale and affordability of the initial responses — and learning directly from responses to the Global Financial Crisis of 2007–08 in large parts of the world — how these were financed may influence the likelihood of austerity following stimulus. Social protection measures have not escaped austerity measures in the recent past, which can impose a grave cost on the most vulnerable in society [4]

Third, understanding finance choices, particularly where a range of options was available — will help determine both the adequacy of the response, and the opportunity costs for selection of one source of finance over another. Where global finance mechanisms have been used, assessments of adequacy, opportunity cost, and strategy can also be considered.

Fourth, understanding the sources of financing during the initial response phase — and potentially responses during future waves — can inform the design of measures to strengthen the responsiveness and resilience of a social protection system in the future.

Finally, any recommendations that follow from the work noted above, or other sources attempting to assess the efficacy of national or international response to COVID-19, are more likely to be actionable with a fuller understanding of the constraints on financial resources. The remainder of the note sets out emerging findings, followed by brief conclusions.

II. Emerging Stylized Findings

We compare financing across domestic and external sources. The former includes spending restructuring such as reallocation or reprioritized committed budget as well as tax relief and exemptions; national debt and deficit

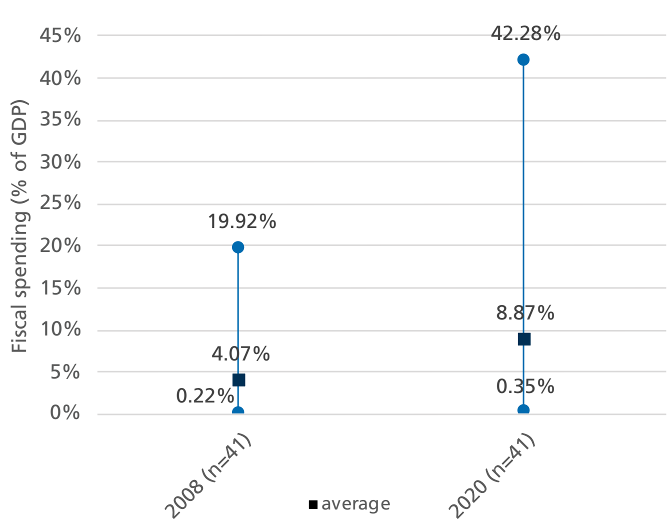
4 See Tirivayi et al (2020) and OECD (2019).

measures; and tapping state reserves[5] and contingent funds. Externally, international financing institutions have provided funds in the form of concessional loans and grant assistance, while bilateral and multilateral development actors provided most assistance in the form of grants. Ten stylized facts emerge from the analysis.

Fact 1. Current pandemic spending is more than twice as large as the response to the Great Recession of 2008-09.

Based on data on overall stimulus packages from 41 countries, economic measures average 9% of GDP in 2020, against 4% of GDP in 2008–09 (figure 1). The difference is particularly striking if we consider that spending in 2008–09 refers to 18 months, while spending for 2020 covers just over a semester (March-October 2020). The minimum national spending levels for the two periods are similar (about 0.2–0.3% of GDP), while maximum levels for 2020 include countries like Japan that spent an unprecedented 42% of GDP on fiscal stimuli.

Figure 1. **Economic stimulus packages, 2008–09 and 2020**



5 Savings and reserves can often be used interchangeably. However, the latter term should not be confused with contingency reserve, which is a specific part of the annual budget allocation in certain countries to allow for unforeseen disasters in a given year.

Fact 2. Crisis spending on social protection is 20% higher now than a decade ago but uneven between countries.

Based on estimates from administrative data by Gentilini et al (2020), about 18% of stimulus spending is devoted to social protection. This amounts to about $790 billion, a level 21% higher than the $653 billion for 2008–09 (or between 24–27% of economic package spending for that period) estimated by Ortiz and Cummins (2013).

Prior to COVID-19, low- and middle-income countries spent an average of $242 million and $4.8 billion, respectively, on social protection[6].

Average COVID-19 social protection spending is $243 per capita — ranging from $695 in high-income countries to only $4 in low-income settings. The latter amounts to only 0.51% of GDP per capita.

