FISCAL CHALLENGES TO FINANCING SOCIAL PROTECTION TO ACHIEVE THE SUSTAINABLE DEVELOPMENT GOALS

A CASE OF THREE COUNTRIES

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Fiscal Challenges to Financing Social Protection to Achieve
the Sustainable Development Goals: A Case of Three Countries

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CONTENTS

TABLES

ACKNOWLEDGMENTS

EXECUTIVE SUMMARY

The Sustainable Development Goals (SDGs) have an explicit social protection agenda, which comprises a subset of 11 goals and 27 targets, out of the 17 goals and 169 targets. In 2016, the Asian Development Bank (ADB) commissioned a study to assess the fiscal requirements for meeting these social protection-related targets in 16 developing member countries. The study estimated the additional government resources required to close the gap in social protection-related SDG targets, using the social budgeting model. These estimates were anchored on long-term economic and demographic scenarios for a 15-year projection period, or from 2015 to 2030, and established lower and upper estimate resource requirements. The findings from the study are presented in the ADB publication, *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals.*

This working paper summarizes the findings from three of the countries chosen by the study—Mongolia, Myanmar, and Timor-Leste—to represent the range of challenges countries face and need to contend with, given their diverse socioeconomic and political contexts, to deliver on the social protection agenda of the SDGs.

Mongolia has a good architecture for social insurance and social assistance, a legacy of its previous social welfare system. Its transition to a market economy in the 1990s resulted in substantial social and economic improvements, but the country's economic condition remains volatile as a sizable share of its economy depends on mining and is heavily influenced by the global economy. However, the gaps in its social protection resource requirements are still manageable.

In Myanmar, there is little public spending on social protection and program coverage is extremely low, but recent increased spending on social assistance, pensions, and the social sectors such as health and education is encouraging. The huge resources required to finance the social protection agenda of the SDGs will require a progressive expansion of the social protection supply- and demand-side investments in Myanmar.

Despite its short history as a sovereign state, Timor-Leste has significantly expanded its social protection system from its oil revenues, with large cash transfer schemes targeted at its vulnerable population and spending representing the second largest share of the government expenditures. Despite its rather comprehensive social protection system, much remains to be done to meet the social protection agenda of the SDGs. A combination of reallocation of public expenditures, gains in spending efficiency, and use of fiscal reserves appear to be the options with greater potential for advancing the social protection agenda in Timor-Leste.

While Mongolia will not require significant additional resources to provide basic social protection schemes, Myanmar and Timor-Leste will face fiscal challenges and will need to make choices in prioritizing their social protection measures.

ABBREVIATIONS

ADB   –   Asian Development Bank
FSP   –   Food Stamp Program
GDP   –   gross domestic product
SAII   –   Subsídio de Apoio a Idosos e Invalidos
             (Allowance for the Elderly and Persons with Disabilities)
SDG   –   Sustainable Development Goal
SSMCS   –   Social Security Medical Care Scheme

I. INTRODUCTION

In 2016, the Asian Development Bank (ADB) commissioned a study to analyze the fiscal requirements to meet the social protection-related targets of the Sustainable Development Goals (SDGs) in 16 developing member countries (DMCs).[1] Three country cases (Mongolia, Myanmar, and Timor-Leste) were chosen to represent the range of challenges faced by DMCs in providing social protection.

This working paper summarizes the findings of the general financial analysis using the social budgeting model,[2] and discusses the fiscal challenges faced by the three countries chosen by the study. It also presents possible options to mobilize new public resources for social protection, as well as contributions of different types of social protection systems to close social protection gaps in the three countries.

II. SOCIAL PROTECTION IN THE SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) have an explicit social protection agenda as a subset of the 17 goals and 169 targets. This subset consists of 11 goals and 27 targets, 14 of which are output targets and 13 are outcome targets.[3]

The study employed an abbreviated social budgeting model that essentially undertakes deterministic scenario projections to estimate the government resources that are required to close the gaps in the social protection-related SDG targets from 2015 to 2030.[4] Cost or resource requirement estimates were anchored on long-term economic and demographic scenarios,[5] working through some limitations in data (e.g., databases were not complete in some countries or were not in the required disaggregation). The scenarios were built for a 15-year projection period, from 2015 to 2030. The year 2015 was chosen as the first year of the projection period to create a structural mapping of "normal" economic, fiscal, and labor market performance after the 2008 global financial crisis. Keeping labor market participation, formal employment rates, productivity, and revenue-to-gross domestic product ratios constant ensures rather conservative assumptions.

Calculating the resource requirements was a two-step process. As a first step, the resource requirement for the year 2030 as the end point of the projection period was estimated. Resource requirement is equivalent to the additional government expenditure that is needed to fill the protection gap as well as the administrative costs incurred for operating the schemes designed to close the protection gap. The study assumed that the closure of the protection gaps as indicated by resource requirements

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[1] The 16 countries are Azerbaijan, Cambodia, India, Indonesia, Kazakhstan, the Lao People's Democratic Republic, Malaysia, Mongolia, Myanmar, Nepal, the People's Republic of China, the Philippines, Sri Lanka, Thailand, Timor-Leste, and Viet Nam.

[2] More information on this model can be found in W. Scholz, M. Cichon, and K. Hagemejer. 2000. *Social Budgeting.* Geneva: ILO. https://trove.nla.gov.au/work/33083445?q&versionId=40494420.

