



Social Expenditure Monitor for Arab States

Toward Making Budgets more Equitable, Efficient and Effective to Achieve the SDGs



Introduction

Public social expenditure underpins the well-being and economic potential of individuals and societies. It protects poor and vulnerable populations, and stabilizes small businesses and economies. It drives progress by reducing poverty and inequality, while promoting improved socioeconomic outcomes, all of which are directly linked to achieving the Sustainable Development Goals (SDGs). In the wake of the devastating COVID-19 pandemic and amid global macroeconomic uncertainties, including the spillover effects of the war in Ukraine, inflationary pressures and the climate crisis, adequate, equitable and efficient social spending is more important than ever. A sustainable and inclusive recovery and resilience in the Arab region will largely depend on it.

Public social expenditures are not optional handouts from Governments to people. They are essential investments in human capital, drivers of greater productivity and correctors of inequity.

The report entitled “Social Expenditure Monitor for Arab States: toward making public budgets more equitable, efficient and effective to achieve the SDGs”, jointly produced by ESCWA, UNDP and UNICEF, offers a pioneering assessment of social policy spending in the Arab region, with detailed analysis of trends and issues, and provides recommendations on how such spending can accelerate the achievement of the SDGs. The recommendations optimize links between expenditure choices and macroeconomic objectives, provide a basis for better statistics, and strengthen advocacy for much-needed fiscal policy reforms and efforts to address systemic public financial management challenges.

Social Expenditure Monitor: a measurement to guide smart spending

Public social expenditures are not optional handouts from Governments to people. They are essential investments in human capital, drivers of greater productivity, and correctors of inequity. The Social Expenditure Monitor (SEM) presents a new framework for measuring social expenditures in seven dimensions, by capturing critical social development priorities aligned with the SDGs. The seven dimensions are education; health and nutrition; housing, connectivity and community amenities; labour market interventions and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection (figure 1).

Based on available data from 2010 to 2019, public expenditure as a share of gross domestic product (GDP) has remained stagnant in the Arab region at 34.6 per cent, compared with the world’s average of 35.7 per cent. In 2020, the world’s average increased to 39.5 per cent following the outbreak of the pandemic. The Arab regional average increased to 35.9 per cent but remained lower than the global average, with most economies facing limited fiscal space and contraction in their incomes. In terms of social expenditures on health, education and social protection (excluding subsidies), Arab Governments devote about 8 per cent of GDP, on average, compared with a global average of 20 per cent, based on the latest available disaggregated data (figure 2). Since the regional average for total public expenditure as a share of GDP is close to the global average, the difference in these

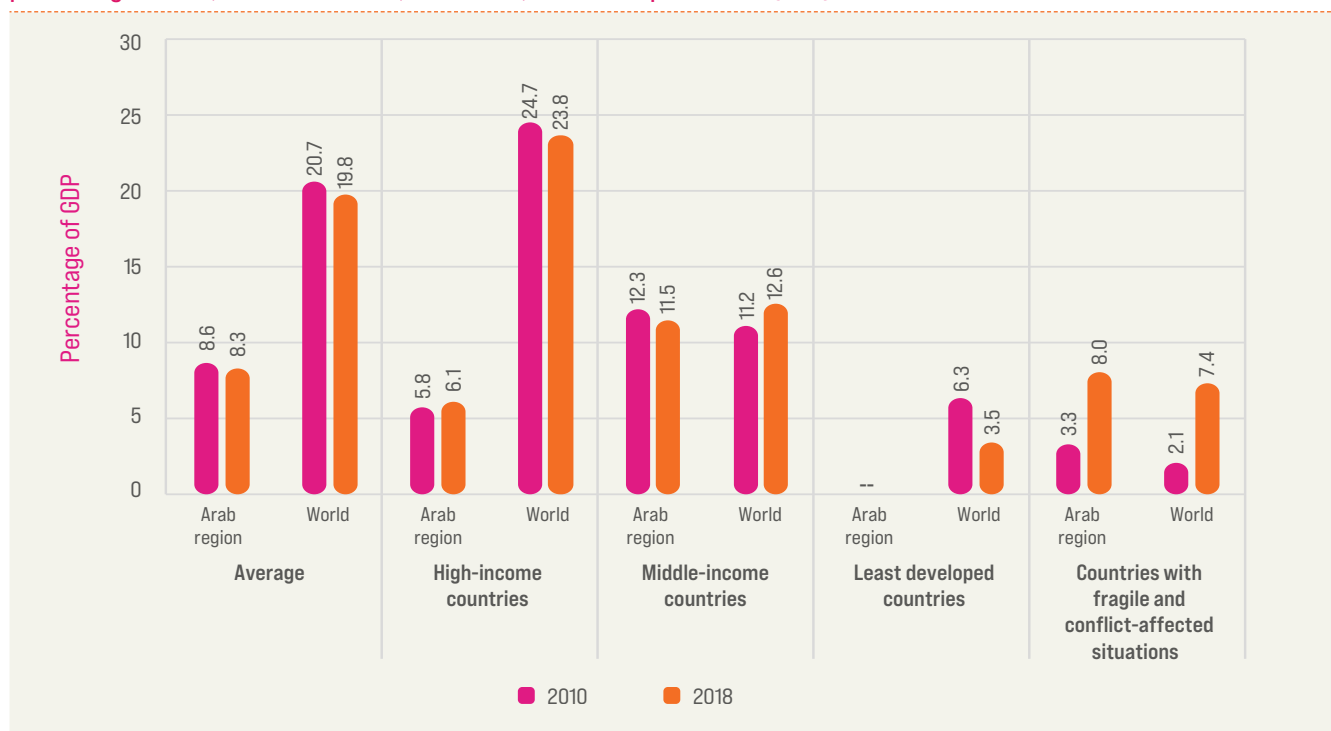
three areas of public social expenditures is striking, with one explanation being disproportionately high military spending and energy subsidies in the Arab region.

