



Shared Prosperity **Dignified Life**



Empowered lives.
Resilient nations.



Social Expenditure Monitor for Arab States

Toward making budgets more equitable,
efficient and effective to achieve the SDGs



Lead Authors

ESCWA Team: Niranjan Sarangi, Senior Economic Affairs Officer

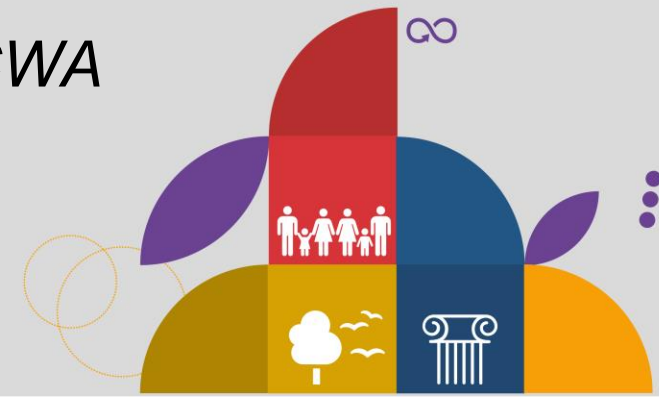
UNDP Team: Vito Intini, Regional lead Economist and Rania Uwaydah, Public Financial Management Expert

UNICEF Team: Samman Thapa, Regional Adviser for Social Policy



A Better Means of Measurement

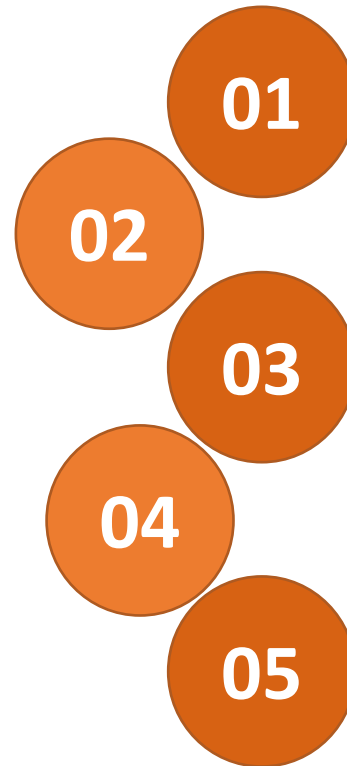
Niranjan Sarangi, Senior Economic Affairs Officer, ESCWA



Contributions of the Report Key Research and Policy Issues

Do spending choices add up to equity-or stand in the way?

Ways and means of enhancing public social expenditure and fiscal sustainability?



Why does public social expenditure matter? What are the important measures and trends for the region?

Efficiency of public social expenditure, making money work efficiently

Managing public finances to achieve social goals with key public finance management reforms

Social Expenditure Monitor (SEM) A Better Means of Measurement

The SEM presents a new framework of measuring social expenditures aligned with the SDGs.

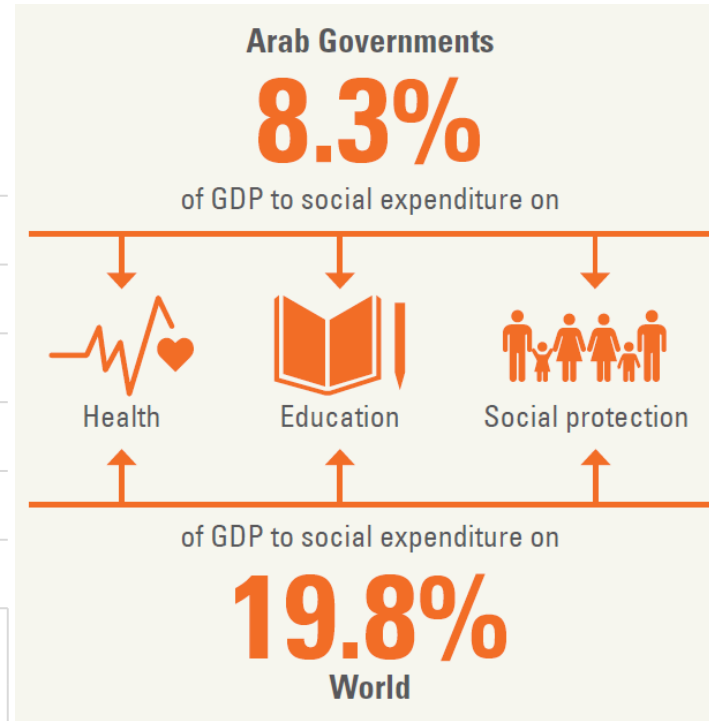
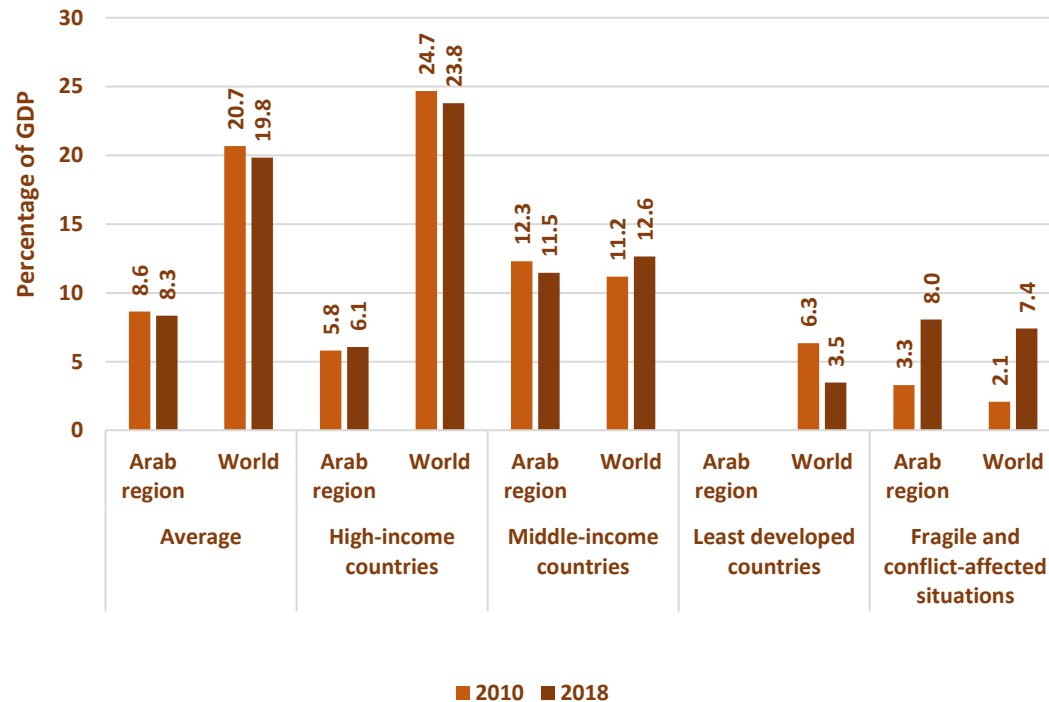
The SEM has SEVEN Dimensions of Social Policy Expenditures.

<https://sem.unescwa.org/framework>



1. On average, public social expenditure in the Arab region on health, education and social protection, as a share of GDP, is lower than the global average.

Public social expenditure as a percentage of GDP, based on health, education and social protection (HES)



Public expenditure as a share of GDP

34.6%
Arab region

35.7%
World



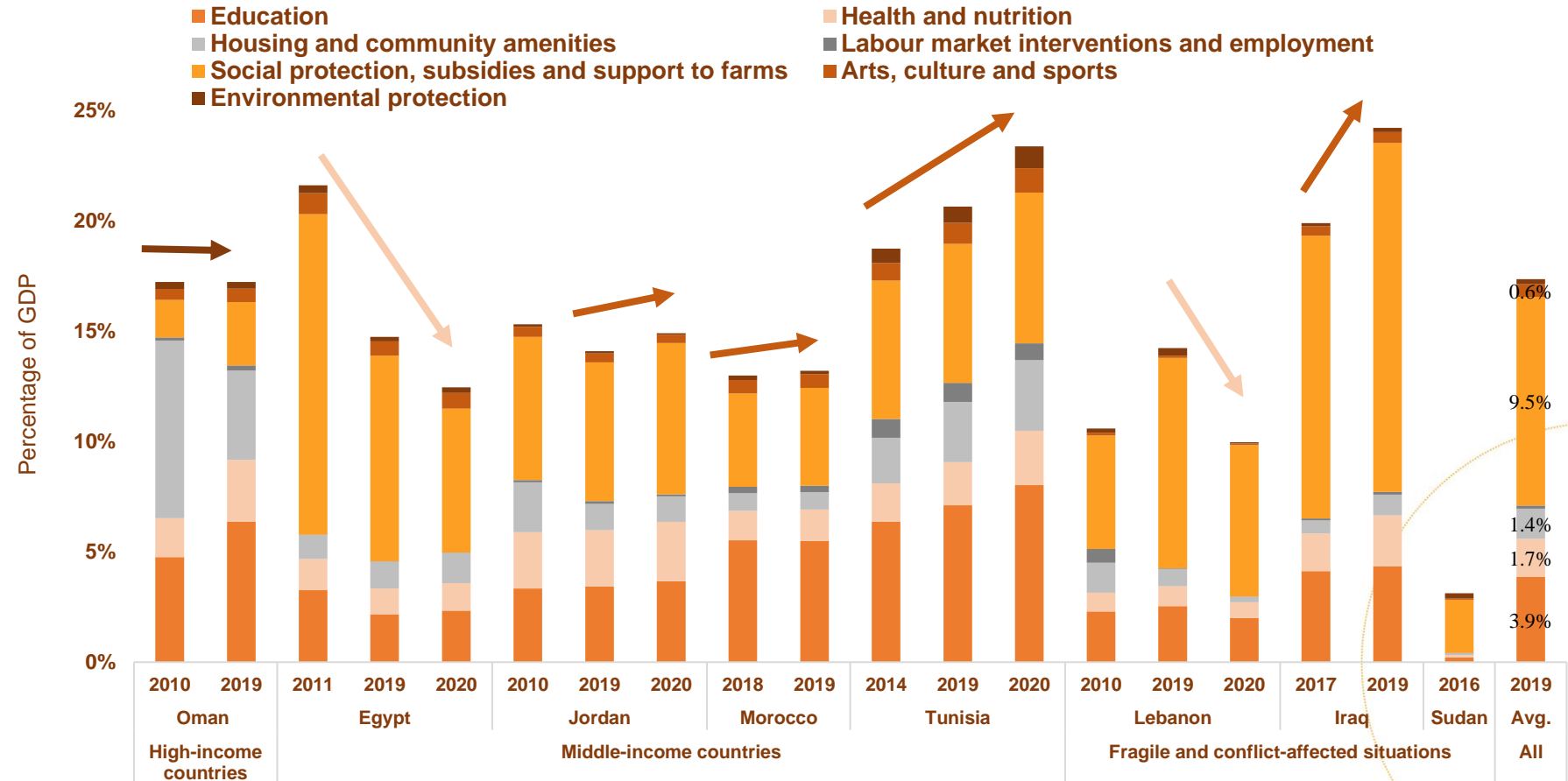
Source: [Social Expenditure Monitor for Arab States](#)

2. Public Social Expenditure on Seven Dimensions of SEM: Ranges between 10-20 per cent of GDP, largely due to subsidies

On average, social expenditure in all seven dimensions was 17.4 per cent in 2019.

- Environmental protection: <1 per cent
- Labor market interventions: <1 per cent
- Arts, culture, and sports: <1 per cent
- Health: 1-2 per cent
- Housing: 1-8 per cent
- Education: 2-7 per cent
- Social Protection, Subsidies and Support to Farm: 2-16 per cent

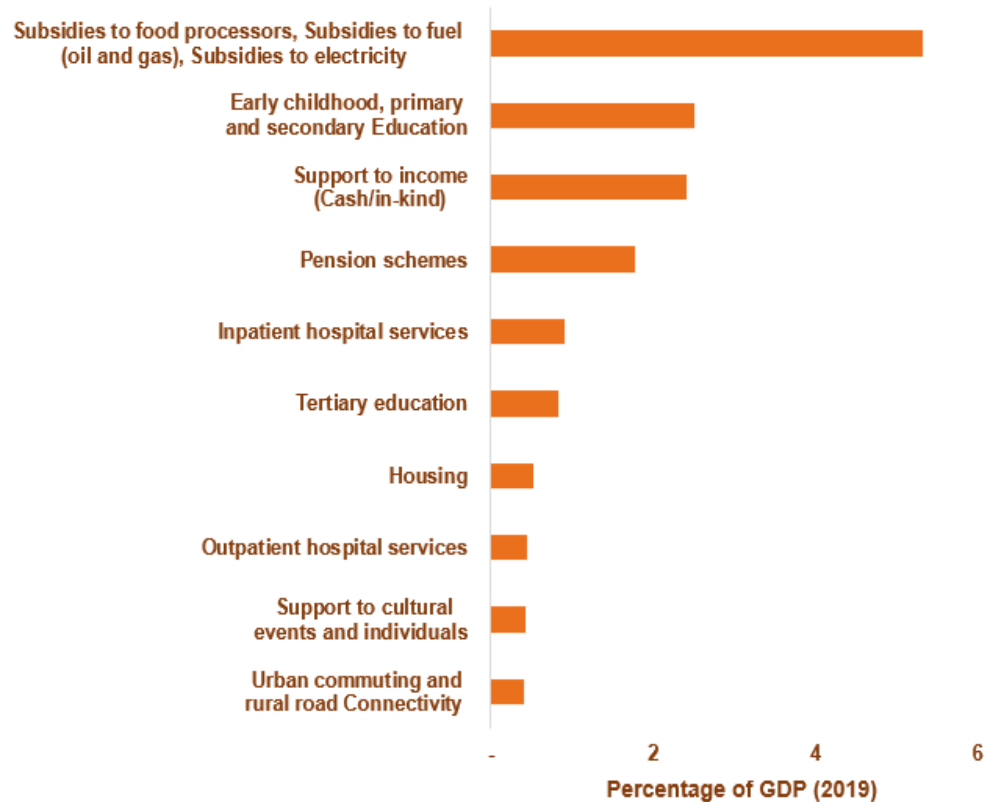
No clear trend across countries



Source: [Social Expenditure Monitor for Arab States](#)

3. Subsidies top social policy expenditure; innovation and investment that have positive long-term benefits lag

Major 10 Social Policy Expenditure Areas (% of GDP)



Shortfalls in critical areas of social spending

Creating capacity among youth, such as art and sports, research and development;

Generating jobs and labour market support, such as employment generation programmes, incentives to start ups/ support to SMEs;

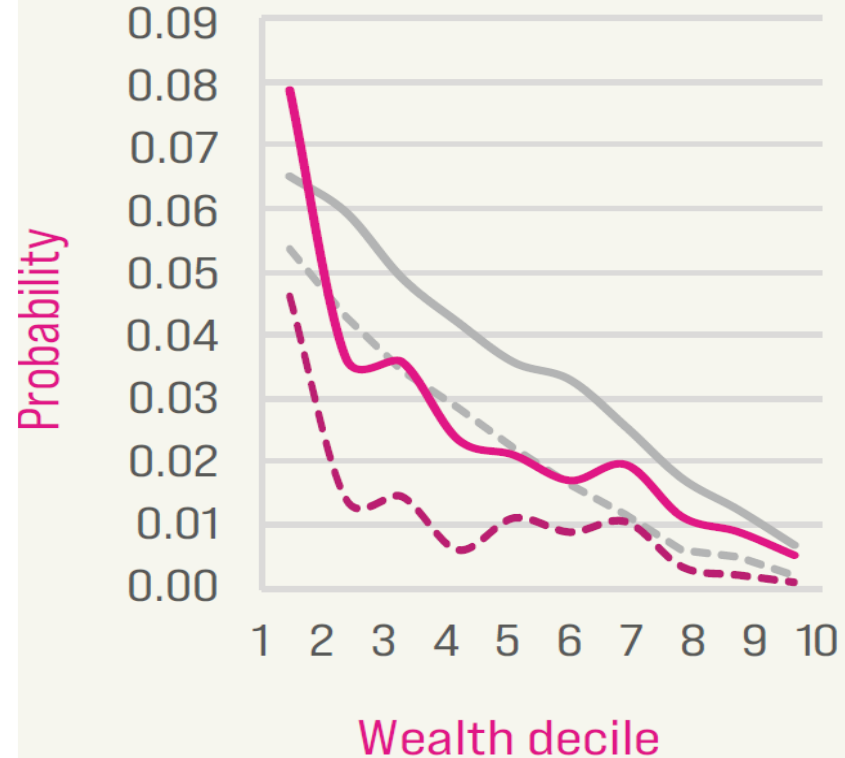
Building climate resilience, such as environment protection and incentives for promoting green transition