[3] Output targets demand a concrete form of action. Such targets are, for example, the implementation of "nationally appropriate social protection systems" (Target 1.3) or the achievement of universal health coverage (Target 3.8). Output targets require, by their nature, specific government action. That action can help to achieve a number of outcome targets. These output targets are the concrete mechanisms linking action to outcomes that were missing in the formulation of Millennium Development Goal targets and indicators. Outcome targets describe desired states of social affairs at the end of the SDG period, i.e., by 2030. Such targets are, for example, the eradication of poverty (Target 1.1) or hunger by 2030 (Target 2.1). These targets can be achieved through different means.

[4] This discussion of the model is abridged from M. Cichon. The Social Protection Agenda of the Sustainable Development Goals and its Fiscal Challenge. In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals.* Manila: Asian Development Bank.

[5] Please note a caveat when reviewing the country cases using this methodology: that these are the results of sufficiently detailed but relatively simple, deterministic social budgeting exercises. As such, these should be considered as the result of one reasonable scenario in a continuum of possible scenarios of the behavior of people, governments, and economies through 2030.

will proceed gradually until 2030, when full closure of the protection gap (i.e., the "stationary state") is achieved.

The methodology estimated the fiscal impact of two alternative options to close the social protection gaps. For social transfer targets, the study established (i) a lower estimate for resource requirements that assumes the filling of the protection gaps through a targeted social assistance scheme, and (ii) an upper estimate that assumes the filling of the gaps through universal transfers to children and the elderly, and an employment guarantee scheme for the population in active age.

As a second step, the projected gradual increase of the required resources between the starting point in 2015 (when the required resources are zero as no new transfer scheme is in operation yet) and the maturation point in 2030 (when the full resource gap is filled through full operational schemes) was modeled for indicative purposes. The model used an abbreviated social budgeting methodology to illustrate a possible progression of the new additional financial requirements triggered by adherence to the SDGs. This methodology used an assumed standard maturation function that describes the maturation patterns of social protection benefit schemes. The analysis of the fiscal requirements to achieve the social protection agenda in Mongolia, Myanmar, and Timor-Leste is the focus of this paper.

III.   SOCIAL PROTECTION PROFILE IN MONGOLIA, MYANMAR, AND TIMOR-LESTE

A.   Mongolia

Mongolia's transition to a market economy beginning in the 1990s has resulted in substantial social and economic improvements: in 1990–2015, gross domestic product (GDP) at constant prices increased three times and more than doubled, in per capita terms, to about $4,000. The country has also progressed on several Millennium Development Goals such as reducing poverty and malnutrition, lowering the maternal mortality ratio and infant and child mortality rates, and advancing on targets in education and water and sanitation service provision.[6]

The country has a good architecture for social insurance and social assistance, with high population coverage (in 2013, social health insurance coverage was at 94%). However, in the last few years, economic growth has stalled due to declines in commodity prices. Though growth prospects are promising, the government must properly manage its available resources to deal with volatile economic conditions, given that a sizable share of the economy depends on mining, which is heavily influenced by global economic conditions.

Mongolia's current social protection system involves social insurance and social assistance. Even though social insurance is contributory as stated in the Social Insurance Law 1994, the social insurance fund is only partly supported by contributions, with the deficit covered by the state budget. In 2012, for example, the state budget subsidized 25% of all fund expenditures.

An estimated 80% of Mongolia's labor force make social insurance contributions under a "pay-as-you-go" regime, which provides for the creation of a pension fund from contributions paid by the insured and their employers, to be used for the disbursement of pensions to pensioners. However, there remain gaps in social insurance provision among herders, the self-employed, and informal workers.

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[6]   L. Carraro. Mongolia. In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals*. Manila: Asian Development Bank.

The total expenditure on social protection activities in Mongolia for 2015 was equivalent to about 8.8% of its GDP, which is a drop from its 13.2% share in 2012. Also in 2012, the expenditure share for social assistance and social insurance programs was both around 50% each. However, this ratio changed in 2015 to 74% for social insurance and 26% for social welfare, when the Law on the Human Development Fund was revised in 2009 and resulted in a decline in social assistance.[7]

As a complement to social insurance, the social assistance system consists of cash transfers and services (social welfare and development). It is directed at vulnerable groups such as the elderly, persons with disabilities from birth, orphans, children at risk, single parents with many children, war veterans, and households assessed as poor based on their inclusion in the Living Standards Assessment Database.[8] Payments come from the Human Development Fund, which redistributes mining revenue for the development of the whole country; since 2012, the priority has been the payment of child benefits, such as the Child Money Program.

As part of its social welfare and development services, the government established, among other programs, a Food Stamp Program (FSP) with support from international organizations. The FSP provided assistance to the poor and vulnerable people in response to the global food and fuel crisis in 2008.[9]

The FSP started on a pilot basis in 2008 with ADB financial and technical support and is now a national program. It used a proxy means test targeting approach to identify eligible households and aimed to support the consumption of basic foods by extremely poor families, with the expected impact of reduced vulnerability to food insecurity. The FSP distributed stamps or electric debit cards to eligible households that can be redeemed for a list of 10 high-protein foods and staples at specified shops (footnote 6). Ten years later, the FSP has been expanded and the delivery system has been improved.