Figure 1. The SEM cuts across the SDGs and their targets



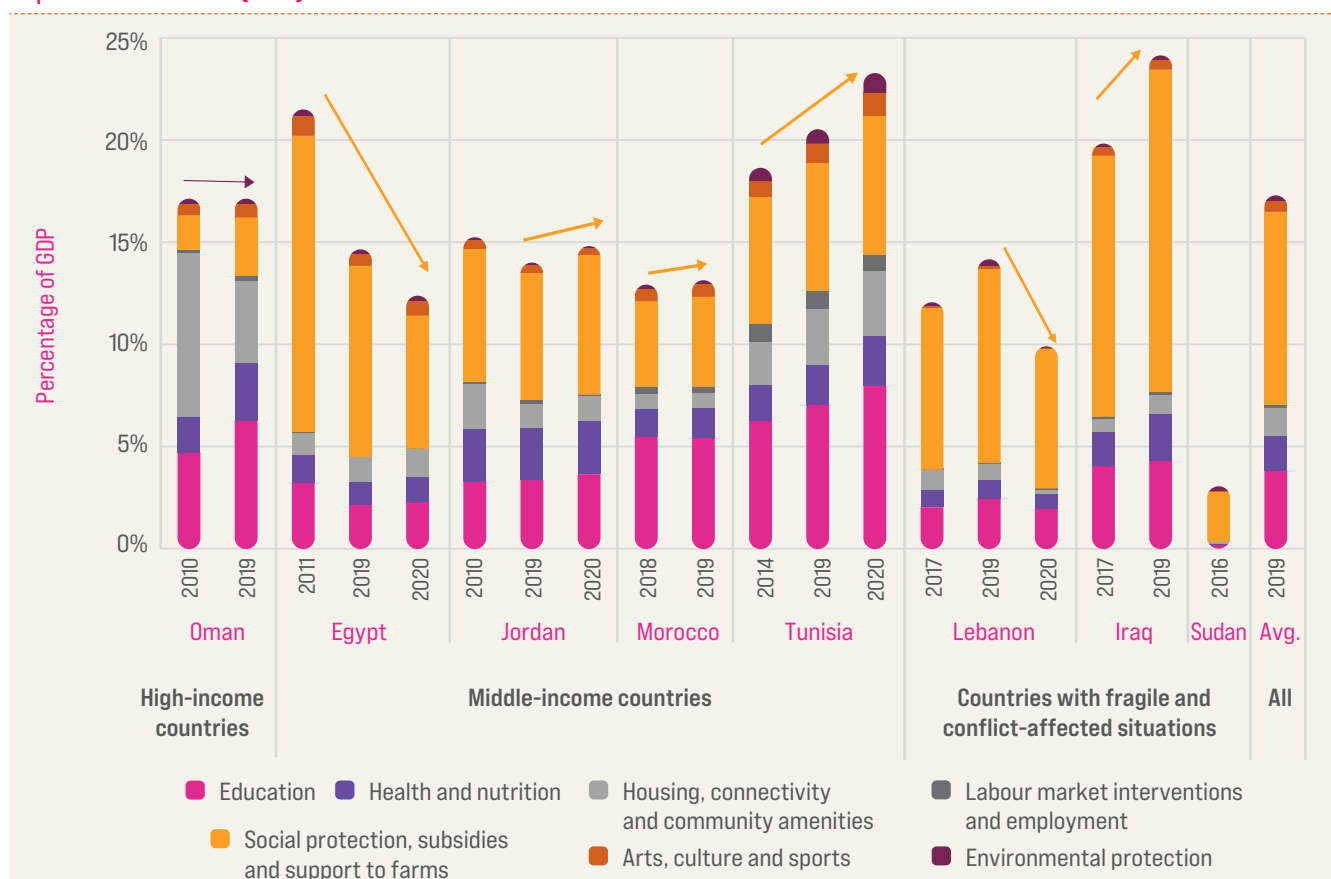
According to SEM, public social expenditure in all seven dimensions varies between 10 and 20 per cent of GDP in most Arab countries (figure 3). This includes a considerable amount spent on subsidies, however, which underlines the region’s longstanding pattern of inequitable spending and underinvestment in building human capital, and in transitioning to more sustainable and greener economies. About 80 per cent of social expenditure in the region goes to current expenditures on wages and salaries and on public transfers, which dramatically limits capital expenditures and, in turn, prospects to enhance productivity.

Figure 2. Compared to the rest of the world, the Arab region spends much less on public social expenditure as a percentage of GDP, based on health, education, and social protection (HES)



For references, see the main report.

Figure 3. Across Arab countries over time, there are no clear trends in public spending by the 7 dimensions of Social Expenditure Monitor (SEM)