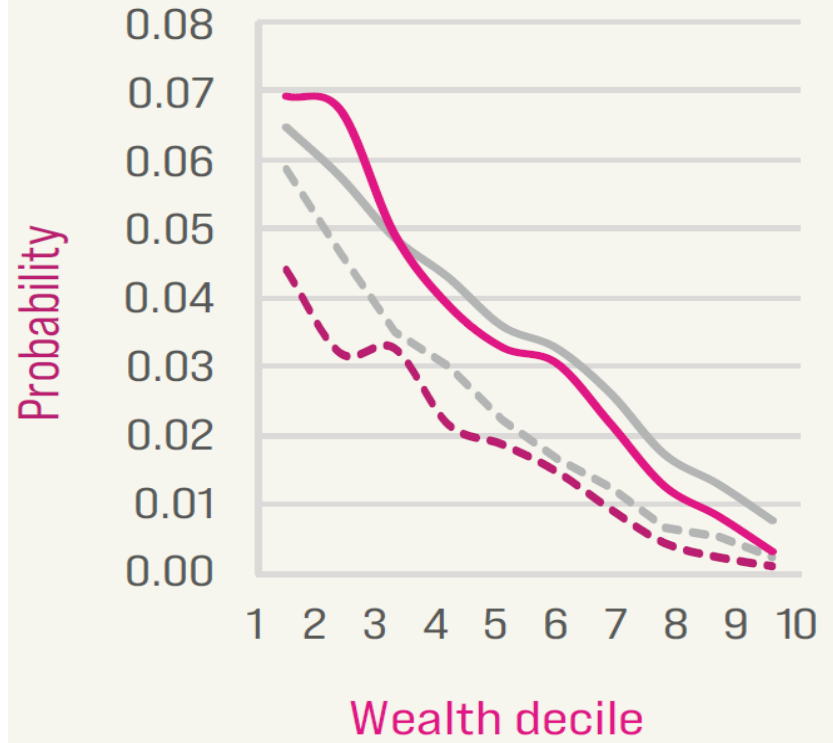
An Example

Human capital investments targeting workers' health and skills have positive long-term benefits, in addition to reducing vulnerabilities

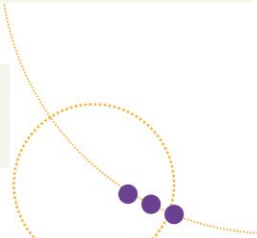
(i) Recipients of public vocational training compared to non-recipients



(iii) Recipients of public financial assistance compared to non-recipients

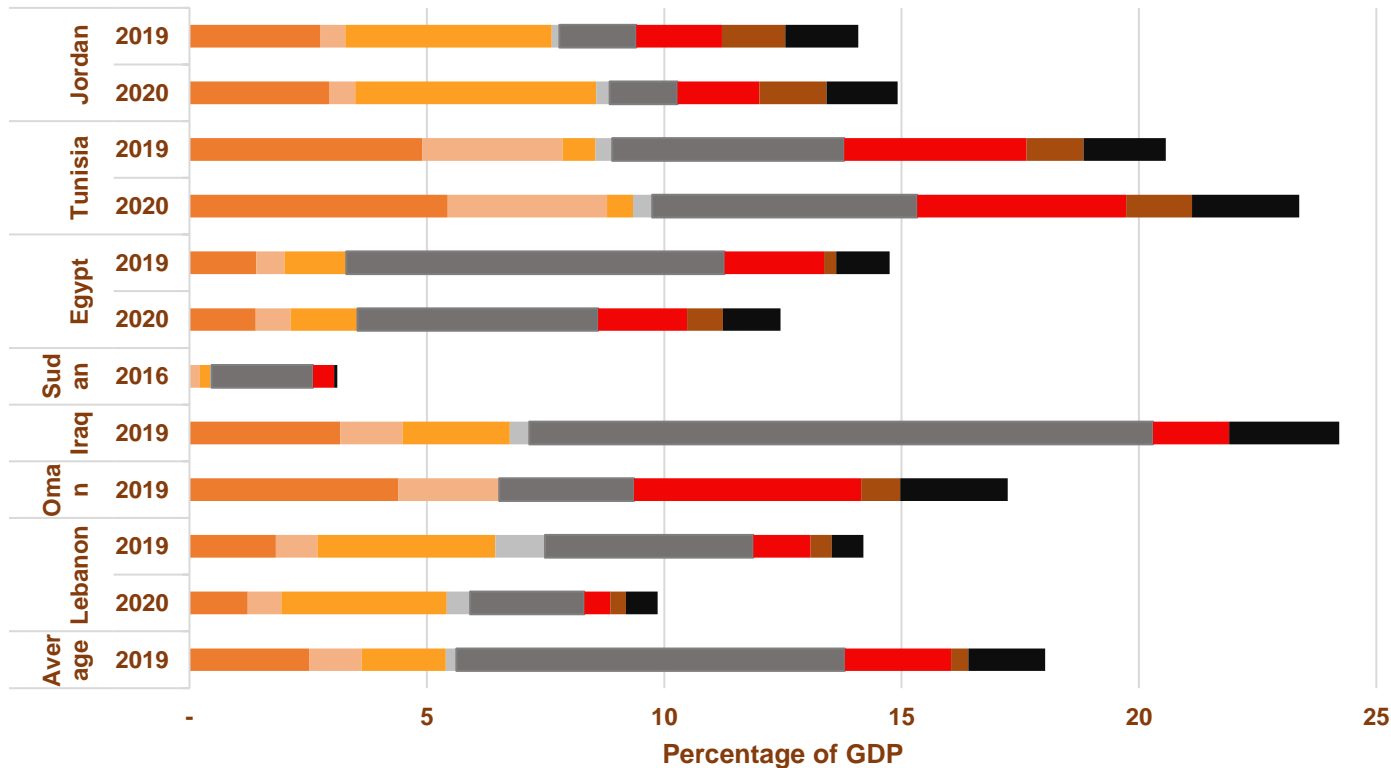


— Assisted: rarely deprived - - - Assisted: sometimes/often deprived
— Unassisted: rarely deprived - - - Unassisted: sometimes/often deprived



4. Targeting Budgets to Women, Children and Vulnerable Populations have Remained a Challenge

Households and families benefit particularly in countries with extensive subsidies



Targeted expenditures to:
Specific vulnerable populations (0.22% of GDP in 2019).

Youth and adults (1.1 % of GDP in 2019).

The older persons (1.77% of GDP in 2019)

Household and families benefit largely due to general subsidies; how equitable depends on type of intervention

Data on targeting budgets to beneficiaries is often unclear; SEM provides a framework of tagging budget lines to beneficiaries.

5. Current expenditure takes a dominant share in social expenditures which undermines investments in infrastructure, productivity and job creation



Capital expenditure made up only around

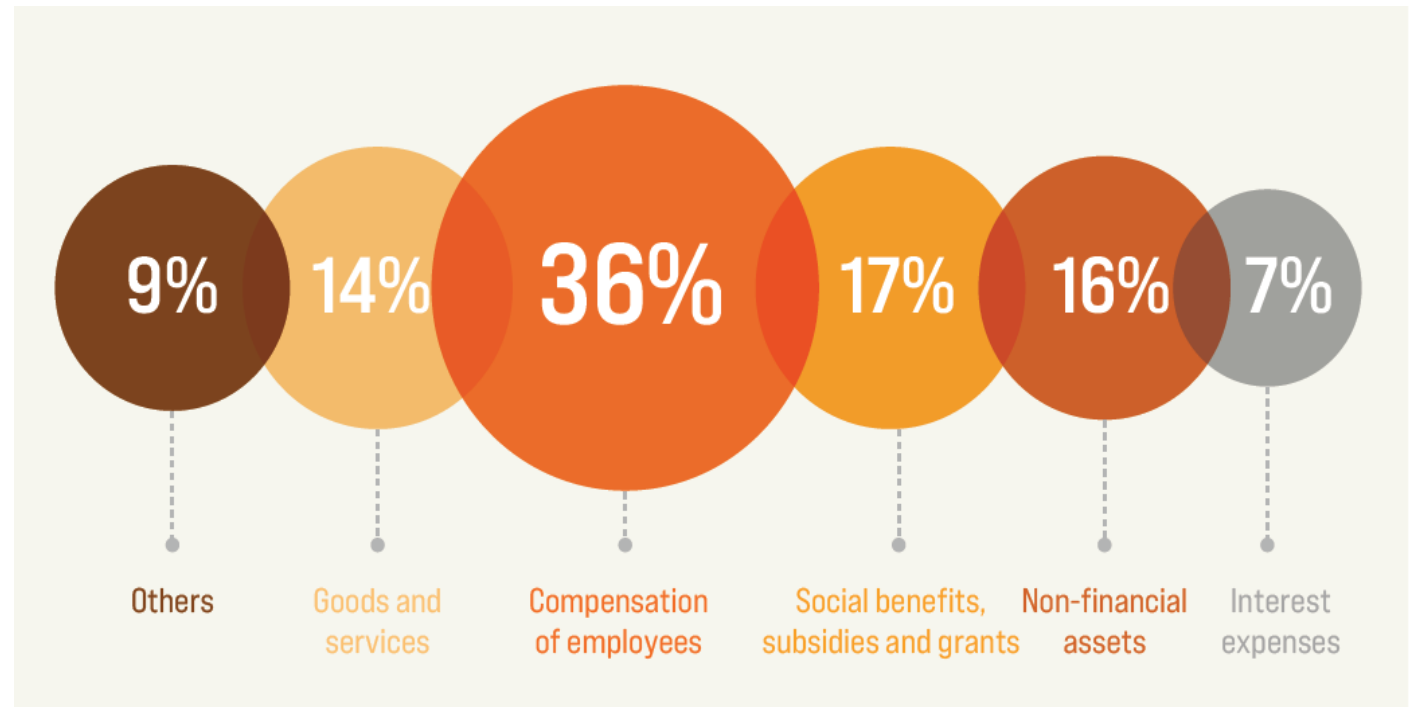
1/5 of social expenditure in 2019 in countries with SEM data



Current expenditure takes a dominant share

80% in social expenditures

The economic composition of public expenditure in the Arab region, 2019





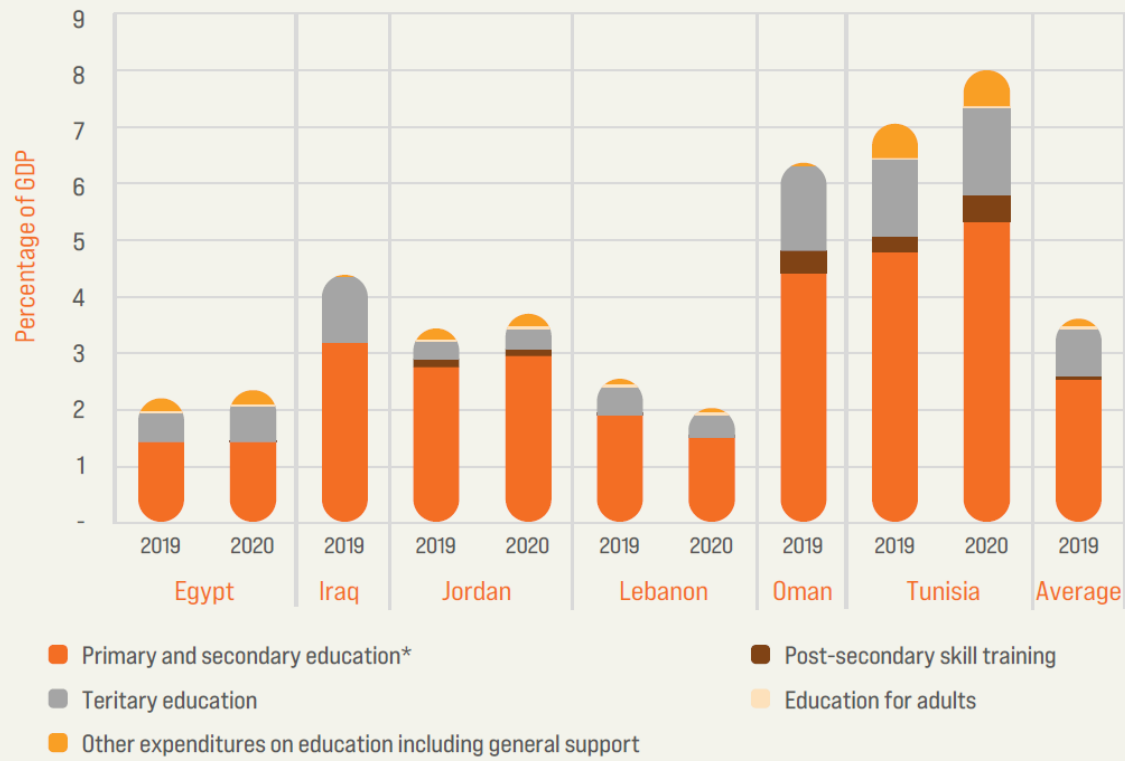
Seven Dimensions of SEM

Nathaniel Martin, Associate Economic Affairs Officer, ESCWA



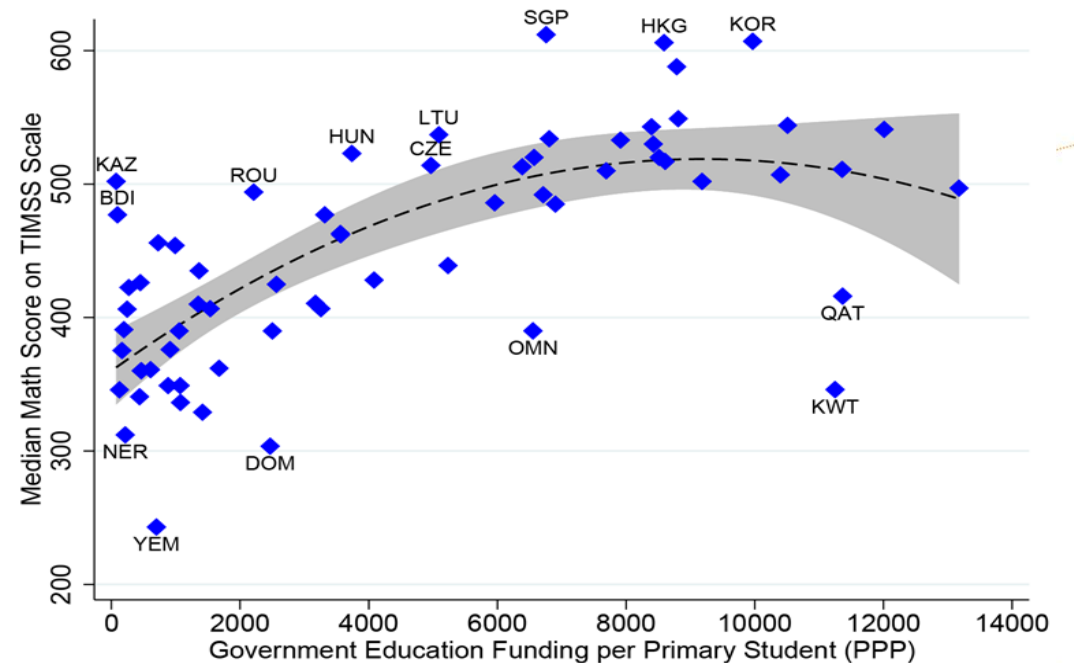
More than 20 per cent of social expenditure goes to education but shortfalls remain in several areas including quality of education