B.   Myanmar

Myanmar, through its Department of Social Welfare and Resettlement, implements three major programs: (i) a social pension for the elderly; (ii) social welfare services for children, women, persons with disabilities, and the elderly (i.e., integrated social protection services); and (iii) a training program for women.[10] Under the National Social Protection Strategic Plan, there are six types of social protection in this strategic plan: social assistance, labor market programs, social insurance, health coverage, integrated social protection systems, and disaster risk management.

Social insurance includes health and other social insurance programs. In addition, the government has had a civil service pension program since the British colonial period. This program is currently managed by the Department of Pension, under the Ministry of Planning and Finance. The final pension rule was established in 1954 and aims to protect, promote, and support the elderly who are entitled to benefits after retiring at age 60. In 2015, government pensioners numbered about 711,039. There is also an employment injury insurance, which includes temporary and permanent disability benefits and a survivor's pension. On the other hand, social assistance encompasses child welfare, child allowance, school feeding, assistance to the elderly, orphanage assistance, and assistance for school-age and youth (i.e., an educational stipend). The government has programs across all age groups through ministries or

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[7]   ADB. 2017. *Mongolia: Social Protection Indicator*. Consultant's report. Manila (TA 8677).

[8]   The Living Standards Assessment Database contains selected information that enables a proxy means test assessment.

[9]   When food prices increased dramatically in May 2008, inflation in Mongolia reached 33%, the highest rate of all Asian countries. In poor households, about 70% of the budget was spent on food.

[10] ADB. 2017. *Republic of the Union of Myanmar: Social Protection Indicator*. Consultant's report. Manila (TA 8677).

line agencies, but its more prominent role is in the provision of social security schemes for the formal working-age population as mandated by the Social Security Law, 2012.

In Myanmar, government-implemented social assistance programs are few, small, and underdeveloped, and thus unable to provide comprehensive basic coverage for vulnerable populations.[11] Thus, public social protection program coverage is extremely low. Programs reach only 3.2% of the population, with social assistance covering only 0.1%.

There is also little public spending on social protection. Public expenditure was a mere 0.6% of GDP and 1.7% of total government spending, and social assistance expenditure was less than 0.1% of GDP in 2014–2015. However, there are recent encouraging signs of increased social assistance spending, such as the expansion of the school stipends program, the introduction of social pensions, and higher social spending for sectors such as health and education.

C.   Timor-Leste

In its short history as a sovereign state, Timor-Leste has significantly expanded its social protection system: it has provided large cash transfer schemes targeted at vulnerable groups—children, veterans, and the elderly—and the amounts represent the second largest share of government expenditures at 25% of non-oil GDP in 2015.[12]

Its constitution explicitly recognizes health, education, and social protection as the rights of every citizen. In the years after independence in 2002, severe budget constraints resulted in efforts to be focused mostly on ad hoc safety net programs for the most vulnerable groups. After the political crisis of 2006, the government changed its initial approach, and broad universal social assistance programs were created in 2007–2008, with the explicit goal of improving peace and social cohesion. Most programs, however, were set up independent of each other, without an encompassing framework to guide policy. Since 2011, the state has been guided by its strategic development plan (the Timor-Leste Strategic Development Plan, 2011–2030), which highlights a commitment to protect the most vulnerable citizens, and to invest in health, education, and essential services.[13]

Human and economic development remains low, however, as the country registers poor indicators for poverty, malnutrition, maternal and infant health, educational attainment, and number of decent jobs. The country needs to work on a social protection rationale that focuses on more practical poverty reduction and human development programs to achieve the SDGs as indicated in its strategic development plan.[14]

Timor-Leste has three main social transfer programs: Bolsa da Mãe (Mother's Allowance), a conditional cash transfer targeted to children of vulnerable households; Subsídio de Apoio a Idosos e Invalidos (SAII, Allowance for the Elderly and Persons with Disabilities), a universal social pension for the elderly

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[11] M. Infante-Villarroel. Myanmar. In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals*. Manila: Asian Development Bank.

[12] Most of Timor-Leste's public expenditures are paid for by its Petroleum Fund, given that it is one of the most oil-dependent countries in the world. However, its high oil dependency days seems to be numbered; total oil reserves are modest, the current fields are expected to be depleted by 2026, and no other reserves are set to be explored after this. The government needs to diversify the economy and find other sources of revenue to be able to finance its social protection agenda.

[13] ADB. 2017. *Democratic Republic of Timor-Leste: Social Protection Indicator*. Consultant's report. Manila (TA 8677).

[14] A. Bongestabs. Timor-Leste. In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals*. Manila: Asian Development Bank.

and persons with disabilities; and veterans' pensions, which reward and support those who fought for the country's independence, and their families.

Of the three main social transfer programs, the benefit levels of Bolsa da Mãe ($5 monthly) and SAII ($30 monthly) are modest, while the veterans' pensions range from $276 to $575 monthly or one-time lump sum payments of up to $6,900, depending on the veteran's length of service. Coverage rates vary, with Bolsa da Mãe, covering about one of four children; SAII reaching more than 90% of the elderly and about 19% of persons with disabilities; and veterans' pensions reaching around 2.6% of the population. Despite fewer beneficiaries, veterans' pensions amounted to $119.7 million in 2015—about 8.5% of non-oil GDP, or 61% of the social assistance budget.[15]

In summary, these three country studies represent the wide range of social protection challenges in the region.