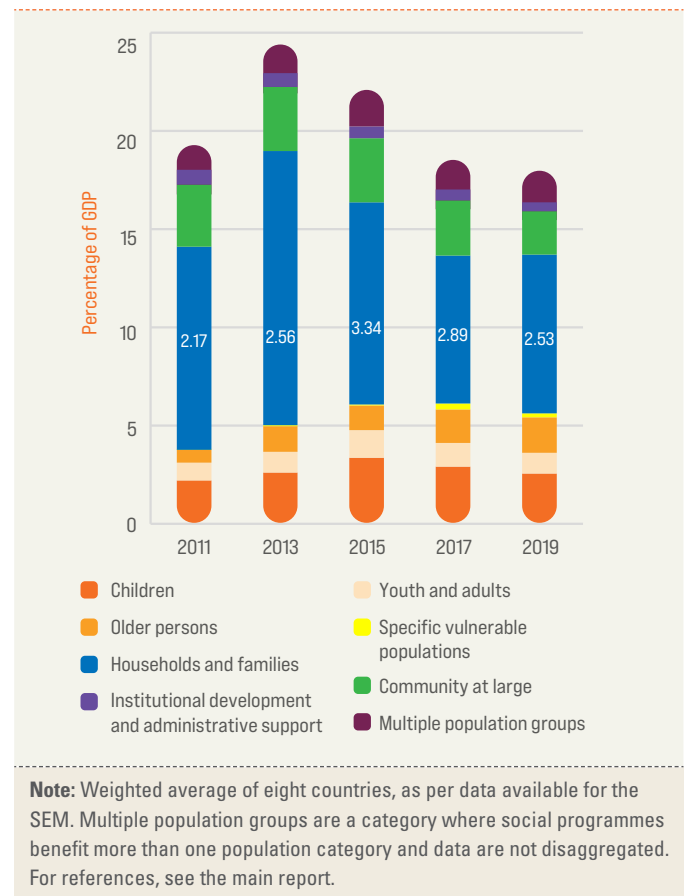


For references, see the main report.

While spending on health, education and social protection in the Arab region are relatively low, other areas of social spending that build young people's capacity, incentivize creativity, and boost human capital and productivity are even more marginal. Very little public expenditure is devoted to labour market support, the arts, culture and sports, and environmental protection. Employment generation programmes, incentives for business startups, social insurance, preventive care, early childhood education, and social-related research and development receive marginal consideration.

Tracking expenditures by the main beneficiaries, SEM found that most public social expenditure targets households and families through subsidies and other public transfers for social programmes (figure 4). Most of these programmes are poorly targeted and regressive. Expenditures specifically targeted to programmes related to women are insignificant, at less than 0.01 per cent of total social expenditure, mostly related to health and nutrition. Public budgets for specific vulnerable populations, including persons with disabilities and sickness, survivors, refugees and immigrants, are also nominal. Limited coverage of services for children, a lack of social security for workers in the informal sector, and insufficient social security for older persons not in the formal pension system are other critical shortfalls, likely contributing to the region's high inequality and low levels of social mobility.

Figure 4. On average, a large share of social expenditure is targeted at households and families, although with a downward trend



Impact of spending choices

Like other countries, Arab States have made strides in expanding access to education and health care through social spending policies. Yet these gains have not reached all members of Arab societies. People across the region struggle with longstanding barriers to equity and social justice and the realization of human rights. These limit social and economic opportunities, compounding constraints from inequalities baked into the structures of Arab societies and economies.

Public spending on health, education and social protection in Arab countries is lower than established international benchmarks (figure 5). Large discrepancies exist in social spending within the region, with the poorest countries falling far short of the projected costs for essential service packages in lower income settings. Public expenditure on social protection in the region is among the lowest worldwide as a share of GDP, with low-income countries among the lowest proportionate spenders.

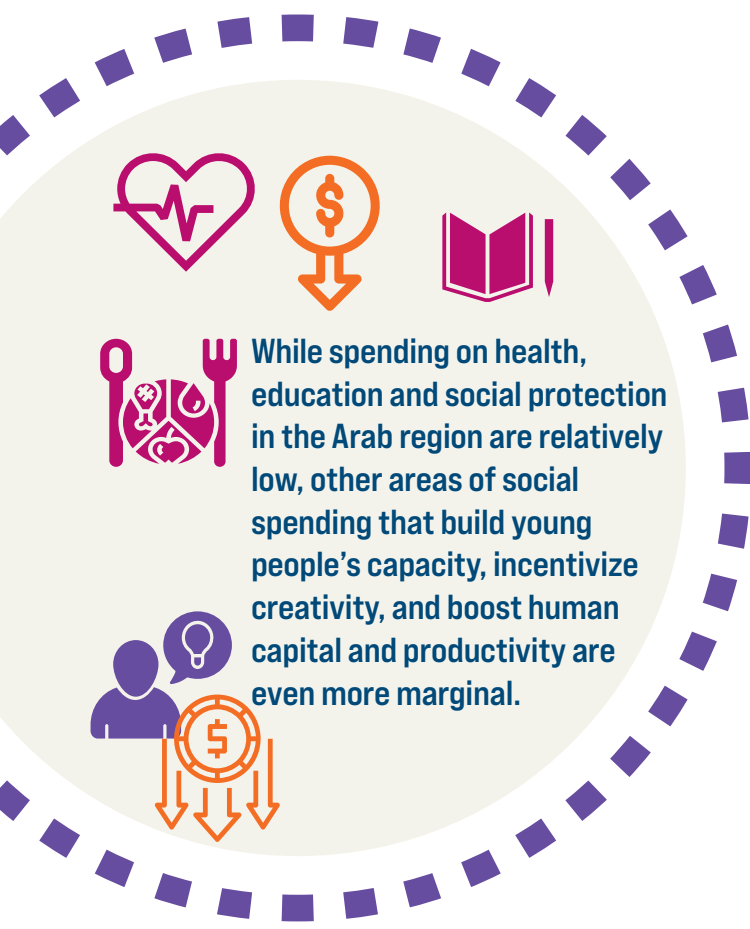
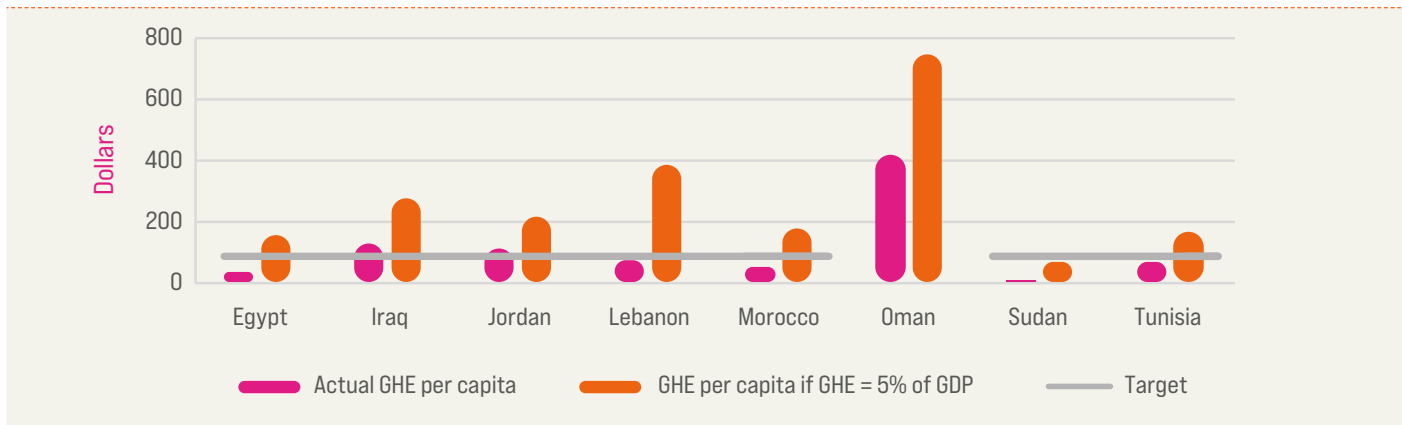