Major share of education expenditures are on primary and secondary education



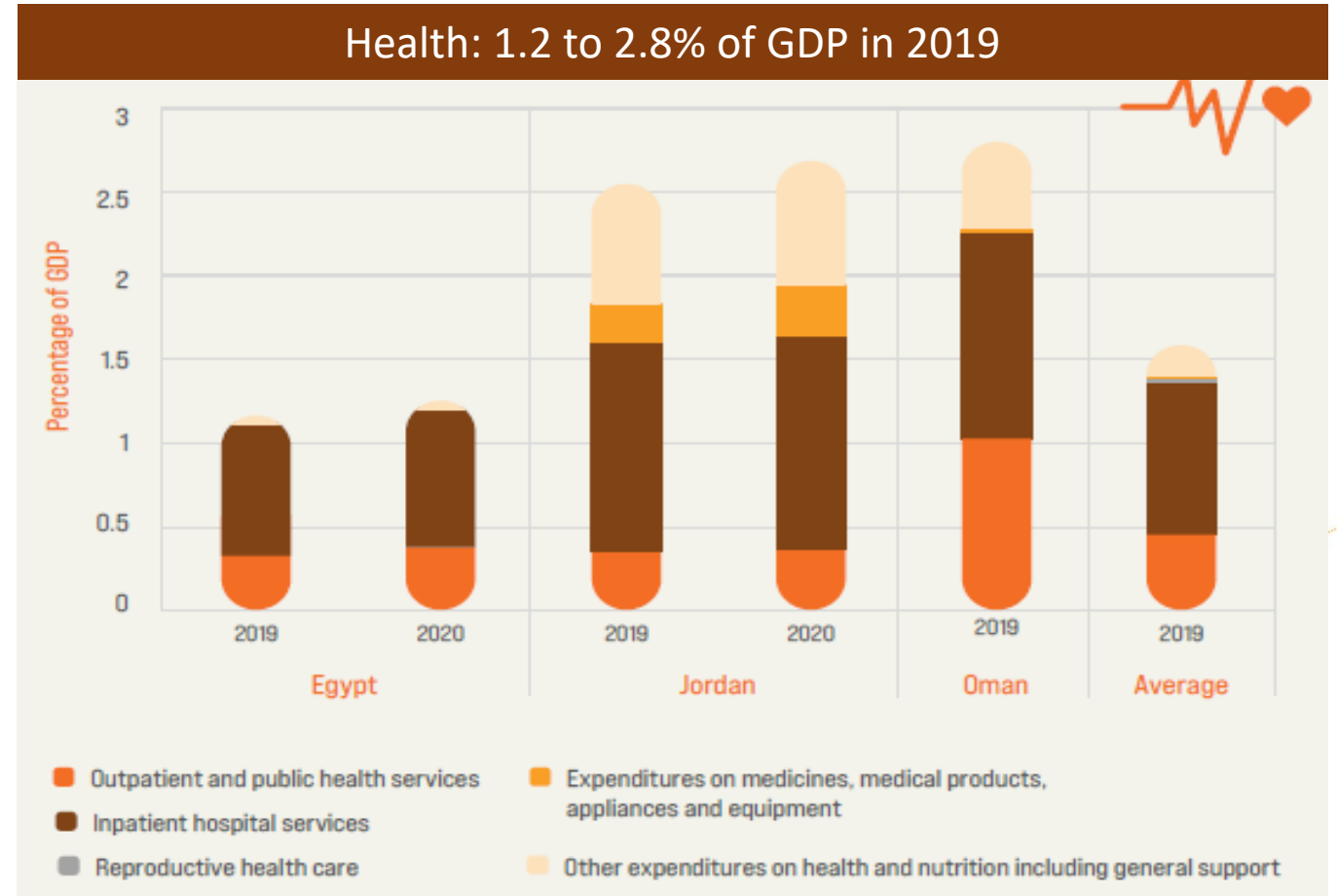
- Countries with available data show low support for early childhood education
- Tertiary education expenditure varies from 0.3% to 1.5% of GDP but expenditure on research and development is 0.02% of GDP.

Quality of education remained a challenge

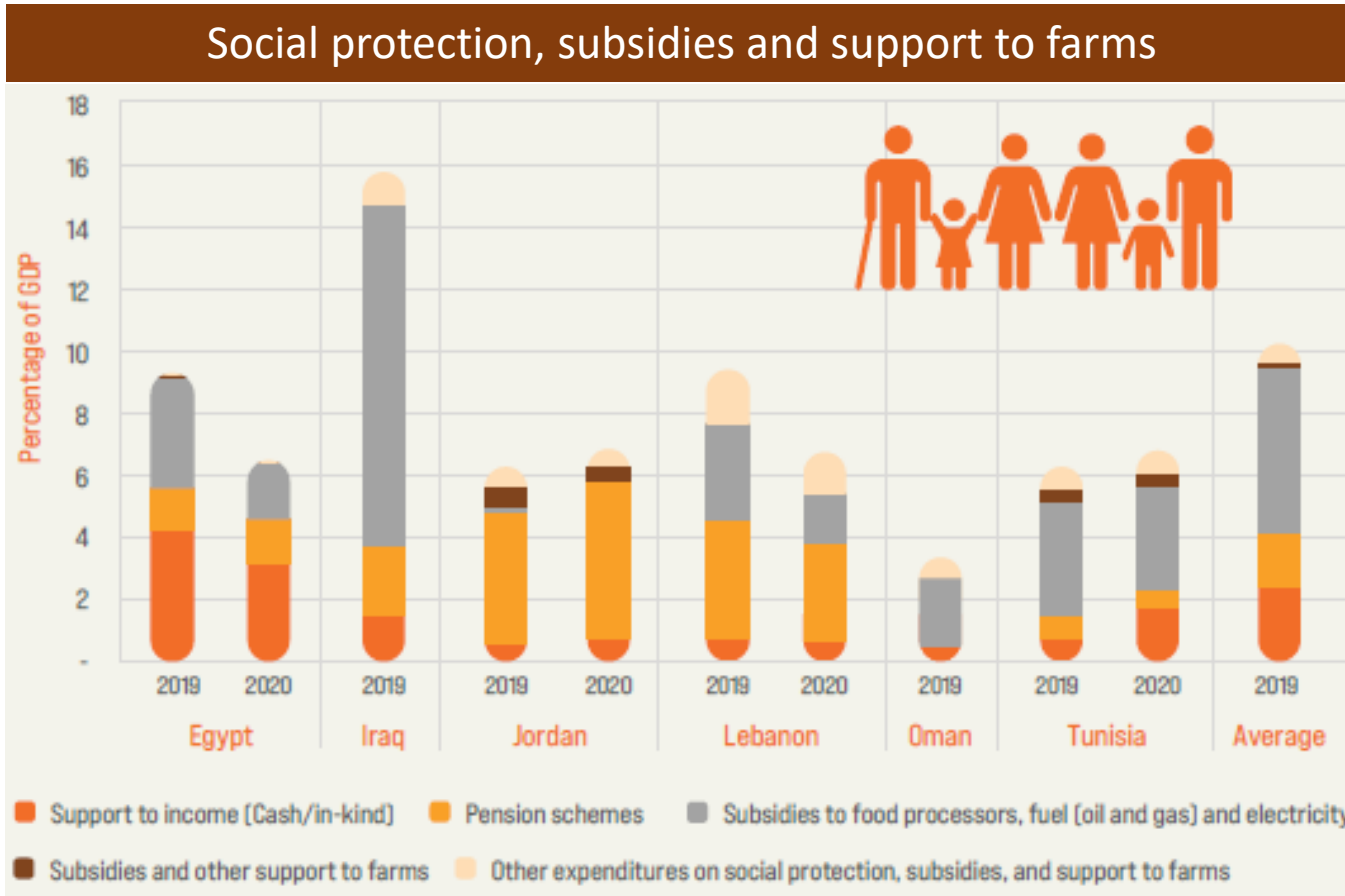


Health expenditures rose during the pandemic but remain low in countries with available data

- Outpatient expenditure is low: 0.45 per cent of GDP
- Better disaggregation needed between inpatient and outpatient
- Reproductive health care: 0.03 per cent of GDP
- Only four of eight countries of SEM had disaggregated data to show expenditure targeted specifically towards supporting women.



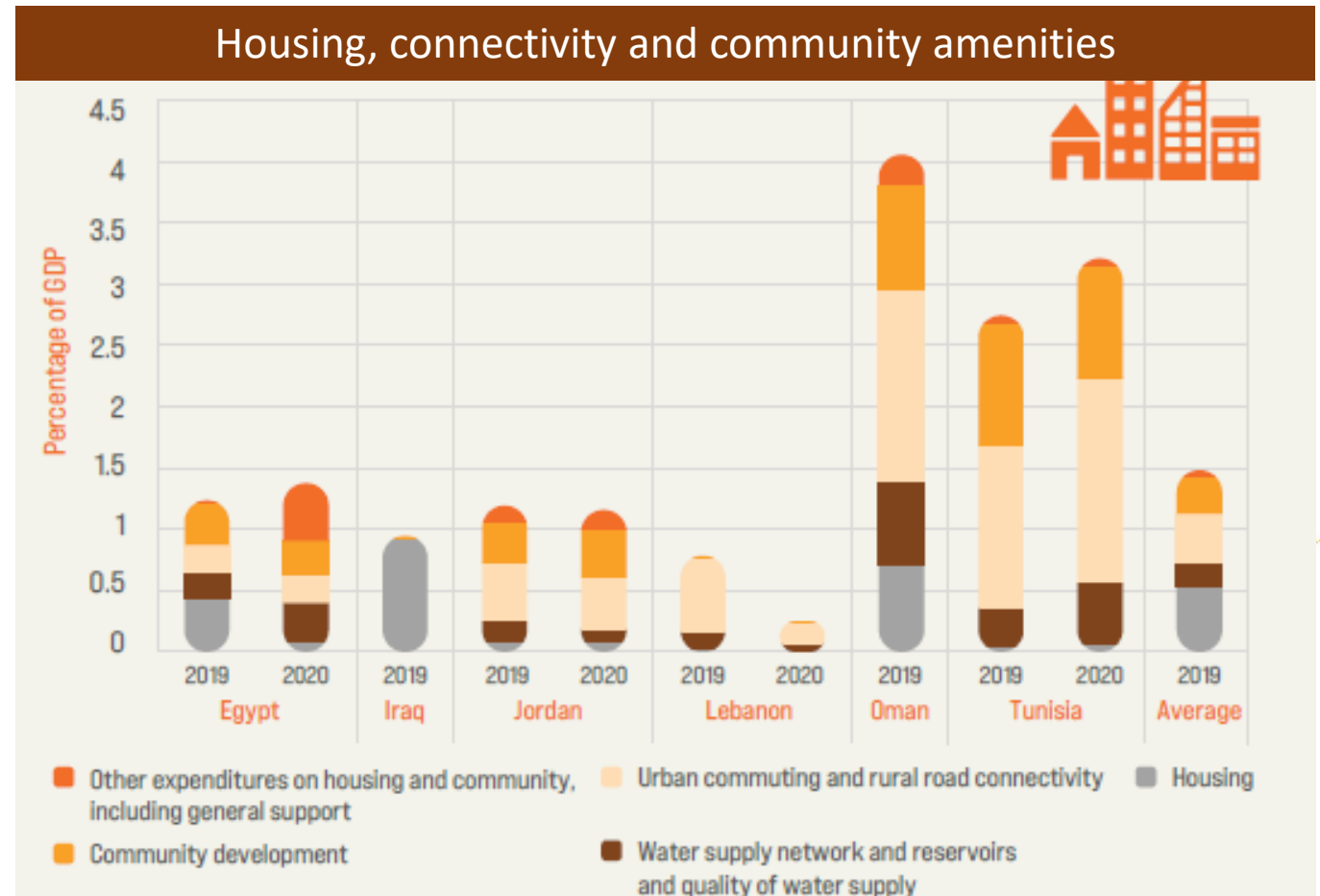
Food and energy subsidies are prominent in spending on social protection, subsidies and support to farms



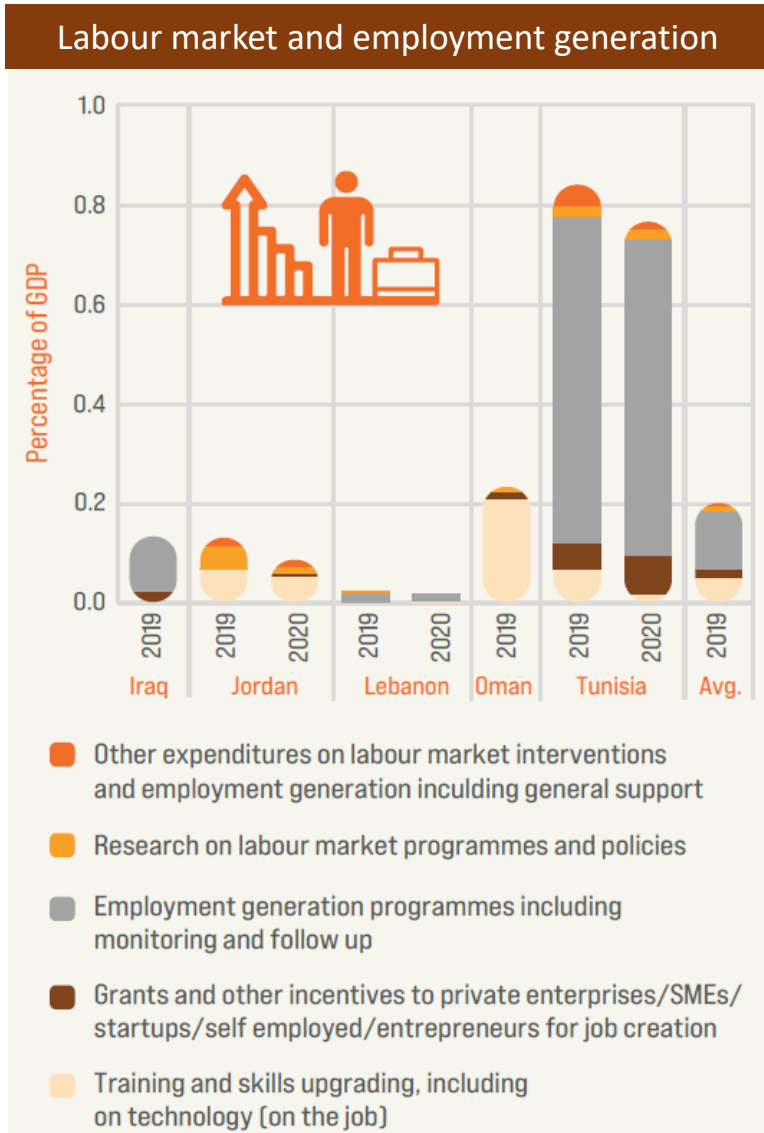
- Subsidies (food and energy) amounted to 5.3 per cent of GDP in 2019. Total for the dimension is about 10 per cent.
- Social assistance in terms of cash and in-kind: 2.5 per cent
- Social insurance, mainly pensions: 1.8 per cent
- Expenditures specifically targeting vulnerable populations are at the margins of public budgets (0.2 per cent in 2019).