IV.   WHAT ARE THE FISCAL CHALLENGES IN SOCIAL PROTECTION?

Based on the fiscal space analysis, Table 1 shows the resource requirements of the social protection agenda of the SDGs—the cost to close the protection gap—as projected for 2030 as a percentage of GDP. The difference between the unweighted averages of the lower and upper estimates[16] for the three countries is 3.7% of GDP, which indicates that a low-cost approach to closing the protection gap of the SDG social protection agenda is well within reach.

**Table 1: Estimated Resource Requirement to Close the Social Protection–
Sustainable Development Goal Gap, 2015–2030 Projection**
(% of projected GDP)

Country	Lower Estimate	Upper Estimate
Mongolia	1.6	4.5
Myanmar	4.6	8.5
Timor-Leste	4.4	8.6

GDP = gross domestic product.
Source: In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals.* Manila: Asian Development Bank.

Table 2, on the other hand, demonstrates how the level of government revenues changed in the three countries in 2005–2014 and compares these changes to the additional resource requirement in the lower and upper estimates. Even if one assumes that the complete resource requirements in the lower estimates have to be met by additional resources (i.e., reshuffling existing resources would not be possible), it appears that only Mongolia may be able to accommodate the additional resource requirements of at least the lower estimate.

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[15] Cutting current benefits or coverage of this program may seem to be the fast and easy way to free valuable funds for other social protection programs; however, the political sensibility of the issue goes far beyond the technical analysis of the cost of the scheme.

[16] The lower estimate scenario is closing the social protection gap, which addresses income poverty through a targeted cash transfer that takes all the poor to an income level equal to the poverty line, while the upper estimate scenario is closing the poverty gap by providing universal cash transfers.

**Table 2: Previous Revenue Increase and Projected Additional Resource Requirements
to Close the Social Protection Gap**
(% GDP)

Country	Total Government Revenue (% GDP)		Increase (Decrease) in % points of GDP	Percentage Point Increase of Government Revenues Required to Meet the SDG Targets	
				Lower Estimate	Upper Estimate
	2005	2014	2005–2014	2015–2030	2015–2030
Mongolia	27.4	27.8	0.4	2.5	7.7
Myanmar	14.2	28.5	14.3	7.2	13.6
Timor-Leste[a]	22.3	10.4	(11.9)	7.2	14.7

GDP = gross domestic product, SDG = Sustainable Development Goal.

[a] Value for 2010 and estimated for 2014, if the negative trend can be reversed.

Source: In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals.* Manila: Asian Development Bank.

Mongolia may still face additional resource requirements of around 2% of GDP, which might be met either by maintaining the pace of revenue increase seen in 2005–2014 or by returning to the 2005 revenue-to-GDP ratio. Myanmar's revenue already increased in 2005–2014 by 14.3 percentage points, reaching 28.5% of GDP. The additional resource requirement of 7.2% of GDP is a significant challenge, even if the country appears set to enter a phase of economic boom. In the upper estimate, considerable resource gaps would remain for Timor-Leste.

A.   Broader Social Protection Reform in Mongolia

The identified gaps in social protection resource requirements are manageable because Mongolia already has a comprehensive social protection system in some areas, but policies that complement and harmonize the system are still needed.

One of the suggested key actions needed to support those who, despite existing transfers, remain below the poverty line is to complement the existing benefits. This would help ensure that everyone reaches a certain minimum income, which could be achieved by building on the existing system, especially as the country has a database (LSAD) with which to identify people eligible for social assistance. This proposal would aim to expand benefits to better support and protect the poor.

This scenario consists of increasing the coverage and value of existing food stamps and the inclusion of a new social protection transfer for the vulnerable, for which there is already legislation in place (the Social Welfare Law 2012) but is yet to be implemented. Both expanded food stamps and the new transfer would be targeted using the LSAD and together they would need to ensure that the people remaining in poverty would be taken to an income at least equal to the poverty line.

Mongolia also needs to fill its gaps in social insurance. To ensure universal coverage and the sustainability of the pension system, the government may consider equalizing the retirement age of women and men to 60 years—now 55 for women and 60 for men, and then gradually increase the retirement age further. The Government of Mongolia has embarked on an expansion of social insurance payments, and thus coverage, to herders, the self-employed, and informal workers. It has already shown some success in

attracting people to the insurance system, specifically maternity insurance, in better linking its databases, and in granting more flexibility in payment schedules by, for example, matching the cash flows of herders and other seasonal workers. For these reasons, participation in insurance contributions of the employed should be able to grow and eventually approach full coverage.

B.   Expanding Social Protection Programs in Myanmar

The gradual expansion of social assistance for all groups is paramount for building a proper social protection floor for Myanmar.[17] The Government of Myanmar has opted to base the expansion of social protection through life-cycle approach to best include the vulnerable across all stages of life. The foundation for this social protection floor consists of an expanded Social Security Medical Care Scheme (SSMCS), social health protection, cash transfers to mothers and infants, school stipends, a public works program, and social pensions.

Social health protection should cover the population not covered by the SSMCS and should exclude dependents of formal sector workers and civil servants, who should be covered by an expanded SSMCS.