Figure 5. Government health expenditure per capita falls short of the level required to move towards universal health coverage, a fundamental for equitable societies

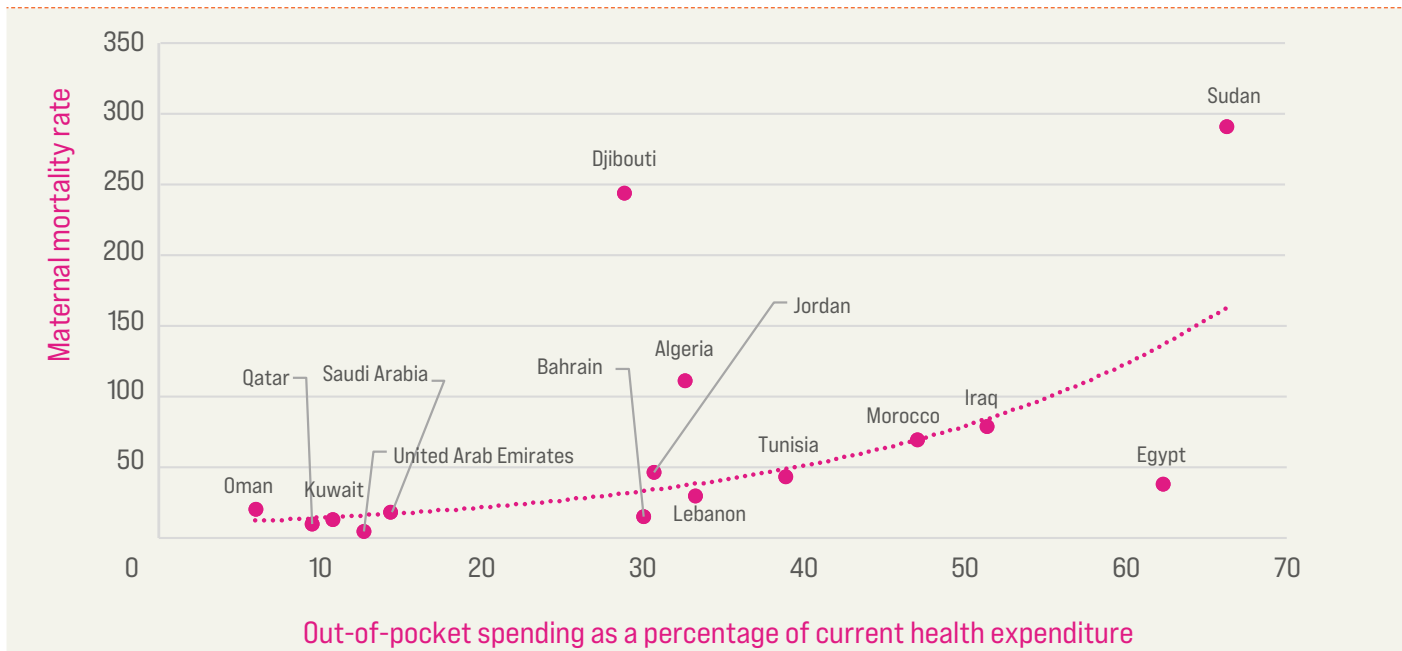


Note: Data are from 2019 for all countries except the Sudan, where they are from 2016. The authors used SEM data for converting spending into dollars per capita, except for the Sudan, where they used World Bank data for GDP per capita. GHE stands for Government health expenditure. For references, see the main report.

Skewed financing produces and reinforces social and economic inequities. Higher health expenditure in general correlates with lower maternal mortality, for example, but there is also an association between maternal mortality and sources of finance (figure 6). Countries with higher government health expenditure as a proportion of all health expenditure tend to have fewer deaths. In contrast, higher out-of-pocket spending, an issue across the Arab region, is associated with higher rates of maternal mortality. In addition, countries with lower social service access and less effective protection of the poor, especially those experiencing conflict or fragility, exhibit multiple deprivations.