Expenditure on housing and community development services have increased in some countries

- Housing is fundamental to education, employment and health in addition to its significant role in citizen identity and social belonging.
- Spending on housing, connectivity and community amenities averaged 1.5 per cent of GDP in 2019
- Public service on **water supply** is low, leading to privatisation of water supply services
- Progress in reducing the population living in slums over the last decade, but still higher than global averages



Public budgets to support labour markets are marginal in most countries



- Low productivity and low growth → low employment generation and high unemployment rate
- Plus the demand–supply gap which is often due to lack of essential skills.
- Given this situation, public expenditure on employment generation is low: 0.2% of GDP on average
- Countries emphasize a variety of strategies for raising employment and improving labour market outcomes:

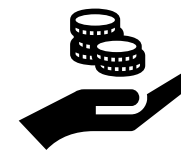
Research on programs and policies



Employment generation



Grants to enterprises for job creation



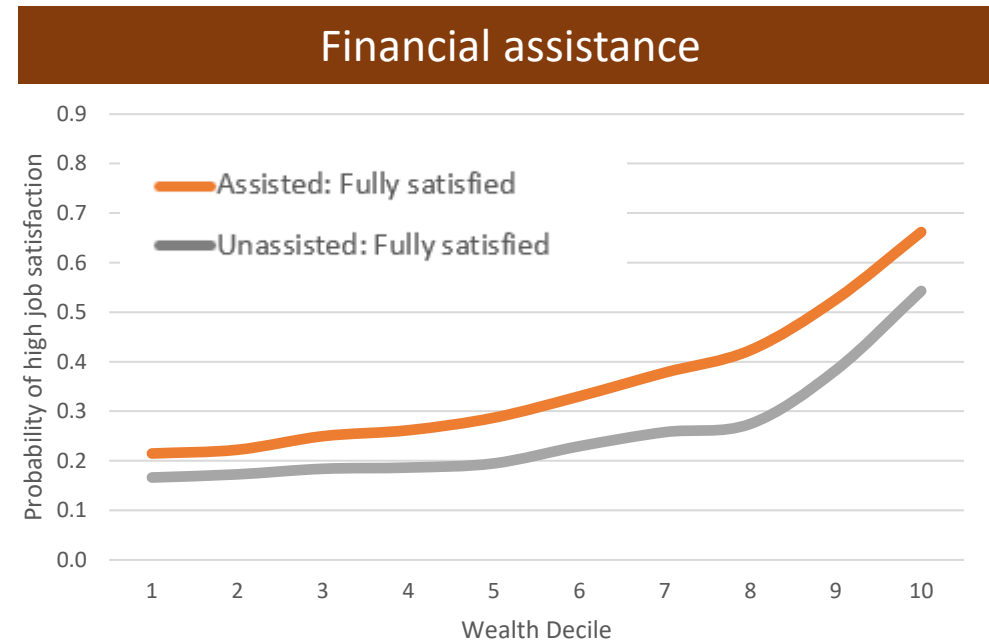
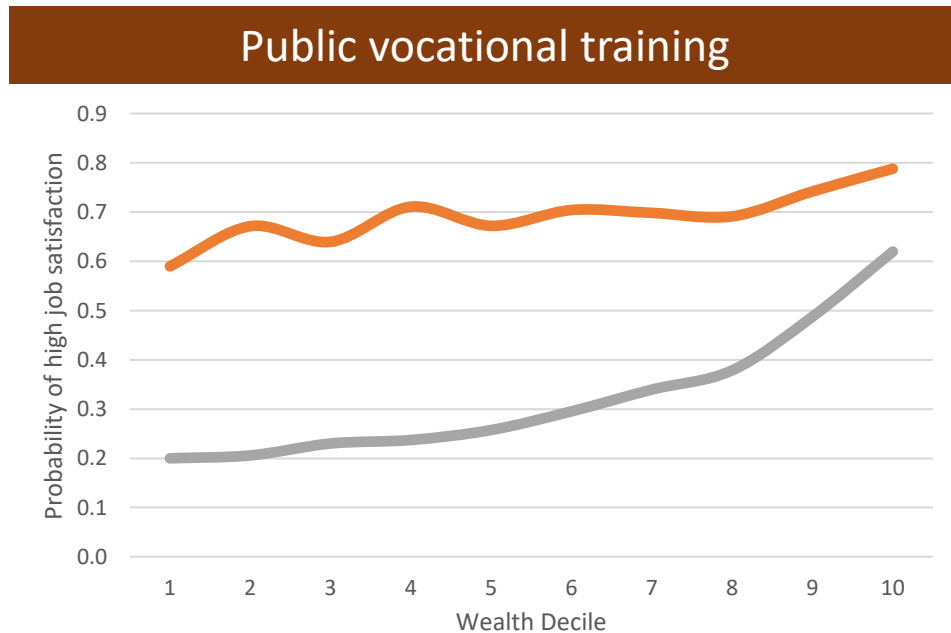
Training and skills upgrading



Source: [Social Expenditure Monitor for Arab States](#)

Investments in human capital, such as vocational training, tend to cost less and make more significant contributions to long-term welfare and lower vulnerabilities

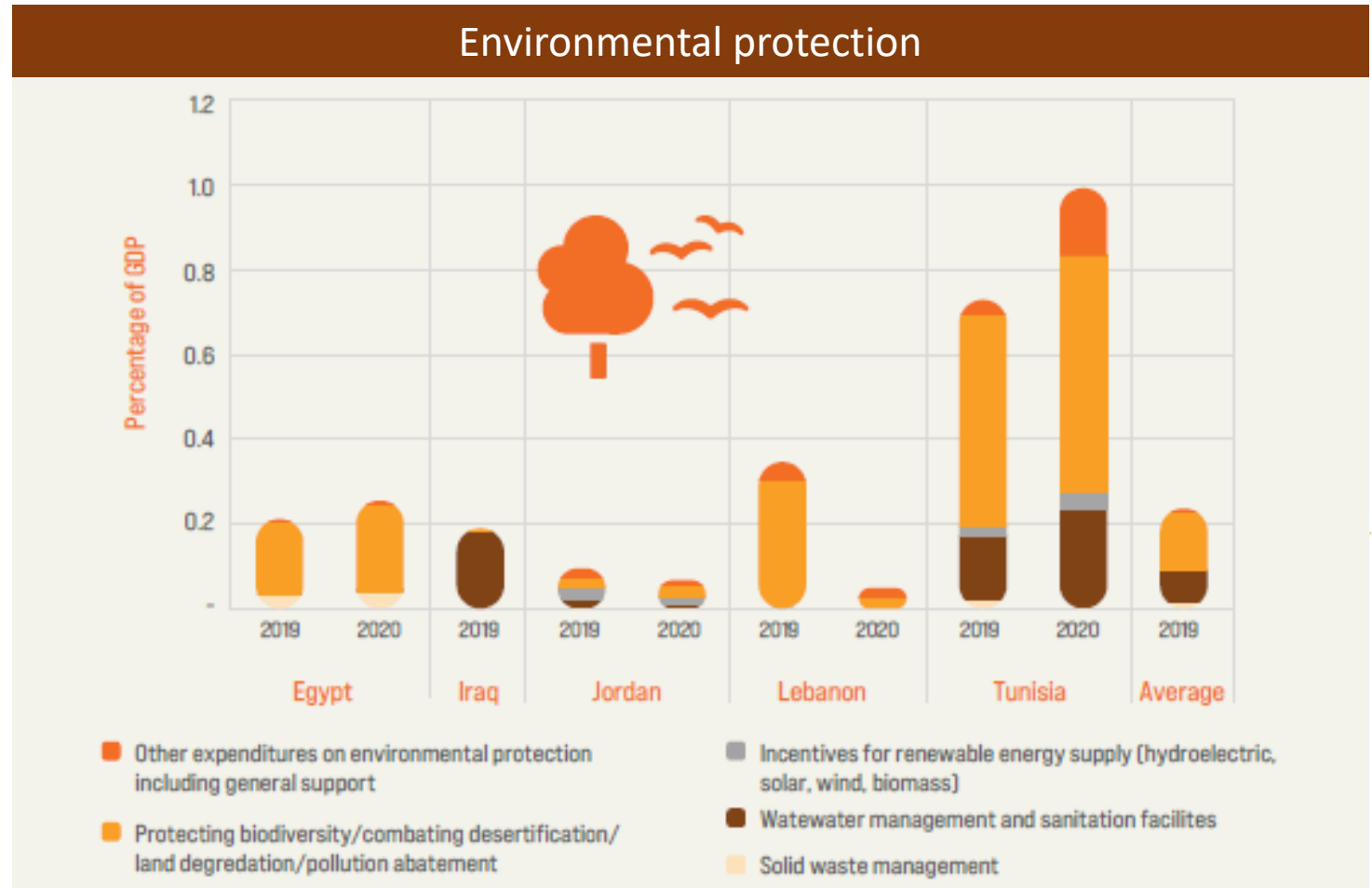
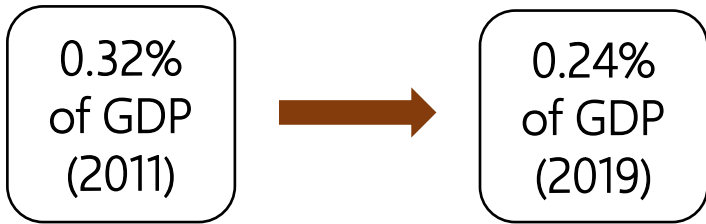
Providing skills training to individuals is associated with a greater long-term increase in reported job satisfaction levels than other forms of support, such as financial assistance.



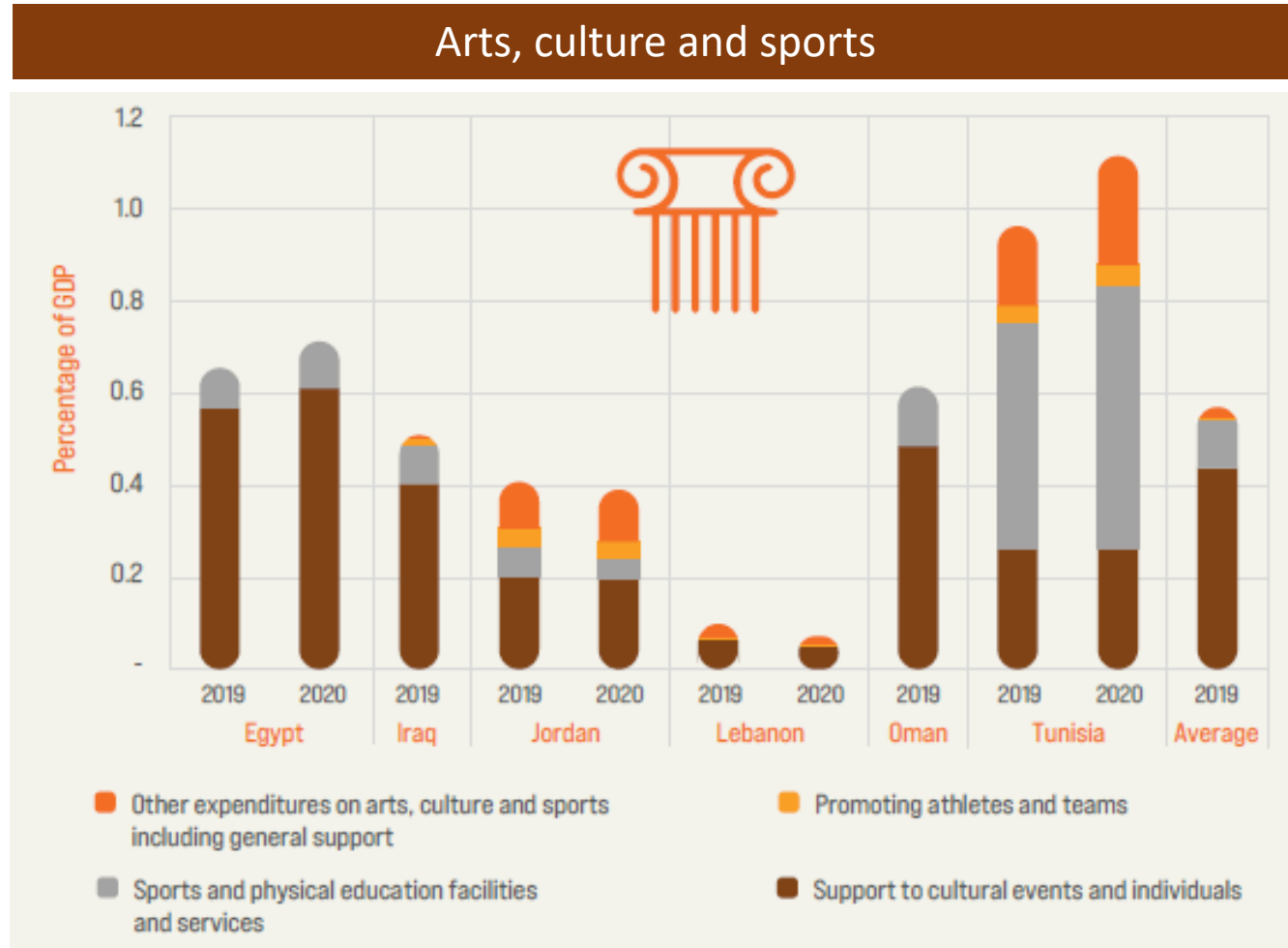
Balance financial assistance with programmes increasing human capital, skills and other capabilities with more sustainable impact.

Overall environmental protection spending is very low and constrained

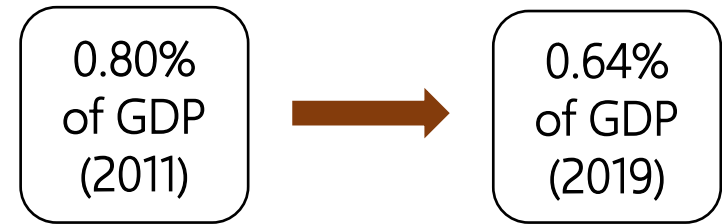
- Protecting biodiversity and combatting land degradation are top priorities since the region is the most water scarce
- Pressure on public budgets puts at risk commitments to finance climate action.
- Wastewater and sanitation: 0.1% of GDP
- Incentives for renewable energy are minimal



Public expenditure to promote arts and sports remained low to incentivize creativity and talent of youth



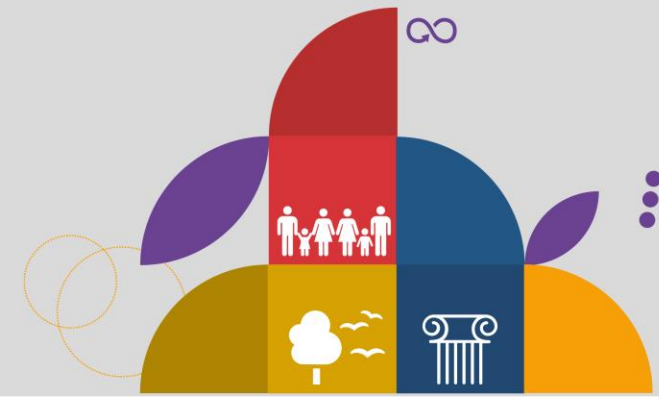
- Arts, culture, and sports help cultivate talent and creativity in youth
- Cultural events and individuals (0.4% of GDP)
- Sports and physical education facilities/services (0.1% of GDP)
- Expenditures have come under stress as pressures on public spending mount





Making money work efficiently

Jan Gaska, Economic Affairs Officer, ESCWA



Measuring Efficiency: Input – Output indicators - Data is the biggest challenge

Table 3. Variables for assessing the efficiency of social expenditures

	Input variable	Output variable (performance measure)
Social expenditure	Total social expenditure	Inequality-adjusted Human Development Index
Education	Overall education expenditure	Expected years of schooling
	Primary and secondary education	Pupil-teacher ratio, primary
	Tertiary education	Pupil-teacher ratio, tertiary
	Research and use of technology in advancing education	Harmonized test scores
Health	Overall health expenditure	Life expectancy at birth, total years
	Outpatient services	Mortality from cardiovascular diseases, cancer, diabetes or chronic respiratory diseases between ages 30-70 (percentage)
	Hospital services	Infant mortality rate, infant deaths per 1,000 live births
	Public health services	Prevalence of anaemia among pregnant women (percentage)
Housing and community amenities	Overall housing and community amenities expenditure	Population living in slums (percentage of urban population)
Social protection	Overall social protection expenditure	Prevalence of undernourishment (percentage population)
	Older persons	Proportion of population above statutory retirement age covered by benefit
	Sickness and disability	Proportion of population with severe disability covered by benefits
	Families and children	Prevalence of anaemia among women of reproductive age (percentage of women aged 15-49)
Environmental protection	Overall environmental protection expenditure	Environmental Performance Index

- The choice of outcome indicators is based on the literature review and **data availability**.
- We could build efficiency for **14 indicators** (out of 50 indicators of SEM) – significant room to improve with better data.