A cash transfer scheme to mothers and infants is being piloted by Save the Children (an international nongovernment organization) in Rakhine state, while the Ministry of Health is piloting a maternal and child health voucher scheme that can serve as reference when designing a cash transfer scheme. The mother and child cash transfer program (MK15,000 per month, approximately $11) aims to improve nutritional outcomes for all mothers and children during the critical first 1,000 days of life.

Disability allowances address a crucial gap in the social assistance system of the country while responding to Myanmar's international commitment within the Convention on the Rights of Persons with Disabilities. The social protection goal for people with disabilities is to ensure that their multidimensional needs are adequately met to facilitate their access to services.

Public works programs have been implemented by several development partners (World Food Programme, International Labour Organization, Livelihoods and Food Security Trust Fund), adapting the objectives and benefit levels to the geographic context, but a government-led scheme has yet to emerge. A social pension has been launched by the Ministry of Social Welfare, Relief, and Resettlement, but with limited coverage.

Myanmar has recently introduced a universal social pension for the elderly. It started in 2015 and is set to expand in the next 5 years by reducing age eligibility from 90 years old to 65 years of age with the benefit size progressively reaching MK25,000 (approximately $19) per person per month.[18] The objective of these cash transfers is to ensure income security for people of older ages.

Estimates for the different social protection packages e.g., lower and upper estimates resource requirement to meet targeted social assistance programs require around 4.6% of the GDP and 8.5% for the upper estimate (universal transfers and employment guarantee scheme) (Table 1).

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[17] Social protection floors are nationally defined sets of basic social security guarantees that should ensure, as a minimum, that over the life cycle, all those in need have access to essential health care and to basic income security, which, together secure effective access to goods and services defined as necessary at the national level. International Labour Organization. Social Protection Floors Recommendation, 2012 (No. 202).

[18] Economic Policy Research Institute. 2018 (unpublished). Cost Social Protection Sector Road Map, Myanmar 2018–2022. Submitted to the Ministry of Social Welfare and Resettlement and UNICEF.

C.   Reforming the Current Social Protection Policies and Programs in Timor-Leste

Timor-Leste has a broad system of social assistance, and public health services and education are free and universal for all citizens. Of the four gaps to be closed in the Timor-Leste case study—in social transfers, health care, education, and other essential goods and services—all but social transfer gaps are constant in the lower and upper cost estimates. These gaps will thus be the same in all scenarios now presented.

Large cash transfer schemes targeted at certain groups of society—children, veterans, and the elderly— stand out among other programs for their coverage and costs. This is against a backdrop where social protection (exclusively financed by the General State Budget) represents, after infrastructure investments, the largest share of government expenditures amounting to 25.3% of non-oil GDP in 2015.[19]

The lower estimate scenario assumes a national social assistance scheme, with perfect targeting providing to all individuals benefits of the same value as the average poverty gap to "place" the person on the poverty line and fill the present post-transfer gap. This scenario accounts for the costs of the current transfers (Bolsa da Mãe, Subsídio de Apoio a Idosos e Invalidos [SAII], School Feeding, and Rural Employment programs) as if they are continued until the stationary state in 2030. (The current programs, when projected to 2030, result in a cost of 4.6% of GDP in the stationary state.)

The upper estimate scenario compares the costs of the different policy choices made, and includes a child grant, social pensions for the elderly and disabled, maternity leave benefit, and a cash-for-work scheme for the unemployed. This assumes that the current social transfers no longer exist, thus contrary to the lower estimate scenario, their costs need to be subtracted from the total, as the budget allocated to them will be freed. An adapted model introduces a Universal Early Childhood Development Grant (starting with pregnancy) and adjusts the benefits of Bolsa da Mãe, SAII, School Feeding, and Rural Employment. It is assumed that the programs only exist in their adjusted form and, as in the upper estimate scenario, their costs are subtracted from the total.

The projected required additional resources to close the SDG-related social protection gaps run from considerable to significant: by the lower estimate, 4.4% of GDP; by the upper estimate, 8.6% of GDP (Table 1). It implies that these packages, even the lower estimate one, could generate significant fiscal stress, though that could be mitigated by the enormous potential for poverty reduction and increased formal sector employment.

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[19] Given the weak linkage of the oil sector to the rest of the economy of Timor-Leste and the fact that all revenues flow directly to the Petroleum Fund, economic analysis is usually on the non-oil economy.

V.   CLOSING THE FISCAL GAP FOR MEETING THE SUSTAINABLE DEVELOPMENT AGENDA

A.   Mongolia

Mongolia has, in some areas, an advanced social protection system, but policies that complement and harmonize the system are needed. Table 2 summarizes the expenditures gap identified in meeting the sustainable development social protection agenda.

The policy options presented in Table 3 do not have direct financial costs. For example, while pension system reform is extremely important to ensure future coverage and financial sustainability, given the expected aging of the population, it does not demand any additional budget support. Moreover, reforming the pension system, such as the nationally defined contribution scheme, could even lower budget costs.