The profound consequences of the COVID-19 pandemic have not been evenly distributed, falling most heavily on vulnerable groups, who also face the longest road to recovery given inequitable financing mechanisms that underpin social service systems. Pre-COVID trends of privatization in health and education, high out-of-pocket spending, and flawed targeting mechanisms are prime concerns in the Arab region, given the loss of income and the increased vulnerability of many households. Contracting economic growth and high debt burdens have increased fiscal pressures, which could force countries to adopt austerity policies and drastically cut already anaemic public social spending.

Figure 6. When people spend more from their own pockets, maternal deaths rise

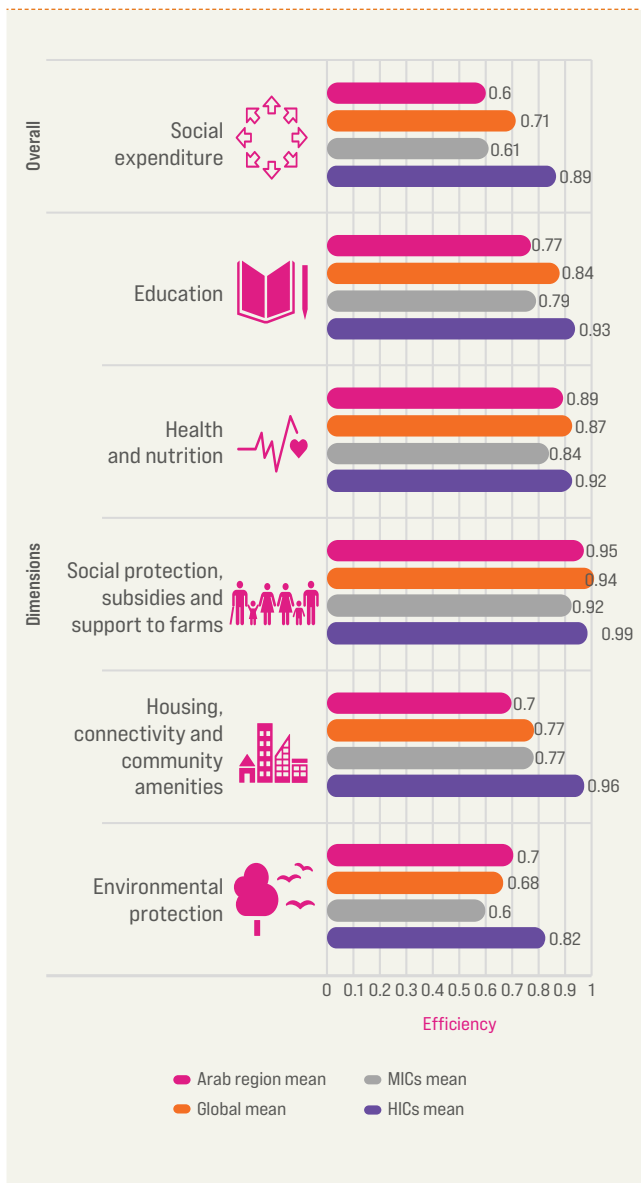


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Making money work more efficiently

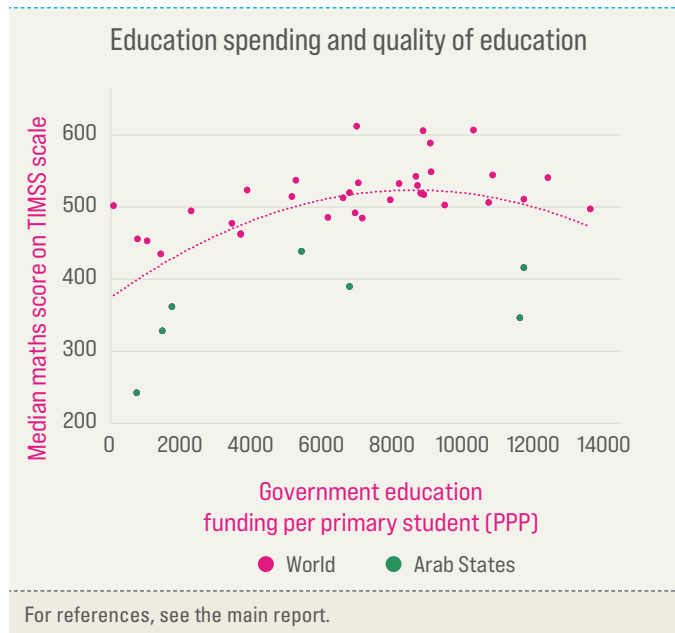
Adequate social expenditure is crucial to achieving development outcomes; however, the amount of spending is not the sole factor in this. Compared with countries at similar income levels, Arab countries lag behind on socioeconomic outcomes and on social expenditure. The region's average efficiency on social expenditure is below global benchmarks (figure 7). By achieving better efficiency, Arab countries can improve social development outcomes, even with the same level of expenditure.

Figure 7. Low social expenditure efficiency is driven by inefficiency in spending on education, housing and the environment



Note: MIC stands for middle-income country; HIC stands for high-income country. For references, see the main report.

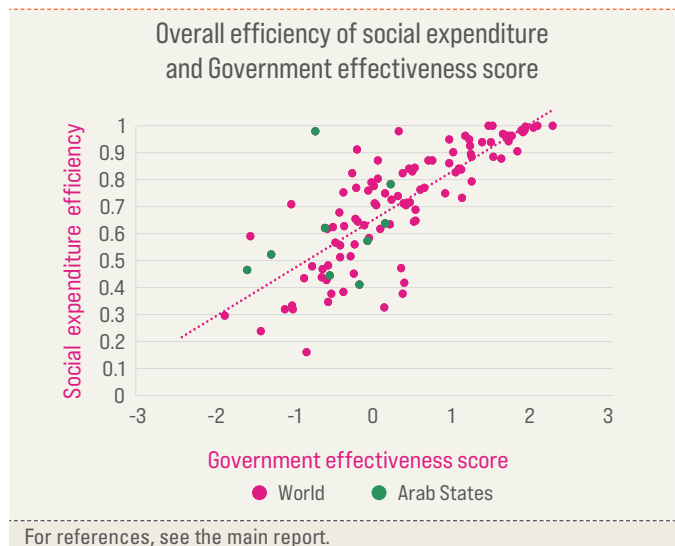
Figure 8. Arab countries record lower scores on international exams than countries with similar education expenditures



In education, for example, Arab countries are significantly less efficient than the global average, achieving fewer expected years of schooling than global peers relative to spending levels (figure 8). Greater spending efficiency is needed to turn health expenditures into better health outcomes.