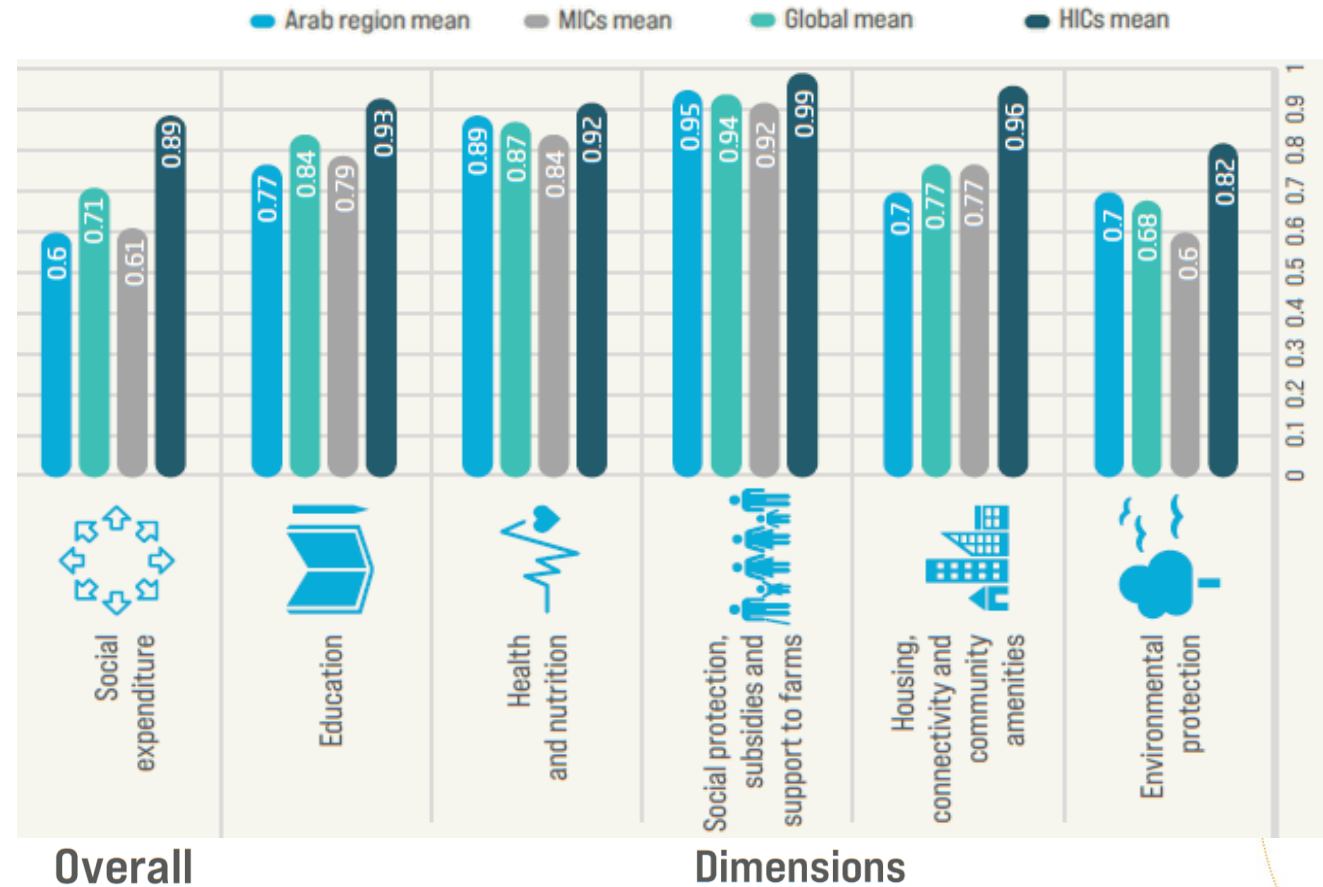
1. Social spending efficiency:

Spending in the Arab Region remained less efficient than the Global average; significantly falls behind top performing high-income countries

Social spending efficiency of Arab states, on average, is 0.60, against global average of 0.71; high-income countries' average of 0.89.

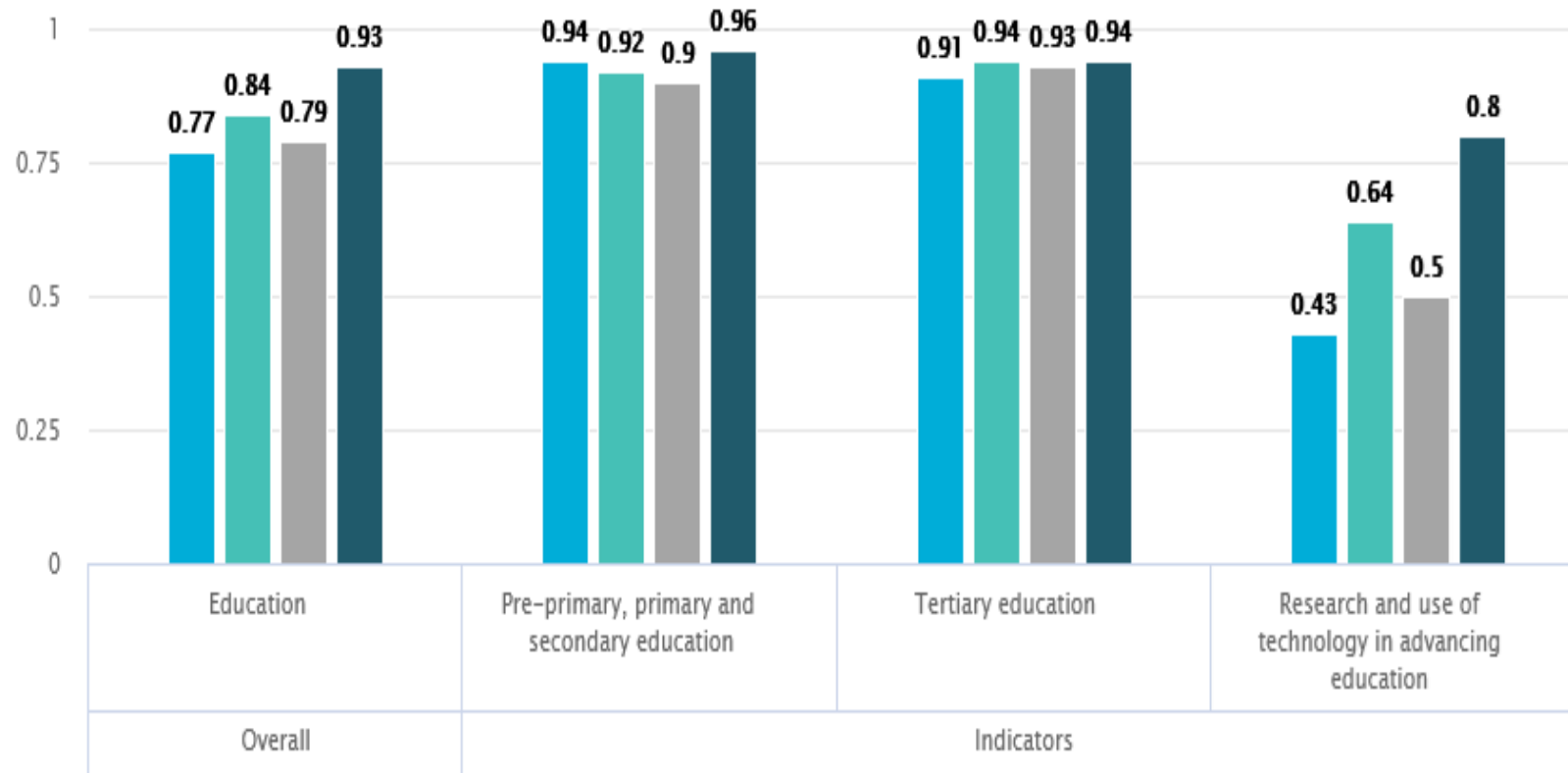
This is driven by education and housing, where the efficiency is below global or MICs average.

In case of health, social protection, this is relatively good but lagging behind HICs average.



2. Education as an Example: More schooling but lower performance

Efficiency of social spending in education



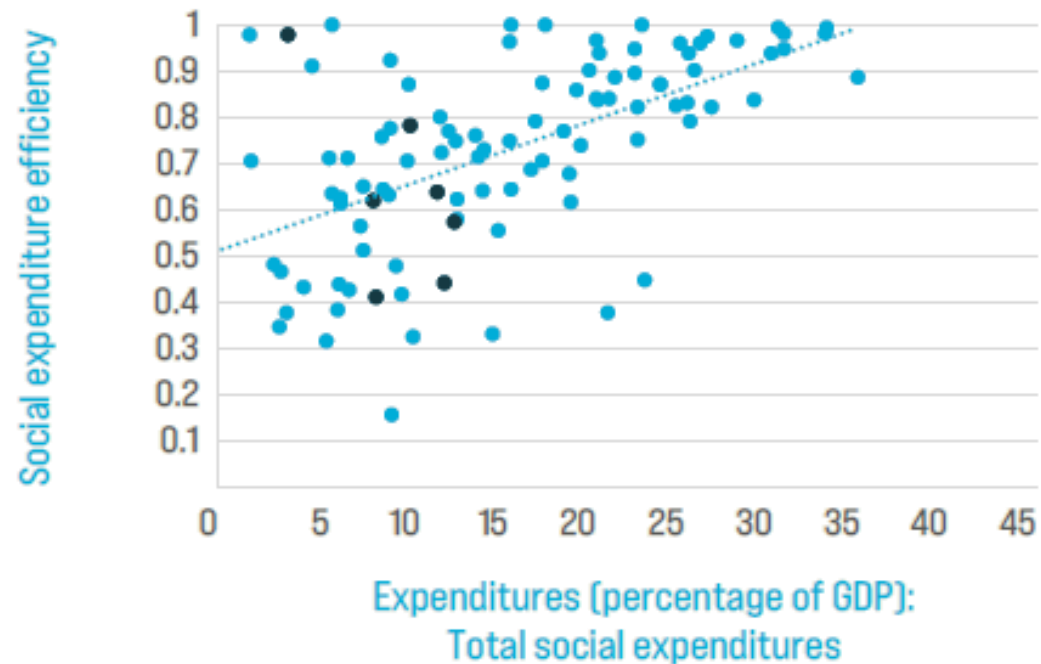
● Arab region mean ● Global mean ● MICs mean ● HICs mean

Source: [Social Expenditure Monitor for Arab States](#)

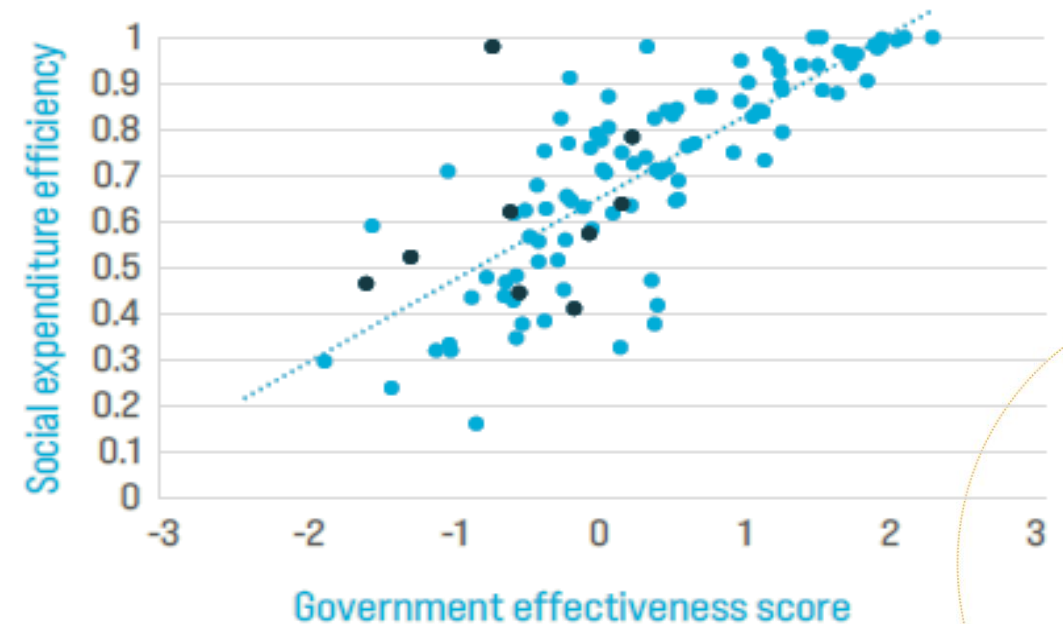
3. Context makes a difference

Government Effectiveness Drives Efficiency, Not Necessarily Large Size of Social Expenditure

(a) Overall efficiency of social expenditure and social expenditures (percentage of GDP)



(c) Overall efficiency of social expenditure and Government effectiveness score



In general, **efficiency** is linked to **better institutions**, but there are also other factors

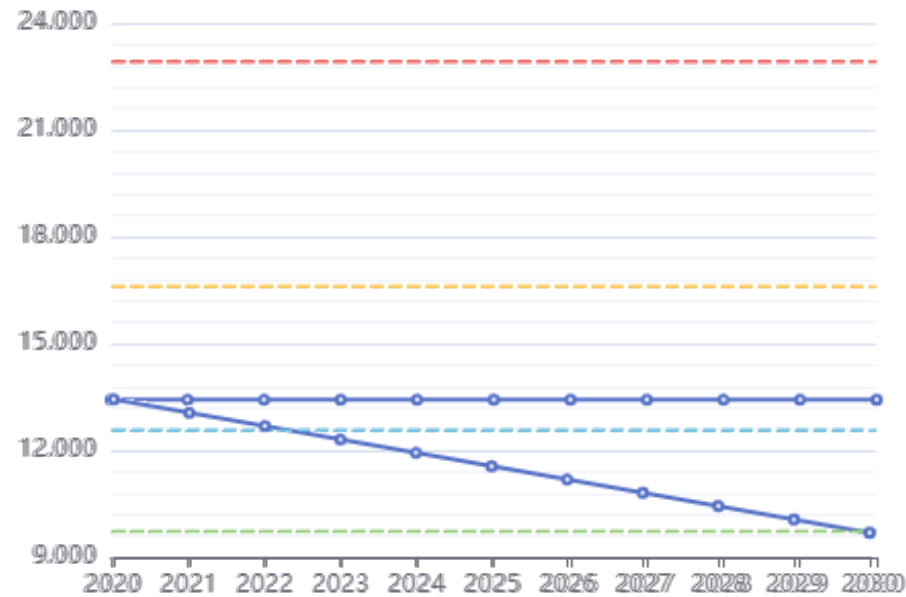
Source: [Social Expenditure Monitor for Arab States](#)