Fact 3. Spending helped ramp up an unprecedented but short-term response.

Programs like cash transfers, which represent 31% of the 1,179 social protection measures implemented in 212 countries or territories, have been scaled up considerably. This includes a planned or actual horizontal expansion in coverage by 217% relative to pre-COVID-19 levels and covering 17% world's population (1.3 billion people). Benefit levels also nearly doubled, with an increase in the size of cash transfers of 93%[7]. Where data on implementation progress is available, or for 33 programs, performance is rather encouraging, with the difference between planned and actual coverage levels amounting to just 3.7 percentage points. However, 68% of programs are new; the average duration of programs is short (3.3 months); and only

6 Calculated as average country spending using the 1.5% of GDP figure as per World Bank (2018) estimates.

7 Pre-COVID data shows that safety net transfers accounted for 26% of the income or consumption of people living on less than $1.9/day.

	Domestic financing			External financing	
Countries	**Spending reallocation**	**Debt and deficit**	**State reserves/ contingent funds/ fiscal savings**	**IFIs**	**Bilateral and multilateral development actors**
AFR	**2**	**1**		**7**	**4**
Congo, Rep.				X	X
Kenya				X	X
Liberia				X	X
Mauritania		X		X	X
Nigeria	X			X	
Sierra Leone				X	
South Africa	X			X	
EAP	**3**	**6**	**2**	**1**	
Hong-Kong		X			
Indonesia	X	X		X	
Japan		X			
Malaysia		X			
Philippines	X				
Singapore			X		
South Korea	X	X	X		
Thailand		X			
ECA	**3**	**2**	**2**	**2**	**1**
Serbia	X	X	X		
Ukraine	X	X		X	
Uzbekistan	X		X	X	X
LAC	**4**	**4**	**1**	**8**	**7**
Argentina	X	X		X	X
Bolivia				X	X
Colombia		X		X	X
Costa Rica	X	X		X	X
Dominican Republic	X	X		X	X
Ecuador	X			X	X
El Salvador				X	X
Peru			X	X	
MNA	**2**		**2**	**2**	**1**
Egypt	X			X	
Morocco	X		X	X	X
Turkey			X		
North America		**1**			
US		X			
SAR	**1**			**1**	
Pakistan	X			X	
Grand Total	**15**	**14**	**7**	**21**	**13**

16 out of 340 programs were extended for a second wave of support (for an average of 3.4 months).

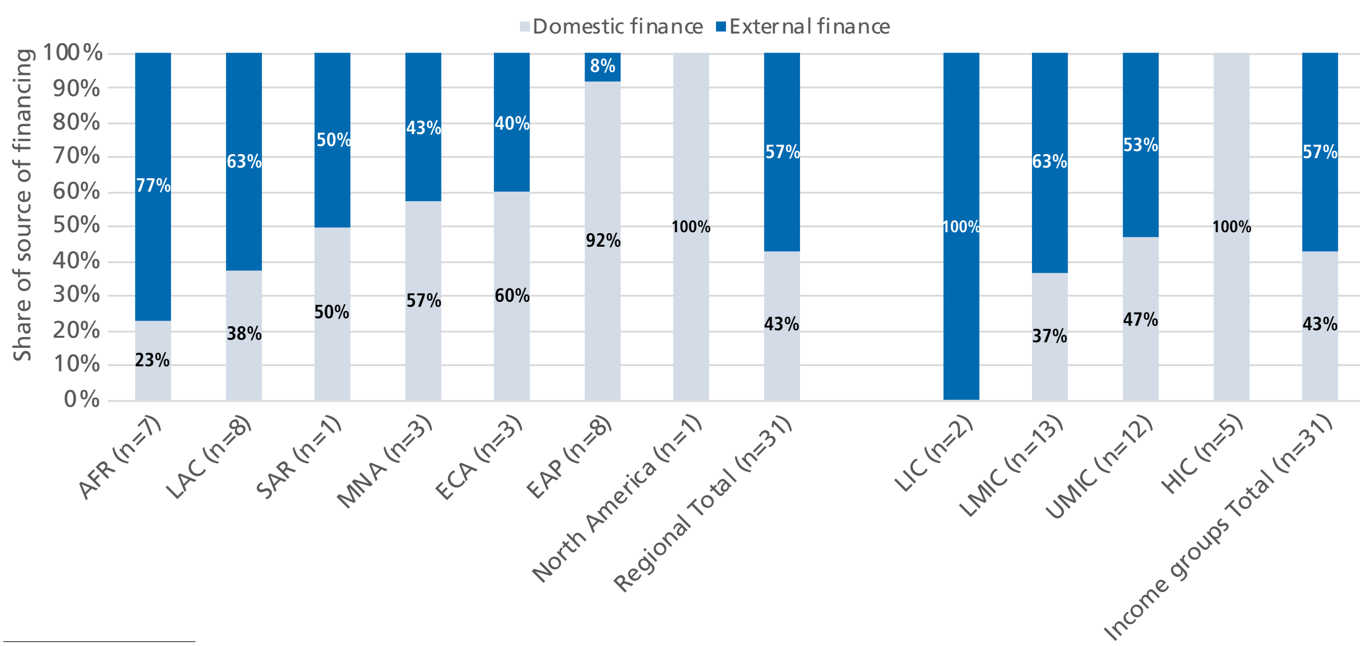
Fact 4. Financing is diversified in sources[8].