Globally, correlation is weak between the overall efficiency of social expenditure, on measures of human well-being such as the Inequality-adjusted Human Development Index, and total public social expenditure as a percentage of GDP. Even countries that cannot immediately afford to significantly increase levels of social expenditure can be efficient. Government effectiveness and control of corruption are far stronger predictors of overall efficiency (figure 9).

Figure 9. Overall social expenditure efficiency correlates with several fiscal and governance variables



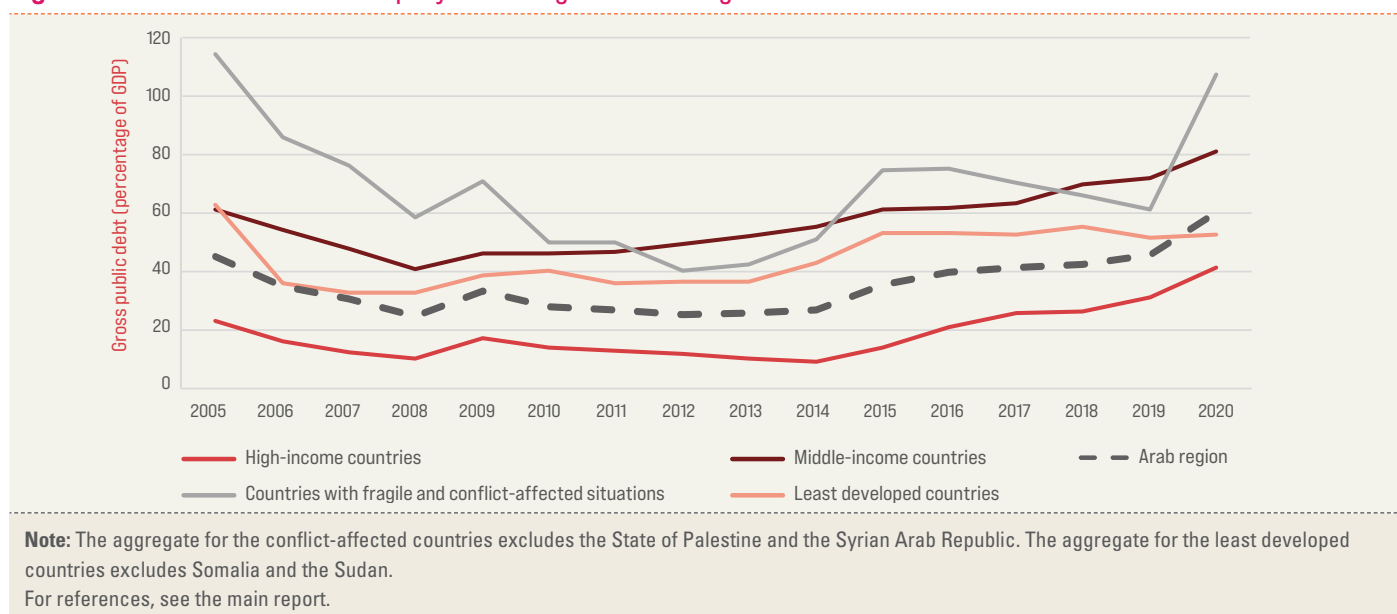
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Enhancing social expenditure and fiscal sustainability

The COVID-19 crisis, coming after a decade of economic and political shocks and downward pressure on growth and government finances, has widened fiscal deficits and spurred debt growth, which have caused some countries to teeter on the brink of unsustainability. Debt in the region reached an estimated 60 per cent of GDP in 2020 (equivalent to \$1.4 trillion), up from 25 per cent in 2008 (figure 10). Several Arab low-income and

middle-income countries are facing high debt burdens, or are at risk of debt distress having experienced severe output contractions even though pandemic relief and recovery demanded a massive infusion of funds. The composition of public debt has been changing, especially for middle-income countries, with an increasing share of external debt from private creditors at higher costs, since concessional borrowing from official creditors has reduced. In general, rapidly escalating debt has resulted from a combination of factors, including a general lack of adequate fiscal and monetary policy responses, recurrent trade and fiscal deficits, and low economic growth. Reducing the debt service burden and managing debt more sustainably has remained a challenge, which risks decreasing finance for social expenditures.

Figure 10. Public debt-to-GDP is rapidly escalating across the region



Fiscal and liquidity challenges are apparent in the region's inability to effectively respond to the pandemic's fallout, let alone jumpstart a resilient recovery. Fiscal stimulus was low during the pandemic compared with the global average, and given the needs arising from dramatic losses in income and jobs and strict pandemic containment measures. Of the total global fiscal support of \$18.7 trillion, Arab countries allocated only \$94.8 billion, around 4 per cent of GDP in 2020, compared with a global average of 22.6 per cent. The region now requires an additional \$462 billion to achieve a resilient and fast recovery on par with other regions, a challenge that comes on top of those that already exist in achieving the SDGs.