4. Efficiency and outcome simulations

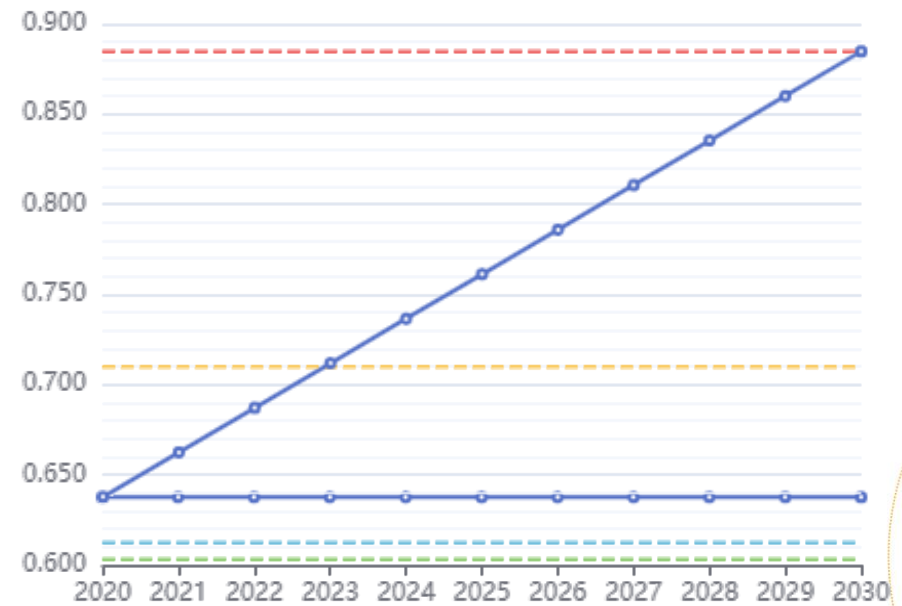
Improving efficiency can generate significant savings to channel resources to other critical social services

Jordan – An Example

Overall social expenditures (% of GDP)



Overall social expenditures - efficiency



○ Jordan ○ Arab average ○ Global average ○ HIC average ○ MIC average

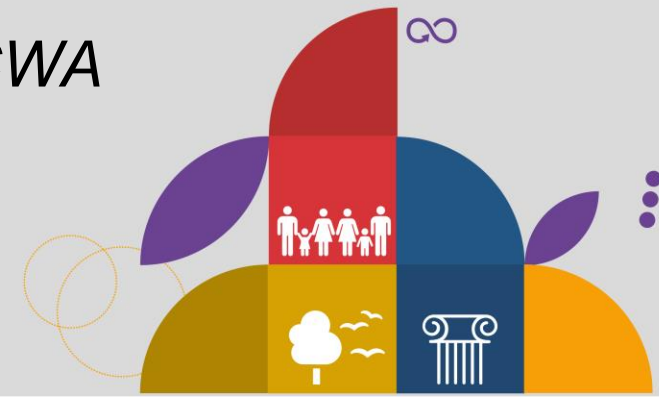
○ Jordan ○ Arab average ○ Global average ○ HIC average ○ MIC average

Source: [Social Expenditure Monitor for Arab States](#)



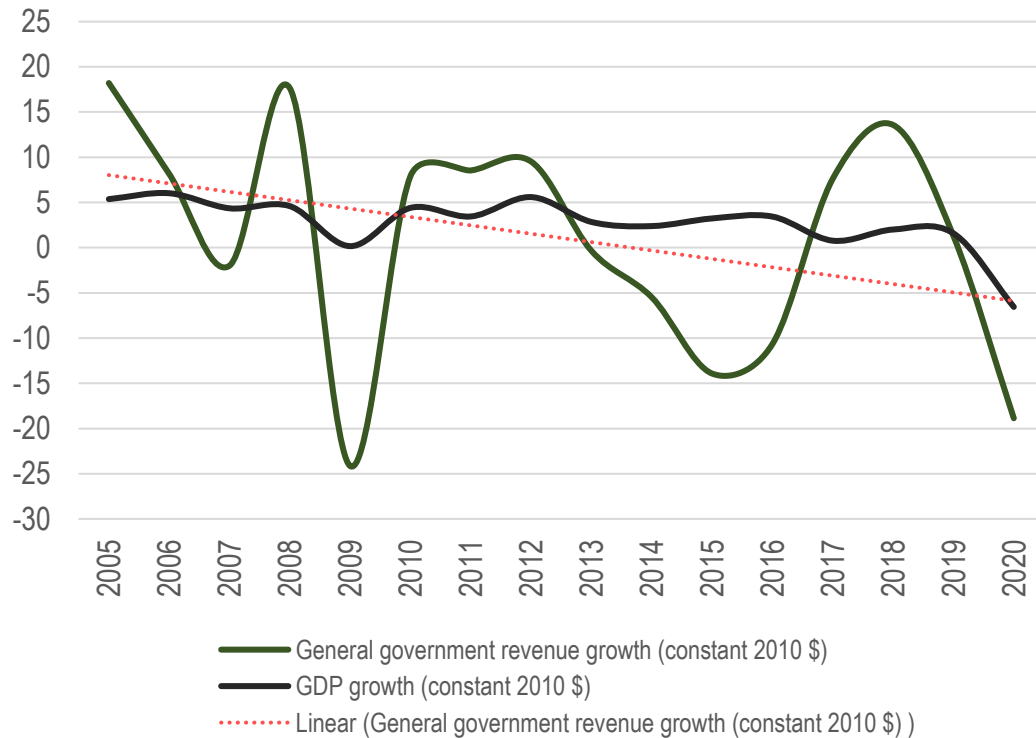
Enhancing Social Expenditure and Fiscal Sustainability

Niranjan Sarangi, Senior Economic Affairs Officer, ESCWA

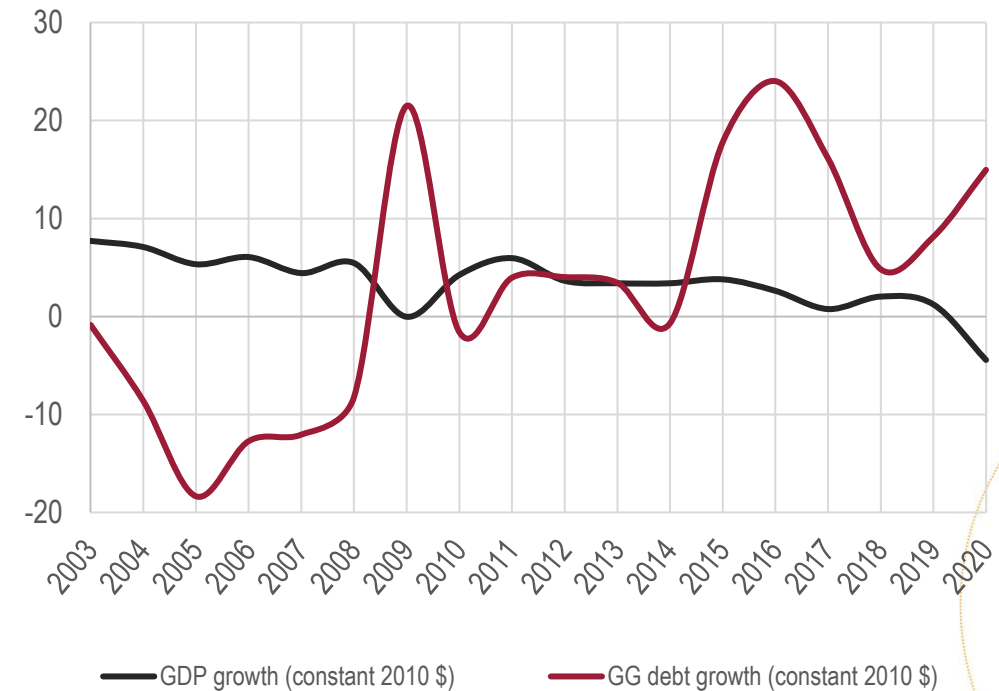


1. Regional GDP growth, on average, has remained sluggish and declined over the years; Growth of revenues shows high volatility due to oil price fluctuations; Public debt grew at a rapid pace -- It increased to 60% of GDP in 2020, up from 25% in 2008

Growth of GDP and public revenues in the Arab region

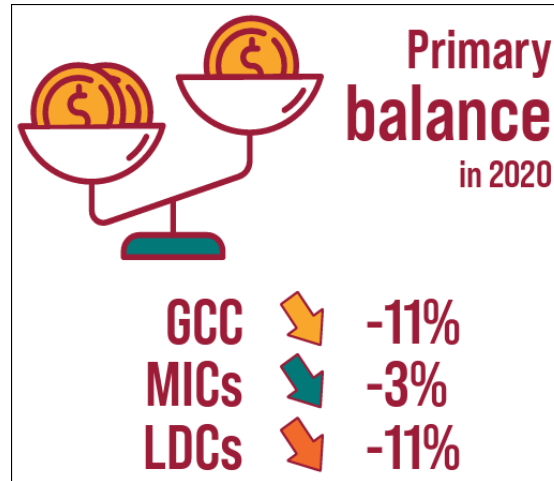


GDP growth vs. growth of public debt in the Arab region (year on year percentage changes)

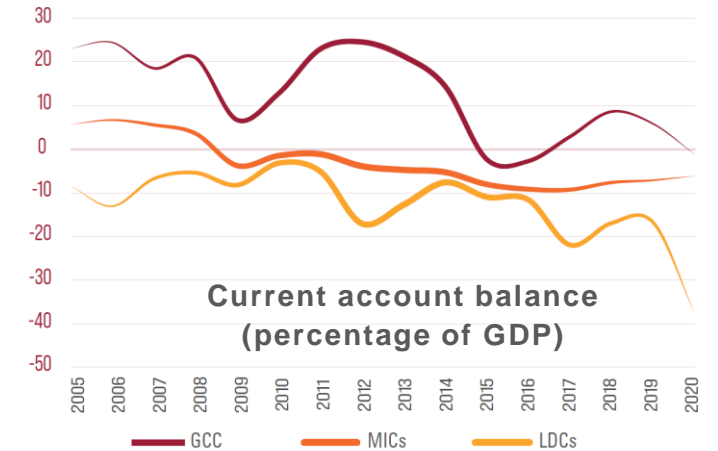


2. Limited Fiscal Space and Liquidity Shortages: An Obstacle to Public Spending on Recovery

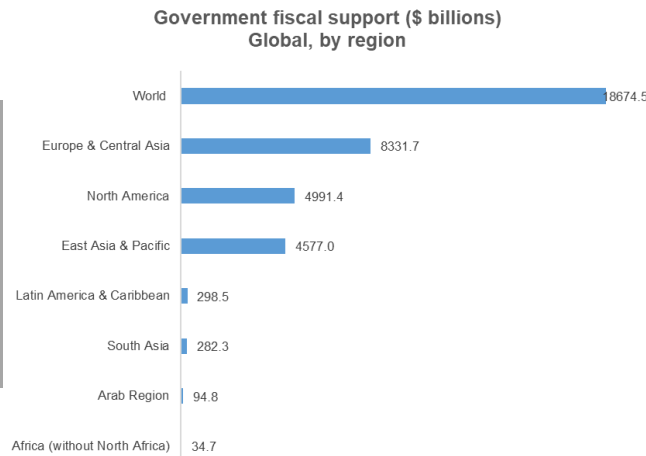
High fiscal deficit leading to increasing public debt



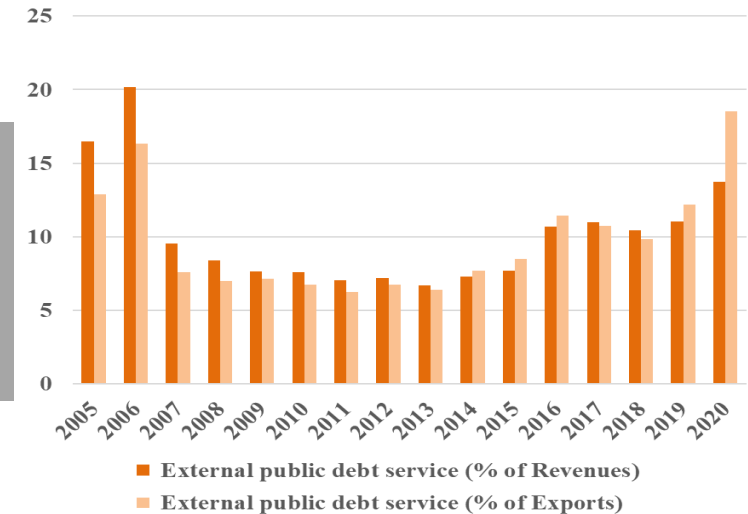
Foreign currency liquidity constrained



Low stimulus compared to global average

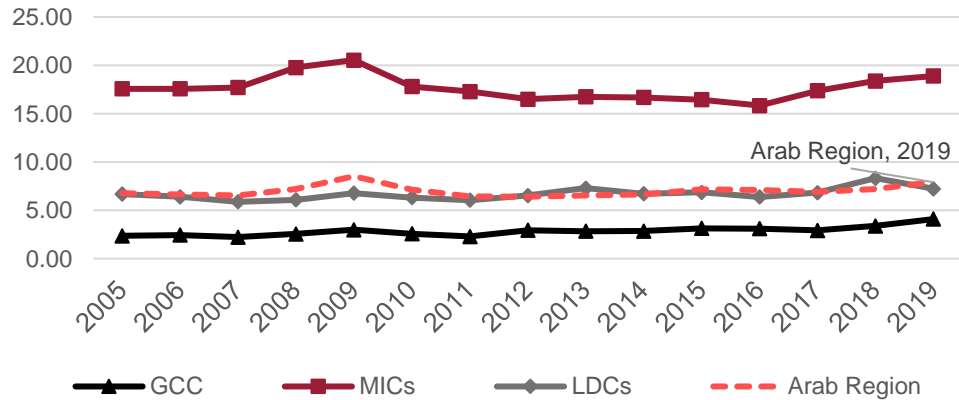


High and rising debt service of MICs, especially external debt service



3: Increasing Revenue Mobilization with Improving Equity and Progressivity has Remained a Challenge

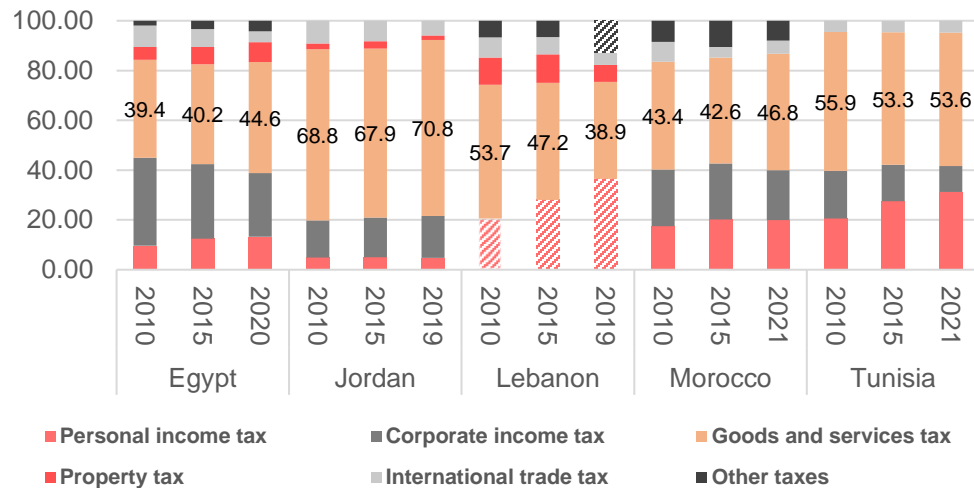
Tax revenues (Percentage of GDP)



Arab Region: Average tax to GDP is about 8 per cent; Varies between 1 – 25 per cent across countries;

- MICs tax to GDP is 19 percent in 2019;
- Median tax revenues for the world’s middle-income countries is about 18 percent; for developed countries it is about 25 percent.

Composition of tax revenues (percent share in total)



High and increasing share of taxes are on goods and services, which tends to be regressive and imposes more burden on the low and middle-income population than the rich.

Several tax reforms have been undertaken across countries in recent years. Inefficiencies in tax collection and tax leakages undermine the efficiency of the taxation systems in the region.