Based on information available for 31 countries and 70 data points, we divided sources into domestic and international, each including a select number of sub-categories[9] (table 1). The most prevalent domestic modality was restructuring or re-prioritizing budget lines in 15 countries; 14 countries incurred in domestic debt and deficit spending; while 7 tapped state reserves, contingent funds and fiscal savings. These strategies were not mutually exclusive and 48% of countries pursued mixed-source financing. In general, 32% of countries tapped domestic sources as the only source of financing and 19% relied on external resources only.

Fact 5. The level of domestic financing varies remarkably across the country income spectrum.

Those shares increase from nearly zero in LICs, to 37% in LMICs, and to 47% in UMICs (and 100% in HICs[10]) (figure 2). However, in some cases, the injection of external financing has been limited and most spending would come from domestic sources. For example, Pakistan spent approximately $872 million on its emergency response. Out of this, $109 million went on additional support for the 4.5 million regular safety net beneficiaries and $763 million to 10.5 million new beneficiaries via the Ehsaas program. Within such response, support from the World Bank represented only 3% of total government spending on the emergency response. Similarly, the Indian government's first package of social protection

Figure 2. Share of domestic and external financing by country income group (left) and region (right)



8 While 'diversified' in the context of social protection financing can sometimes evoke the balance between contributory or non-contributory, we here focus mostly diversification within social assistance.

9 Spending restructuring (domestic) includes measures such as cutting spending, reallocation of committed budget, tax relief/ exemptions, etc. National debt/deficit (domestic) includes borrowing domestically and increase the country's domestic debt and budget deficit. State reserves, contingent funds and fiscal savings (domestic) includes tapping on country's saving and reserves to spend on fiscal measures (contingency reserve is a specific part of the annual budget allocation in certain countries to allow for unforeseen disasters in a given year). IFIs (WBG and/ or IMF) includes receiving external funds from the WB and/or IMF, whether in the form of loan or grant, to finance fiscal measures including social protection policies. Finally, UN, bilateral donors, other international actors includes receiving external funds from other international actors, whether in the form of loan or grant to finance fiscal measures including social protection programs.

10 In some cases, however, European high-income countries have borrowed from supra-national institutions like the BCE.

assistance was about $23 billion, with nearly $1 billion supported by the World Bank.

Fact 6. There are several innovations in lower income settings.

In Mauritania, a special fund for social solidarity was created with a state contribution of $170 million. This helped support 206,000 households with a cash transfer of $60/person. Now there is a possible extension of the fund for an additional $13.5 million. In Uzbekistan, $44.8 million was generated through public-private partnerships, including donations and charity from individuals and businesses being directed to the "Kindness and Support" program of the Ministry of Family Support.