Table 3: Social Protection Provision, Gaps, and Policy Options

SDG Targets	Social Protection Gap	Policy Options to Close the Gap
Appropriate social protection systems including floors (Target 1.3)	**Mongolia** • The majority requirement of social protection floor has been achieved	• Improve coordination at all levels (policy, program, and delivery)
	Myanmar • There is a limited social protection system • Certain components in place have very low coverage	• Improve coordination at all levels (policy, program, and delivery) • Expand the current social assistance program and introduce new programs
	Timor-Leste • Fragmented system without an overarching coherence • Budget unbalanced between programs and concentrated on veterans' pension	• Improve coordination at all levels (policy and operations) • Improve information sharing between programs and ministries • Improve programs that provide broad-based benefits, shift resources from less effective ones
Universal health coverage (Target 3.8)	**Mongolia** • Some groups still do not have social health insurance • Health insurance package is limited • Private out-of-pocket spending is high	• Increase the population coverage of social health insurance
	Myanmar • No defined benefit package • Low coverage, particularly of informal workers • No supply-side coordination (scattered public sector, little oversight on the private sector)	• Define the benefit package and population covered • Extend existing schemes to uncovered populations (e.g., extend SSMCS to dependents)

Table 3 *continued*

SDG Targets	Social Protection Gap	Policy Options to Close the Gap
	Timor-Leste • Insufficient health infrastructure and human resources • Low quality and unreliable provision of services • Limited capacity to reach citizens far from health units and centers	• Maintain and increase investments in infrastructure • Improve the balance of health care professionals (more nurses and midwives relative to doctors) • Expand outreach programs (e.g., SISCA) • Improve provision of health services and logistical capacity • Improve spending efficiency
Children (Target 1.3)	**Mongolia** • Monetary benefits from Child Money Program is low and not regularly updated	• Update and regularly monitor the mplementation of child money program
	Myanmar • Few and inadequate benefits for children at school • Insufficient protection for out-of-school youth	• Expand the coverage and benefit levels of current programs • Introduce new programs for uncovered populations (e.g., transfers to families with infants)
	Timor-Leste • Programs offering adequate benefits • Benefits focused on children of school age • Programs do not properly address malnutrition	• Improve the coverage and benefit levels of current social assistance programs • Introduce new programs designed to improve nutrition (e.g., transfers and in-kind benefits to children, with a focus on those under 5 years of age)
Working age (Full employment and decent work) (Target 8.5)	**Mongolia** • Lack of social insurance coverage among self-employed and informal workers • Inadequate support for caregivers	• Increase the participation of working age population in social insurance
	Myanmar • Low coverage of existing programs • Virtually no coverage for informal workers • Insufficient protection for people unable to work • Little investment in risk prevention inside and outside the workplace	• Introduce a public works program that addresses seasonal unemployment • Introduce maternity and disability benefits • Invest in risk prevention programs • Improve implementation and monitoring of risk prevention in the workplace
	Timor-Leste • Limited coverage of informal workers • Contributory social security system in very early implementation stage • Little support for the unemployed • Little to no protection for farmers, especially subsistence farmers	• Implement the new social security schemes as soon as possible • Expand and diversify the small cash-for-work scheme • Include farmers in the new social security schemes

Table 3 *continued*

SDG Targets	Social Protection Gap	Policy Options to Close the Gap
Old age (Target 1.3)	**Mongolia** • Challenges to the future sustainability of the system • Access to services needs to be simplified	• Equate the pension age for women and men by either gradually increasing the pension age or increasing the contribution rates • Increase the coverage of people paying contributions while in working age • Harmonize and simplify the administrative system for elderly services and link the value of social transfers to the level of needs
	Myanmar • Social pension scheme provides insufficient coverage and inadequate benefits • No structured mechanism for long-term care	• Expand coverage and increase benefits of the social pension scheme • Establish a mechanism for long-term care
	Timor-Leste • All benefits are paid only twice a year • Loss of purchasing power of benefits, due to the long periods between adjustments	• Improve delivery mechanisms to allow monthly payments • Create indexation mechanisms for social transfer amounts
Universal health coverage (Target 3.8)	**Mongolia** • Need to improve infrastructure, equipment, and skills	• Increase financing of social health insurance, and rebalance system toward primary health care and away from hospitals • Regulate and improve procurement (particularly of medicines) • Improve systems (enforcement, monitoring and evaluation)
	Myanmar • Low spending and quality of services • Insufficient and fragmented service provision	• Strengthen the health system by increasing investments in hard and soft infrastructure • Improve coordination of service provision • Improve spending efficiency
	Timor-Leste • Insufficient health infrastructure and human resources • Low quality and unreliable provision of services • Limited capacity to reach citizens far from health units and centers	• Maintain and increase investments in infrastructure • Improve the balance of health care professionals (more nurses and midwives relative to doctors) • Expand outreach programs (e.g., SISCA) • Improve the provision and logistical capacity to avoid interruption of services • Improve spending efficiency

SDG = Sustainable Development Goal, SISCA = Serviço Integrado de Saúde Comunitária (Integrated Community Health Services), SSMCS = Social Security Medical Care Scheme.

Source: Authors' compilation.

Similarly, other policies on interventions aimed at increasing participation in social insurance contributions (health and other sectors) and at harmonizing and simplifying the process of delivering social services to the elderly and persons with disabilities do not need to be directly costed. The same applies to updating social welfare transfers annually to maintain their purchasing power. The policies that need to be costed relate to new or increased social welfare transfers: the new poverty benefits and expanded and increased payments for caregivers.