4. Enhancing fiscal space: Options

- Improving domestic revenue mobilization
- Increasing public expenditure efficiency
- Debt swaps as innovative finance options
- Debt restructuring
- Well-strategizing debt finance:
Stabilizing debt to GDP in medium term

***One way forward:
Stabilizing debt to
GDP in medium term***

Scenarios

Scenario 1 Debt financing dynamics

Debt to GDP stabilizing above the target of the baseline in the near to medium term

Improved fiscal space and government expenditure

No sectoral targeting of expenditures assumed

Scenario 2 Debt finance and revenues dynamics

Fiscal space supplemented by increasing revenues through tax reforms (tax to GDP ratio improved)

Achieved through tax collection, expanding tax base and tax compliance (not necessarily increasing tax rate)

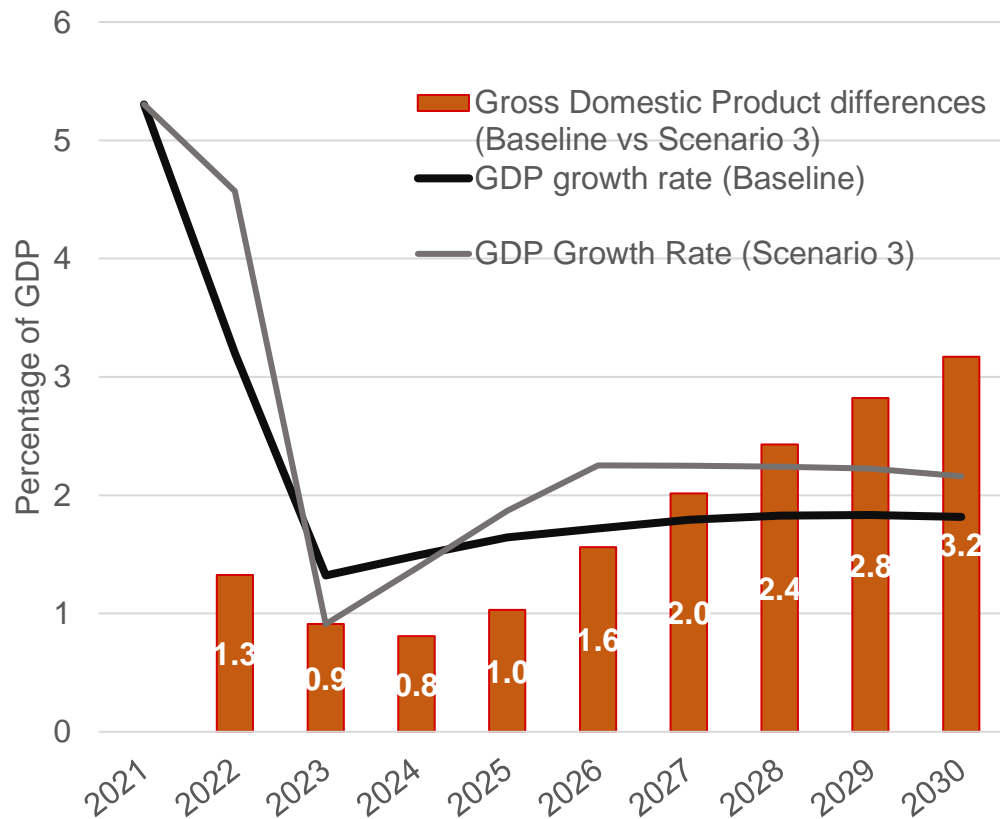
No sectoral targeting of expenditures assumed

Scenario 3 Increased expenditures are targeted at social investments

Alternate to Scenario 2, the additional resources are channelled towards social investments (housing, health, and education). Data on other aspects of social expenditure monitor (SEM) are not adequate currently for the modelling exercise. A Total Factor Productivity (TFP) increase is modelled

5. Stabilizing debt to GDP in medium term and enhancing social expenditures can be growth-enhancing: Tunisia

GDP growth and level difference

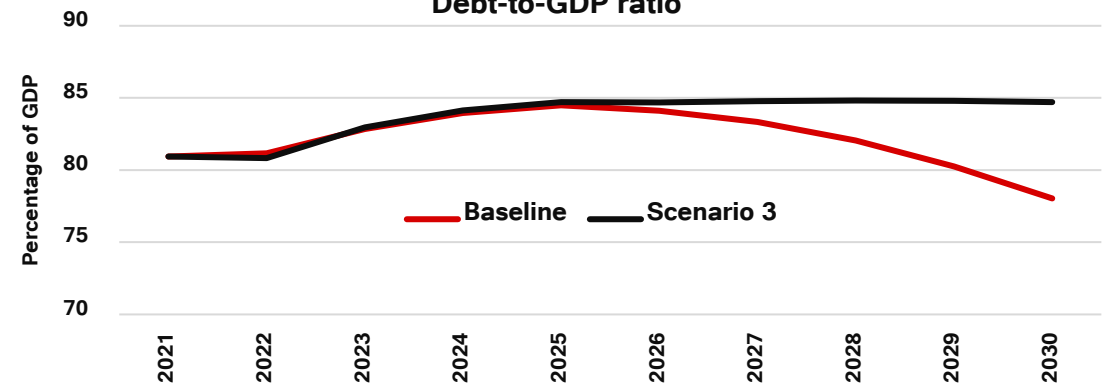


3.2 per cent increase in output levels over baseline in 2030 in Scenario 3, against a 2.7 per cent increase in output in Scenario 2

Target the increase in fiscal space to social investments (health, education, housing) as proposed in Scenario 3 vs NO targeting in Scenario 2

By stabilizing debt/GDP at 85 per cent and improving tax to GDP by 1 percentage point: About 40 billion TD additional fiscal space generated cumulatively during 2022-2030

Debt-to-GDP ratio



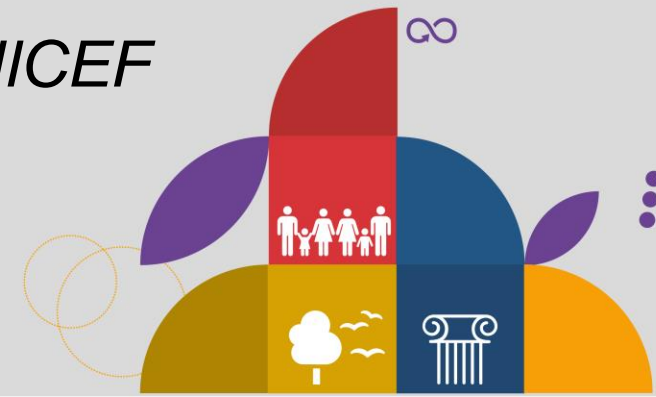
Policy Implications

- ❑ Reprioritize public budgets and steer allocations to critical social policy areas.
- ❑ Enhance social expenditure effectiveness through more allocations to social investments with long-term positive impacts on human development and economic growth.
- ❑ Improve social expenditure monitoring in all areas that directly support achieving the SDGs, including by applying SEM.
- ❑ Assess the efficiency of public social expenditure to minimize wastage and improve investment in development priorities.
- ❑ Emphasize greater efficiency in public expenditures to improve fiscal sustainability and deliver quality inclusive public services.
- ❑ Improve domestic revenue mobilization by increasing tax collection with equity and progressivity, addressing tax inefficiencies, and curbing tax leakages.
- ❑ Develop credible fiscal frameworks over the medium term for revenues and expenditures. Ex. Stabilize the debt-to-GDP ratio over the medium term
- ❑ Operationalize innovative debt relief instruments, such as climate and SDG debt swaps, to improve financing for public goods.
- ❑ International and regional support: ODA commitments; Regional solidarity fund.

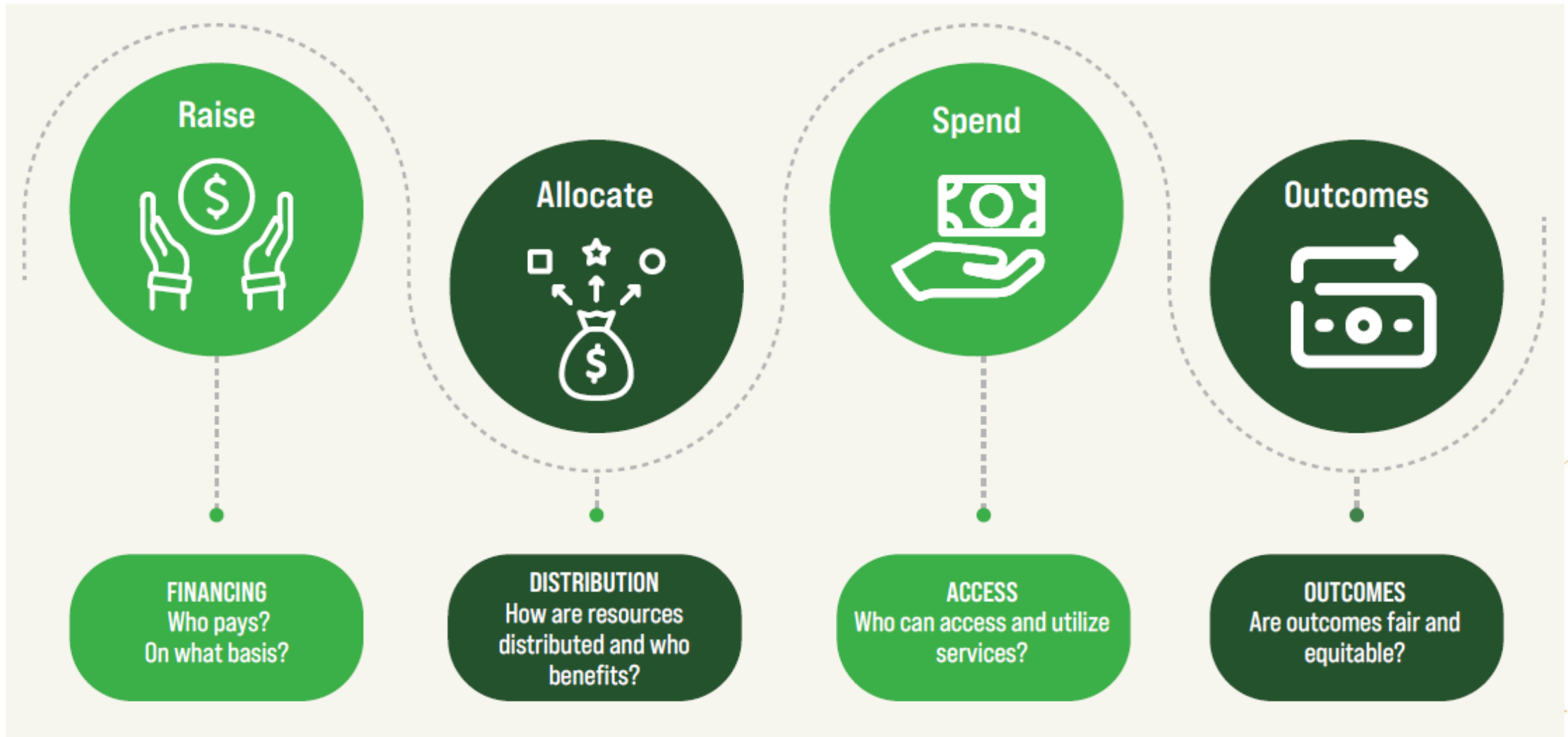


Do spending choices add up to equity – or stand in the way?

Samman Thapa, Regional Adviser on Social Policy, UNICEF
Ulugbek Olimov, Social Policy Specialist, UNICEF



Assessing the equity of social expenditure

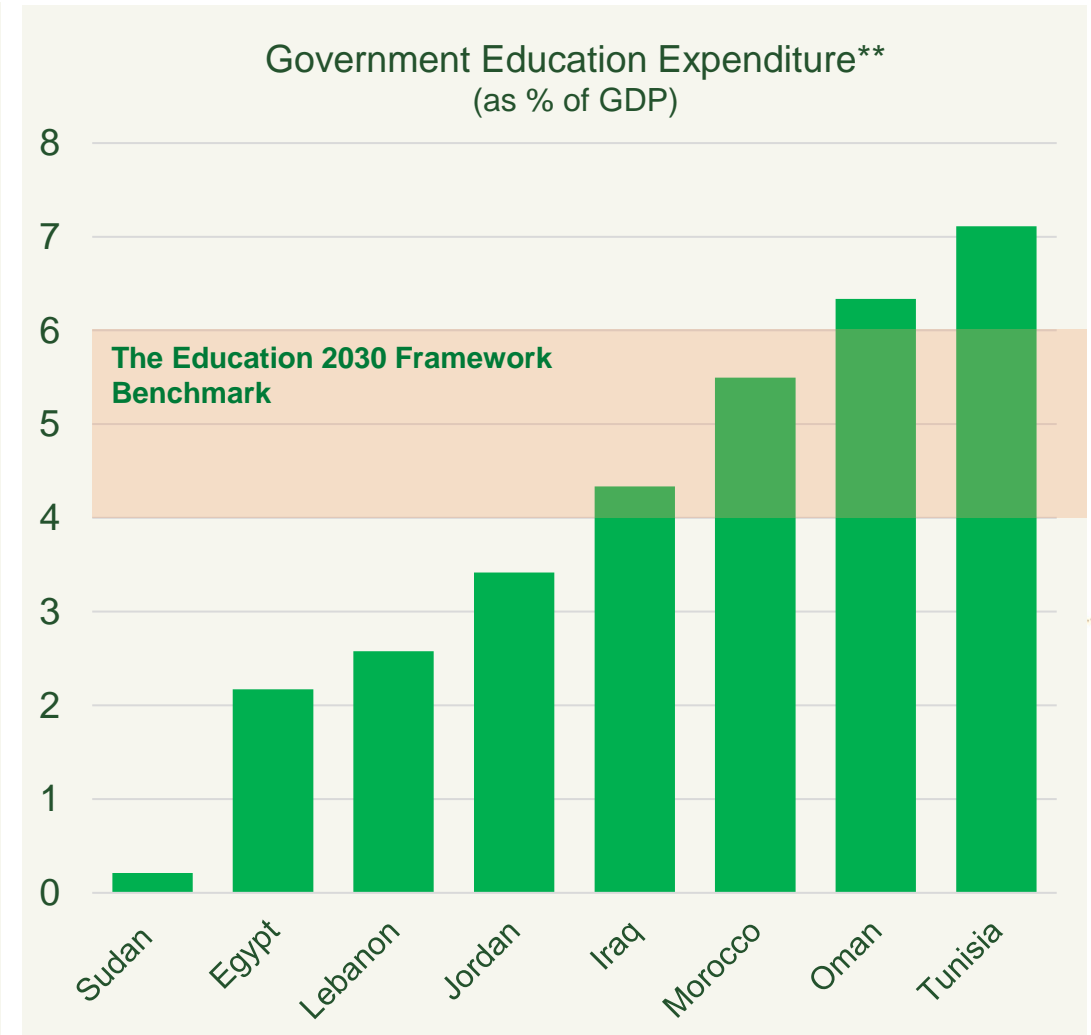
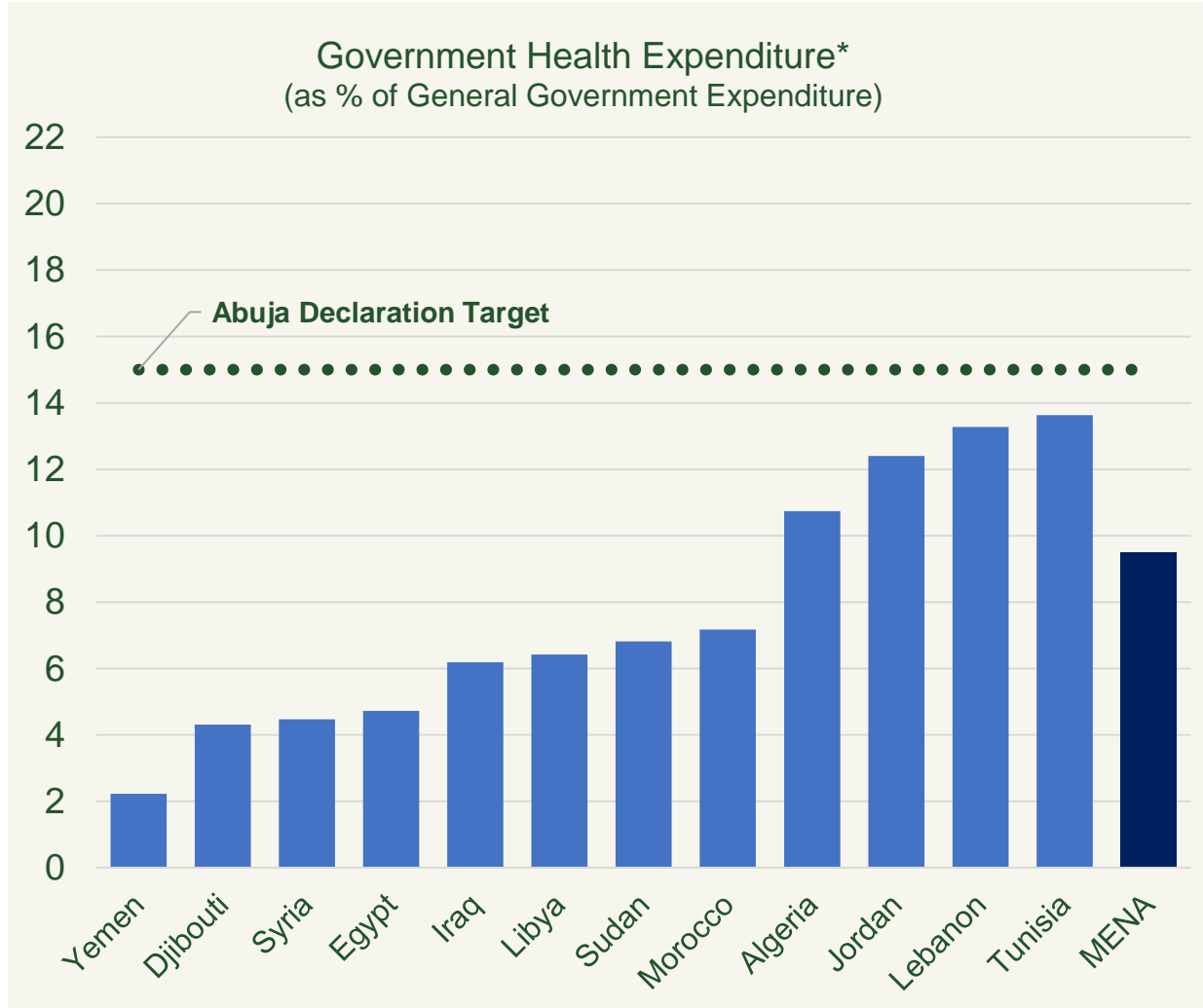