Fact 7. In high-income contexts, there are different ways financing universal cash transfers.

In Singapore, a one-off cash transfer of $1.1 billion was financed from reserves and contingent budgets; Hong Kong spent $9.16 billion for cash payouts, all via deficit spending; in Serbia, the universal cash benefit cost $712 million, which was part of the 3.9 billion stimulus package. Half of that was financed by a Eurobond valued at €2 billion, re-prioritized existing budget, and currency reserves.

Fact 8. Social protection spending can come at the expense of other social services.

In Ukraine, part of the process included cuts in subsidies, regional budgets, social services, the planned census, among others. In order to meet higher expenditures, the project budget deficit was increased to 7.5% of GDP. Most ministries experienced a reduction of respective budgets, except a few like Ministry of Health, Finance, Social Policy, and Internal Affairs.

Fact 9. Tapping reserves and re-prioritizing spending is a frequently adopted strategy.

South Africa announced an emergency spending package of $30 billion, about 29% of which was financed through reprioritization and drawing from the Unemployment Insurance Fund's surplus. In Indonesia and the Philippines, the response reallocated funds from nonurgent goods expenditures and those not yet programmed. Singapore, as mentioned, is an example of utilizing reserves: it drew SP$900 million from past reserves to fund its $1.1 billion Solidarity Payment response (universal one-off cash transfer). Uzbekistan tapped on $324 million from their sovereign wealth fund (the Fund for the Reconstruction and Development of Uzbekistan) and restructured their budget, such as postponing the non-priority projects and expenditures to post-crisis period, to finance COVID-19 response.

Fact 10. It's no just about social assistance.

Social insurance programs can be effective and responsive counter-cyclical measures as they typically replace a meaningful proportion of income, kick in automatically and there is little likelihood of them being removed post-crisis. As mentioned, for instance, worth noting that South Africa's response was partly financed by the UIF's surplus. Similarly, in the US Moffitt and Ziliak (2020) show a sharp uptick in unemployment insurance alongside the core social assistance instrument, the supplemental nutrition assistance program (SNAP).

III. Some Concluding Reflections

At the time when new confirmed cases of COVID-19 are at an all-time high, many countries are engaging in an "all-in" effort to save the economic texture of societies. Concerns around fiscal space, sustainability and financing sources for those measures, including for social protection, have not yet emerged as first-order priorities in the response. The objective of this note is not necessarily to wave red flags on macroprudent policies and fiscal sustainability; there is already an existing stream of analytical work pursuing those issues (IMF 2020b). Instead, the note is motivated by an interest to provide a broad-based view on main sources of financing for social protection responses to COVID-19, and to reflect on emerging themes from those modalities.

All countries have scaled up social protection in response to COVID-19. However, the extent of this scale-up, the relative importance of different types of social protection in the emergency response, and the sources of financing for this scale-up differ between countries. There are questions on whether temporary responses will become permanent: in part, this would depend on understanding how diverse sources of funding interact over time. For instance, running large deficits now might lower the prospects of future expansion; some financing comes from cutting other services and reprioritized spending lines will only become fully clear once the year is over.

While financing is a key factor, information on funding sources for social protection — whether domestic, external, or a combination thereof — is not always easy to access. In the case of the pandemic, these are typically lumped together with broader stimulus financing and are not easily distinguishable. Future initiative could help provide precious detailed and comparable information on financing sources and modalities, such as initiatives to (i) clarify the level of financing and standardize templates and definitions of financing sources; (ii) enhance our understanding of the composition of social protection financed during both the pandemic and non-crisis times; and (iii) document how successful countries have pursued a sustainable mix of financing modalities. Combined, these initiatives would help in enhancing accountability and evidence-based policymaking.

Looking ahead, the conversation on financing dove tails to how future crisis responses can be made more effective and efficient. Efforts to strengthen crisis preparedness and informing scale up efforts based on objective and verifiable triggers would be another important and promising area for further exploration.

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