More specifically, on social transfers, the assessment highlights the need to reform the pension system by increasing the retirement age and increasing the number of those that make contributions into the pension fund, protecting the rights of caregivers of persons with severe disabilities by ensuring they receive adequate financial support at a level equal to the minimum wage, and introducing new targeted social transfers for the poor, starting with using the current system of the proxy means test but then gradually moving toward a means-tested approach.

Based on the projected cost following the same broad methodology,[20] it is estimated that the government could reduce poverty to just below 10% (from 27.5% in 2015), which would require a budget of 0.52% GDP. This could be followed by increasing the budget for the existing food stamp program with per capita transfer value of 16% of the poverty line, which would cost approximately 0.72% of the GDP.

A second policy that needs to be costed is the increase in the support provided to caregivers of persons who need constant care. This policy is projected to have a cost of 0.54% of GDP in 2030. The combined cost of the above social transfers would be approximately 2% of GDP.

This represents an intermediate estimate between the cost provided by a scenario of perfect targeting and one with universal coverage. In fact, assuming perfect targeting, whereby transfers are exactly equal to each person's needs to cover the poverty gap existing in 2030, the cost would be 0.81% of GDP (which would exclude changes to caregivers' benefits and any increase in the retirement age). Providing benefits to all children below 15, all people aged 60 or more, and people with disabilities, and offering 100 days of minimum wage to all unemployed would cost 6.08% of GDP, consisting of 2.86% for the child benefit, 1.89% for the old-age benefit, 0.79% for the disability benefit, and 0.55% for the employment guarantee scheme for the unemployed. Combined with the social transfer costs, the total expenditure gap comes to 5.25% of GDP in 2030.

Three main strategies seem open to the Government of Mongolia to fund the required social protection-related SDG expenditure: create a stabilization fund from mining revenues; consolidate some expenditure and assume greater fiscal discipline; and increase revenue collection, including progressive income taxes. In the longer term, the government may want to decrease its fiscal dependence on mining and diversify revenue sources. It should also prepare and renew taxation laws, especially corporate and income tax, introducing progressive tax rates.

B.   Myanmar

Myanmar's policy options for closing its social protection gaps (Table 3) can allow for low, medium, and high estimate packages—while taking into consideration design parameters such as population coverage and benefit levels—that ultimately cover all the components of a social protection floor. The packages

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[20] M. Cichon. The Social Protection Agenda of the Sustainable Development Goals and its Fiscal Challenge. In S. W. Handayani, ed. *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals*. Manila: Asian Development Bank.

could cost 2.1%–7.3% of GDP, or 6.6%–23.4% of government spending, in 2024. These estimates are minimum requirements since the expansion of the Social Security Medical Care Scheme may demand further resources, depending on the additional contributions from workers and government.

How can Myanmar fund its social protection programs with a view to significantly reduce poverty by 2030? Gradually expanding social assistance programs is a good place to start, because this can also support the creation and strengthening of public delivery mechanisms for an effective government-led social protection system. Public resources should be the main funding mechanism, especially for a government that needs to prioritize social assistance and gradually replace the current high donor and private share of spending on social services. Presently, development partners constitute a significant share of funding for social service delivery in Myanmar. Government spending has financed mainly demand-side social security programs, while development partners have shouldered the few and fragmented social assistance programs.

To establish a social protection floor, the government should take note that any financing solutions thus need to ensure that adequate and sustainable financing for social assistance is not compromised. It is important to note that expanding social security and making more resources available for social assistance are not mutually exclusive.

A pragmatic approach to expanding the social protection floor in Myanmar needs to support the consolidation of administrative systems through simple, well-designed, and scalable programs. The stipends, the maternal and child health voucher scheme, and social pension are programs that can provide the basis for national social assistance programs. These programs can have as their objectives the strengthening of delivery systems in the short term, then be gradually scaled up and their coverage expanded over the medium term. Coordination and planning among agencies responsible for social security, pensions, and universal health coverage reforms are important to avoid inefficiencies in the delivery system and in the use of public resources.

The institutional constraints in Myanmar and the fiscal implications of the huge resources needed to finance the social protection agenda of the SDGs call for a progressive expansion of social protection supply- and demand-side investments. This stepwise expansion would give time for supporting systems to evolve in a way that benefits the transparent and sustainable delivery of cash transfers.

This gradual expansion of supply-side investments in health and education and a basic social protection package to cover all components of the social protection floor (equivalent to 2.1% of GDP by 2024) are feasible options for Myanmar. The social protection package should include an expanded Social Security Medical Care Scheme, a social health protection scheme, cash transfers to mothers and infants, school stipends, a public works program, and social pensions.

Ultimately, the government's most prudent strategy is probably to aim at initially financing a low-cost social assistance package, mainly from government revenue. Alongside expanding social assistance coverage, harmonizing social insurance for the private and public sectors should strengthen the sustainability, coverage, and efficiency of social protection. Together, these elements should gradually close the social protection–SDG gaps, while pursuing institutional strengthening and tightening social cohesion.