Strains on public budgets make resources for essential social expenditures difficult to find. At the same time, an inclusive recovery and continued progress on the SDGs require bolstering spending. Governments need to

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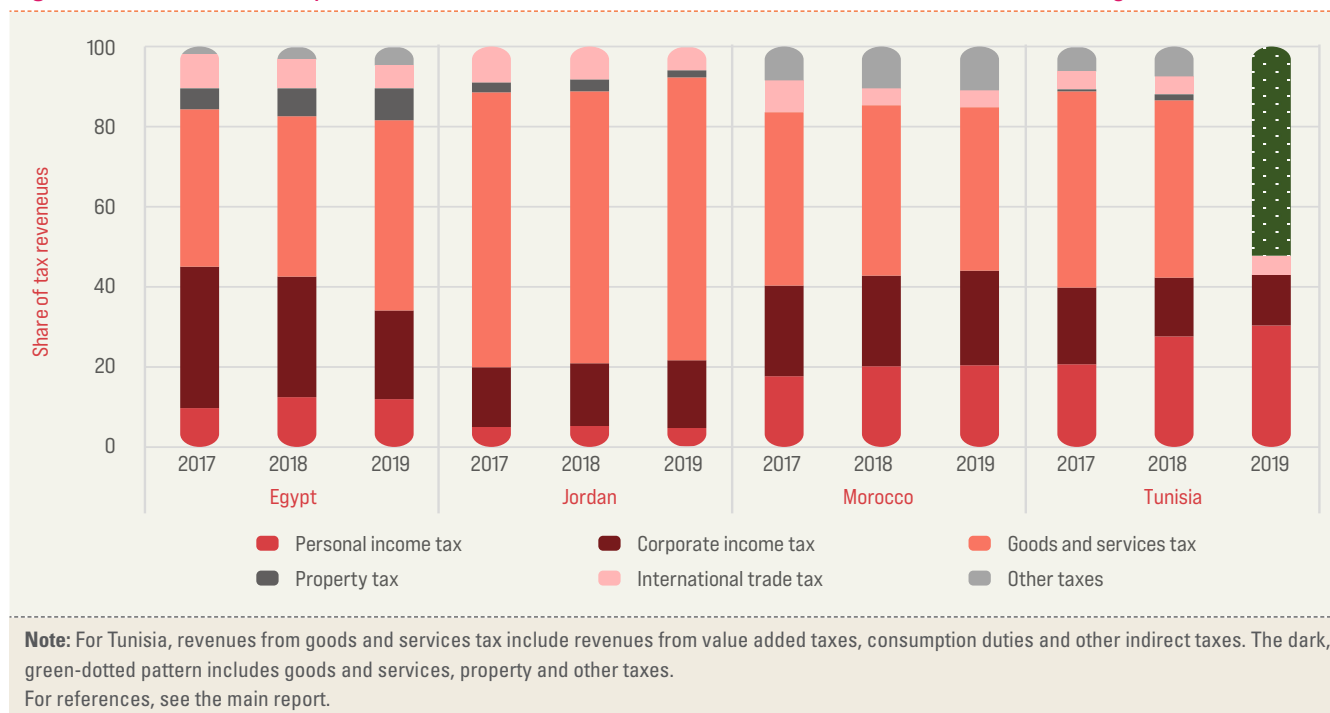
Of the total global fiscal support of \$18.7 trillion, Arab countries allocated only \$94.8 billion, around 4 per cent of GDP in 2020 compared with a global average of 22.6 per cent.



consider fiscal strategies geared towards efficiency, equity and sustainability, and built around smart investments. Improving tax revenues remains a challenge for most Arab countries. Total tax revenues in the region as a share of GDP have remained at around 8 per cent since 2010. The median tax-to-GDP for Arab middle-income countries is 16 per cent, which is lower than the average of the world's middle-income countries. Despite recent efforts to mobilize higher income tax revenues in several countries, the share

of income tax from total taxes is generally 20 per cent for most Arab middle-income countries (figure 11). Wealth taxes constitute a negligible part of total tax revenue, despite the region's high concentration of wealth among the top 1 per cent of people. The high share of taxes drawn from goods and services indicates the regressive nature of tax systems in the region, since the burden of indirect taxes falls more on the poor and the middle class than on the rich.

Figure 11. Personal and corporate income taxes are low in most middle-income countries (Percentage)



The new issue of special drawing rights (SDRs) is a useful liquidity support, but it remains skewed towards benefitting high-income countries more than middle-income countries, based on existing quotas of SDR distribution. Of \$650 billion, the share of the Arab region was \$37.3 billion, with Arab low- and middle-income countries (15 of a total of 21 Arab countries) receiving only about \$15 billion, which is far below what is required to catch up to the global average of Government fiscal support as a share of GDP.



PFM informs policymaking and provides instruments for implementation. Weaknesses will most likely result in misguided fiscal policy decisions.



Managing public finances to achieve social goals

All the fiscal strategies discussed in the present document lead in a common direction: towards more careful and comprehensive management of public resources, underpinned by sound public finance management (PFM). This helps in opening fiscal space through mobilizing additional revenue, borrowing sustainably and strategically, and reallocating resources with existing budget envelopes so they are more aligned with development priorities. PFM informs policymaking and provides instruments for implementation. Weaknesses will most likely result in misguided fiscal policy decisions, SDG-related or otherwise, and derail implementation plans, leading to less than desired outcomes. Strong PFM is thus a prerequisite for

spending efficiently and effectively, based on approved budgets, and is essential in making fiscal policy operational and effective. The management of assets and liabilities, accounting and reporting, and external scrutiny and audits are generally weak in the Arab region. There are also gaps on performance indicators related to budget reliability, the transparency of public finances, and policy-based fiscal budgeting. Weaknesses specific to countries with fragile and conflict-affected situations centre on payment controls and insufficient procurement mechanisms.