A financing mix could include (i) better allocation of government resources across sectors; (ii) efficiency gains from more intergovernmental transfers (i.e., decentralized funds to states and regions) rather than more deconcentrated financing, and better spending on health, education, and social protection;

(iii) increased government revenue from further indirect taxes (e.g., alcohol and tobacco) but especially from more progressive direct taxes such as income, property, and rent (particularly on state economic enterprises); and (iv) better channeling of donor support through pooled resources for some programs and ensuring a technical support focus on building the institutional foundations for fully government-owned social assistance provision.

C.   Timor-Leste

Irrespective of its fiscal position, increasing the fiscal space in the magnitude estimated would be a massive challenge for any country, especially for Timor-Leste, which has a low tax-to-GDP ratio. Even in the lower estimate, additional resources required in the stationary state are equivalent to 5.1% of non-oil GDP. Resource requirements are more than double the upper estimate, at 14.6% of non-oil GDP, and the adapted model estimate at 13.1%. Will Timor-Leste's fiscal position allow it to meet the social protection agenda of the SDGs? If so, how?

Public expenditure has climbed steeply since 2007, from $241 million to $1,952 million in 2016, reflecting major infrastructure projects and new social transfers. The Petroleum Fund remains the dominant source of government budget, financing about 90% in 2016. Yet the sharp drop in oil prices led to a 40% decrease in petroleum revenues in 2015, compared to that in 2014. The overall budget surplus fell from 25.9% of oil GDP in 2014 to 4.2% in 2015. The non-oil balance has been negative for more than a decade, reaching a massive fiscal deficit of 88.8% of non-oil GDP in 2015. As oil prices and production decline, predictions are that this will also be the case for oil GDP in future years.

Despite its rather comprehensive social protection system, there is still much to be done in Timor-Leste to achieve the SDG social protection agenda. The challenge to mobilize the resources required seem daunting; hence, a more modest path will have to be taken. No option just outlined will alone suffice, and most likely, not even a combination of options to increase fiscal space will allow increases in the magnitudes required by the upper estimate and adapted model scenarios.

Increasing tax revenues is an important step in the transition of an oil economy to a diversified economy. As the oil revenues decline and the Petroleum Fund is consumed, increased domestic revenues is the only sustainable option for Timor-Leste to balance its fiscal position. Improving tax collection mechanisms, introducing progressive tax reforms (on personal and corporate income taxes), and creating property and additional excise taxes, could be the starting points for developing a more comprehensive tax system while creating revenues to finance social protection. Reversing the decline in official development assistance and increased borrowing are other options, but at smaller magnitudes.

In the Timor-Leste scenario, where the current levels of expenditure on social protection are relatively high and the forecast for fiscal balance is grim, the combination of reallocation of public expenditures, gains in spending efficiency, and use of fiscal reserves appear to be the options with higher potential to advance the SDG social protection agenda.

A two-pronged reform strategy may thus be the most reasonable alternative for Timor-Leste. The government should aim at slightly higher expenditure than current levels throughout 2030 using the fiscal space strategies above, while increasing the efficiency of existing programs. The government should then gradually migrate budget into programs that tackle some of the key problems in Timor-Leste such as access to services, malnutrition, and rural poverty. This would certainly look more like the lower estimate scenario than the other models but would direct efforts to areas that have long-lasting effects, and better use of resources that are already committed. Ultimately, the fiscal space for the SDG

agenda hinges on the government's capacity to steer the country toward a vibrant and inclusive non-oil economy, without compromising the country's long-term fiscal balance.

VI.   CONCLUSIONS

Looking at the results of the modeling scenarios for the lower estimate, it appears that Myanmar and Timor-Leste will face fiscal challenges if they want to adhere to the social protection agenda of the SDGs. These two countries will have to make hard choices and prioritize their social protection measures.

Myanmar could finance its social protection programs by increasing the revenue-to-GDP ratio to the regional average, but this may not be enough. The social protection gap indicates a lower estimate of 7.2% of GDP, which could be partly filled with revenue from natural resources. Personal and corporate income taxes are also important sources of financing, and the country needs to establish value-added tax that collect at least 0.5% of GDP. Timor-Leste may need to remain dependent on some form of official development assistance for some time. Although no data on taxes is available, the country can reach the lower estimates by equalizing the tax collection to regional averages.

Due to a comprehensive social protection system, Mongolia should be able to meet the SDG social protection agenda, even after it introduced essential new benefits in cash and kind. Mongolia may not need any major additional resources to secure at least a basic level of social protection. The government can mobilize resources from natural resource rents and post-tax energy subsidies to close the upper estimate of social protection gap.

The results of these financial and fiscal analyses are important for the governments of these three countries to plan the financing and design of comprehensive and inclusive social protection programs. Without long-term social budgeting, the social protection-related SDG gaps are unlikely to close. Real changes in social conditions require policy changes, including long-term budgetary commitment.

Fiscal Challenges to Financing Social Protection to Achieve the Sustainable Development Goals
A Case of Three Countries

This working paper presents an analysis of the fiscal challenges faced by Mongolia, Myanmar, and Timor-Leste in meeting the social protection-related targets of the Sustainable Development Goals. These three countries represent diverse social, political, and economic contexts that are also faced by the other ADB developing member countries. This paper presents possible options to mobilize new public resources for social protection, as well as contributions of different types of social protection systems to close the social protection gaps. It is part of a larger study, *Asia's Fiscal Challenge: Financing the Social Protection Agenda of the Sustainable Development Goals.*

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