Some efforts have been made to use PFM to enhance social spending that supports inclusive growth, such as through gender-responsive budgeting that seeks to bring gender equality concerns into public policy decisions and implementation. On balance, however, PFM shortfalls continue, carrying costs in terms of expenditure efficiency, equity and effectiveness that the Arab region cannot afford.



Policy recommendations

An agenda for equipping budgets to achieve the SDGs

1. Reprioritize public budgets and steer allocations to critical social policy areas. Pursuing a balanced mix of expenditures will, in many cases, require better targeted social protection expenditures and increased public transfers to issues currently on the margins of public budgets. Examples include building the capacity of young people and strengthening research and development.



2. Enhance social expenditure effectiveness through more allocations to social investments with long-term positive impacts on human development and economic growth. Improving and sustaining quality public services and quality infrastructure should catalyse the mobility of people and the workforce. These efforts should build on evidence-based monitoring of social expenditures, policy impact evaluations, and assessments of the economic growth multiplier effects of social spending.



3. Improve social expenditure monitoring in all areas that directly support achieving the SDGs, including by applying SEM. The Monitor goes beyond a traditional emphasis on health, education and social protection, providing a more comprehensive picture with over 50 indicators aligned with the SDGs in seven dimensions: education; health and nutrition; housing, connectivity and community amenities; labour market interventions and employment generation; social protection, subsidies and support to farms; arts, culture and sports; and environmental protection. SEM can be a useful tool to monitor expenditures related to climate budgeting and track gender equality.



4. Make “smart” investments to enhance equity. Governments need to allocate resources to services most frequently used by women, the poor, persons with disabilities and other marginalized groups among children and older persons. This is essential not only to improve development outcomes, but also to realize human rights and uphold social justice. Beyond spending, accurate data on beneficiaries of public expenditure need to improve to better analyse equity. In addition, Governments need to protect and expand support across health, education, and social protection, ensuring the recovery from COVID-19 pandemic does not worsen the balance in spending between social sectors.



5. Assess the efficiency of public social expenditure to minimize wastage and improve investment in development priorities. With greater efficiency, to the level of global benchmarks, Arab countries could spend the same as a share of GDP, but achieve greater human development gains or channel savings into other priorities. Improved data systems should capture expenditures at the levels of inputs and outputs, since understanding both is crucial for evidence-based decision-making.



6. Emphasize greater efficiency in public financial management to improve fiscal sustainability and deliver quality inclusive public services. This requires targeting public expenditures to strategic areas with transformational impact, and periodic evaluation of public social programmes to identify areas of improvement across ministries. It also calls for modernizing the public transfer system to ensure transparent, efficient and quality service delivery, and better targeting of vulnerable populations.



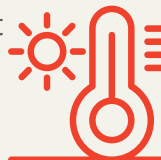
7. Improve domestic revenue mobilization by increasing tax collection, reassessing the tax base, enhancing tax equity and progressivity, addressing tax inefficiencies, and controlling illicit financial flows. Increasing tax collection should involve passing tax reforms and investing in quality public services that inspire trust and create buy-in among taxpayers. Rethinking Arab tax policy is important given the scale of tax revenue leakages and abuses, such as tax evasion, trade misinvoicing and tax avoidance.



8. Develop credible fiscal frameworks over the medium term for revenues and expenditures. Such frameworks should consider needs for augmenting existing borrowing, or pursuing new borrowing to finance the SDGs and boost economic growth when this is in line with fiscal sustainability. Stabilizing the debt-to-GDP ratio over the medium term and allocating additional fiscal space to social expenditures such as health, education and housing services, among others, can have a growth-enhancing effect, with conducive monetary policy. Such a strategy would ensure both debt sustainability and higher output, while building human capital. Medium-term budgeting is an important institutional arrangement for enhancing the effectiveness of budget allocations. For countries on the brink of unsustainable debt, establishing a multilateral sovereign debt forum could help move creditors and debtors towards debt relief that promotes SDG financing.



9. Operationalize innovative debt relief instruments, such as climate and SDG debt swaps, to improve financing for public goods. Swaps offer significant opportunities to alleviate mounting pressures on public finance, enlarge fiscal space and release funds for social and environmental aims. The ESCWA Climate/SDGs Debt Swap-Donor Nexus Initiative is a next-generation debt swap instrument that considers the scalability of the swap amount, donor support and key performance indicators to maximize impact. The UNDP Sustainable Finance Hub provides technical support to the development of debt solutions that are linked to SDG-specific commitments and indicators, such as thematic bonds and debt-for-nature swaps.



10. Encourage developed countries to help bridge the inequality gap in fiscal stimulus between developing and developed countries. This requires fulfilling official development assistance (ODA) commitments to finance the SDGs and contribute to an inclusive global recovery. Another proposal is for IMF member States to channel unused SDRs from developed to developing countries, including Arab countries, based on indicators of vulnerabilities and financial shortfalls stalling recovery. The IMF Resilience Trust Fund, established in 2021, is one such mechanism for rechanneling unused SDRs. However, the Resilience Trust Fund is insufficient to absorb the large volume of unused SDRs. Multilateral development banks and regional monetary institutions, which are prescribed holders of SDRs, can play a significant role in recycling SDRs to support financing for vulnerable Arab countries.



11. Develop a carefully designed PFM reform roadmap and tackle key PFM challenges. A roadmap entails sequencing reforms that factor in the strengths and weaknesses of existing systems, resources and capacities. Significant PFM system bottlenecks should be prioritized. Reforms should start with core functions for financial compliance, fiscal control and budget reliability, as these lay the groundwork for all other PFM functions and enable future policy reforms. Notwithstanding contextual variations, reforms should target the management of investments in social sectors, budget execution, transparency, and oversight and accountability mechanisms.





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