Source: [Social Expenditure Monitor for Arab States](#)

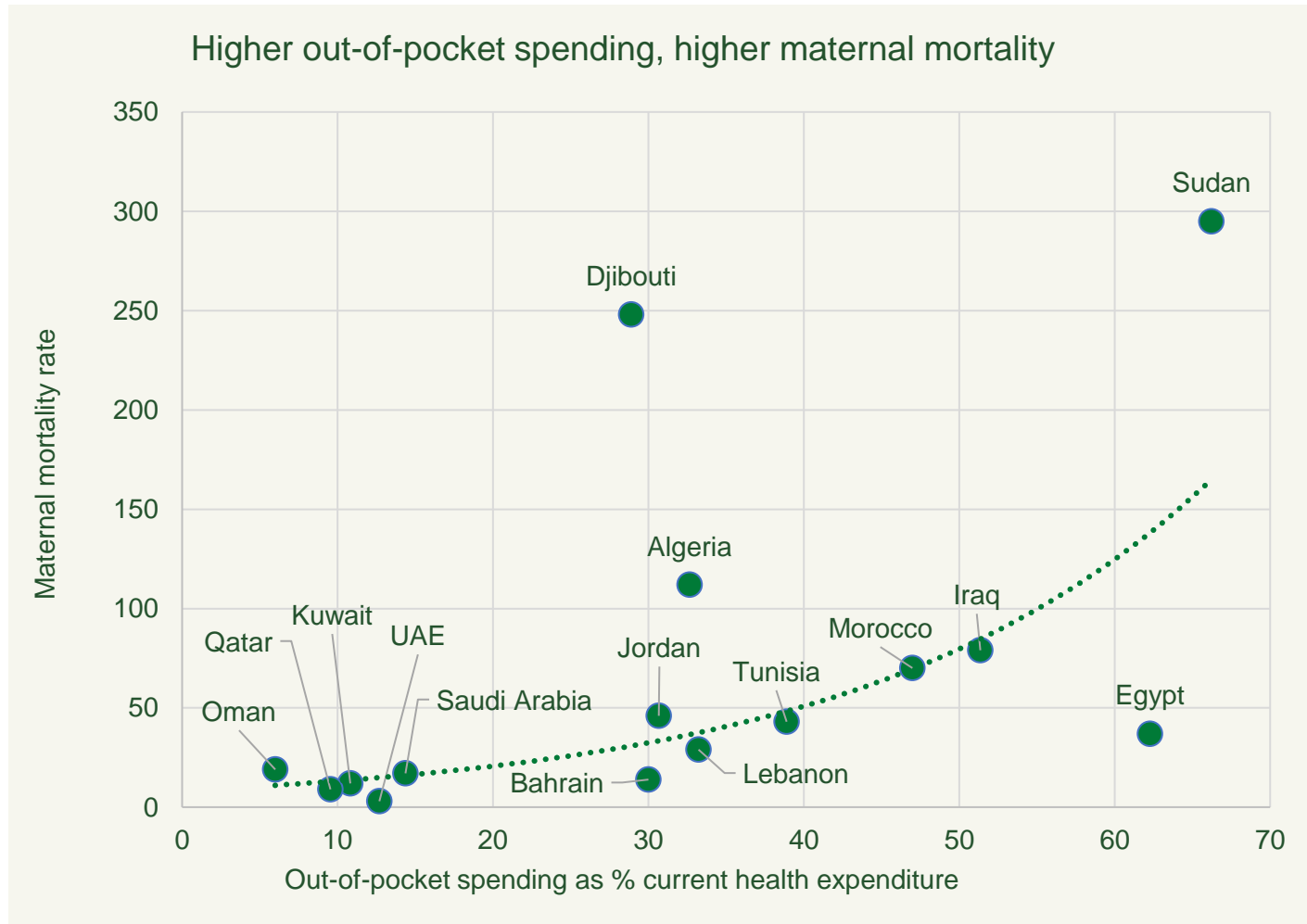
Source: Adapted from UNICEF's PF4C chain.



Social spending in the Arab states is lower than established international benchmarks



Fair or unfair, spending defines development outcomes



- About 27% of current health expenditure in the Arab region is raised through un-pooled out-of-pocket payments; the share is 46% when excluding the GCC countries
- Arab countries with the best maternal outcomes spend more per capita on health, draw a significant proportion of at least 50% of financing from public expenditure and maintain low levels of OOP spending
- Arab countries with the lowest current health spending per capita tend to have high (over 20%) or very high (over 50%) proportions of OOP spending
- The contribution of OOP spending to poverty levels tends to be considerable in most of the countries (pushing 8%-18% more households into poverty)

The Arab region broadly fails to allocate sufficient resources to early childhood education

Offer at least one year of tuition-free pre-primary school

25%

Public expenditure on early childhood education

<1%

Countries with legal provisions for free early childhood education

1

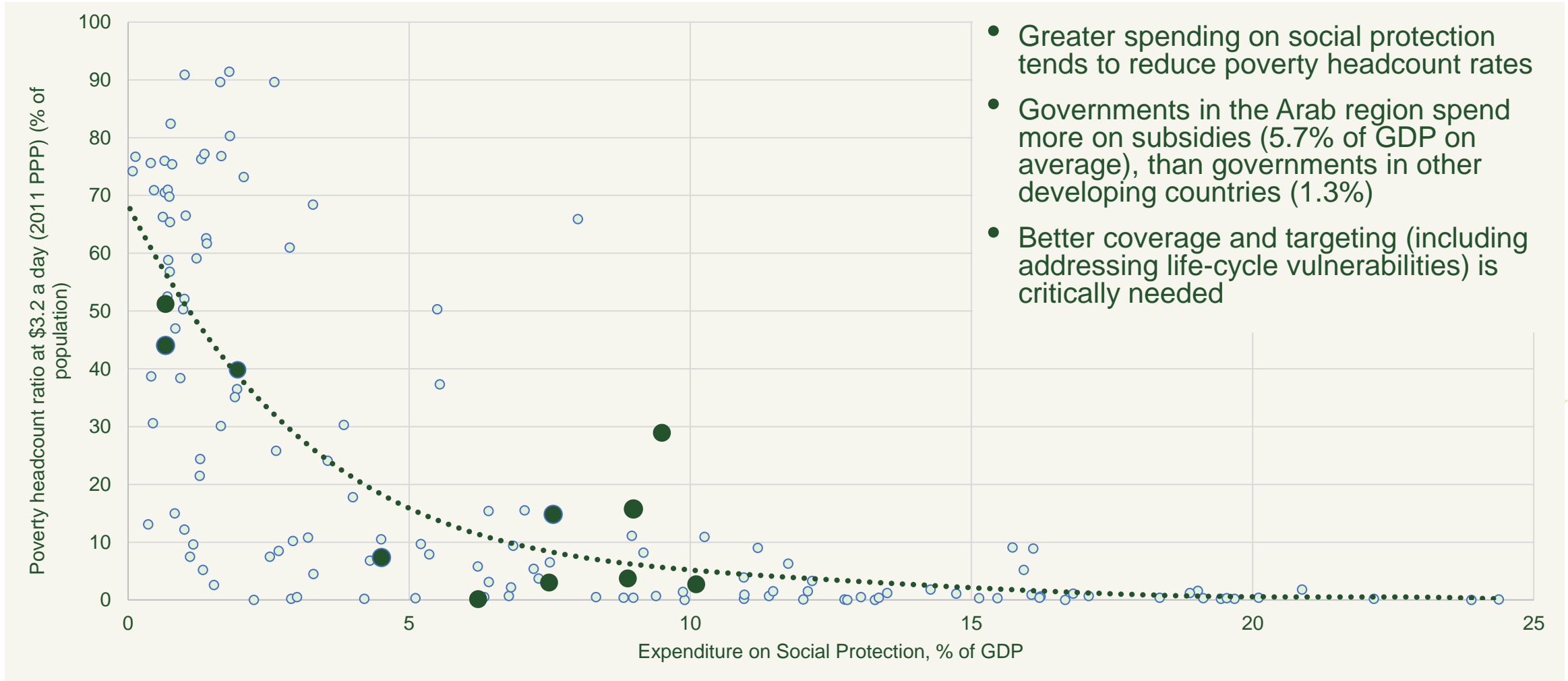
Average gross enrolment in early childhood education

<40%

- In many Arab countries expenditure on ECE is less than 1% of that for primary and secondary education
- Due to underinvestment in ECE and limited access, children in the poorest quintile are less prepared for primary school
- Only 25% of Arab countries offer at least one year of tuition-free pre-primary school which is far lower than the world average (45%) or in comparable world regions; e.g., Europe & Central Asia – 70% and the Americas – 75%
- Of 19 Arab States, only Algeria had legal provisions for free pre-primary education, with none having compulsory provisions
- Average gross enrolment in pre-primary education in Arab countries is below 40%



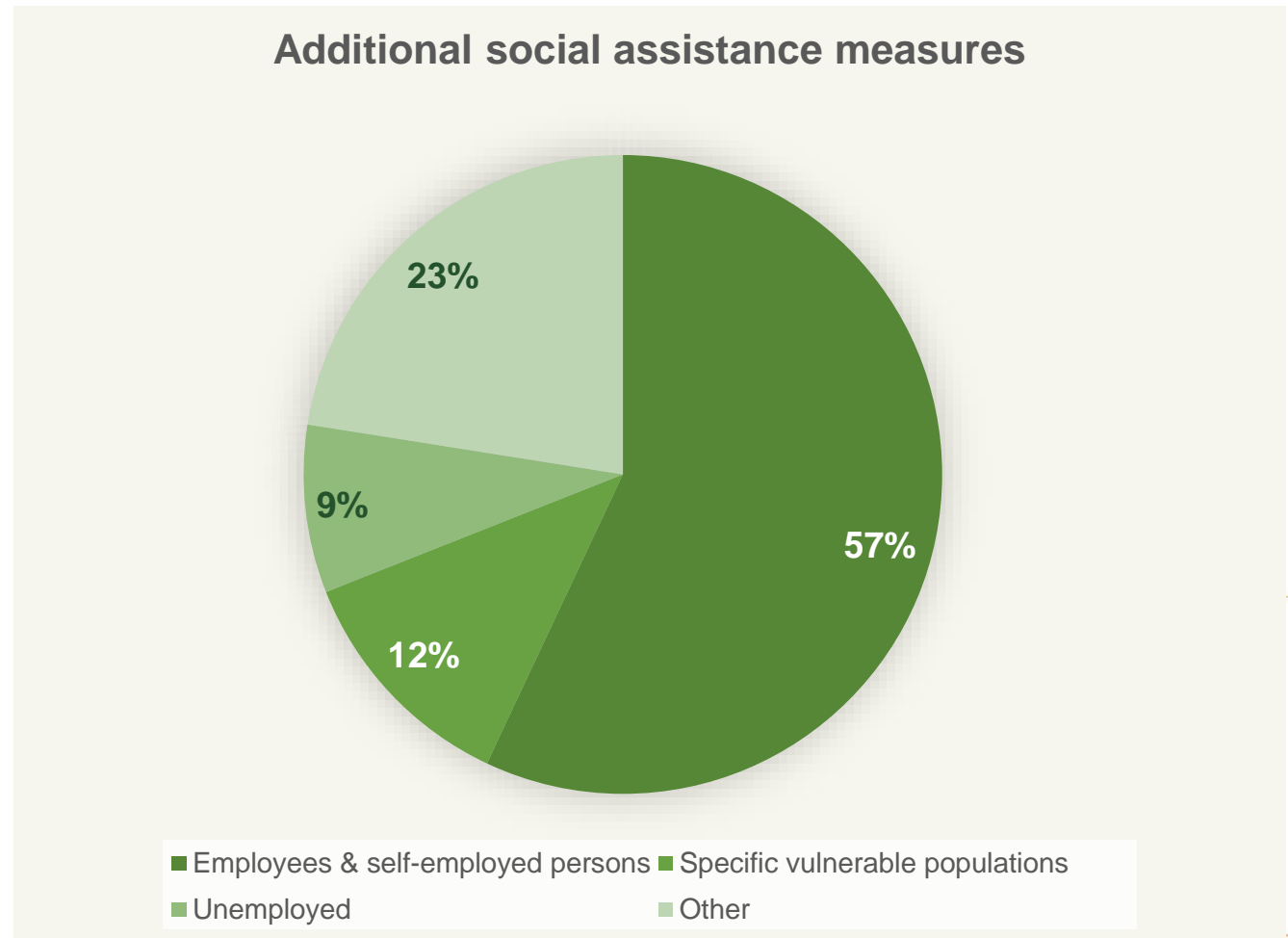
Greater spending on social protection tends to reduce poverty headcount rates



Source: [Social Expenditure Monitor for Arab States](#)

The COVID-19 fiscal stimulus packages changed social spending in the Arab region

- Unconditional cash transfers (pro-poor) were the most common single intervention among 200 COVID-19 social protection responses in the Arab region
- However, given a low amount of fiscal stimulus, just 11% of stimulus packages in the Arab region reached people through social protection and health measures
- About 21% of additional social assistance measures – aimed at specific vulnerable populations and unemployed – will likely contribute to equity or at least constrain further inequities as a result of the pandemic
- While in-kind vouchers ranked as the second most common policy measure globally, the Arab region relied more on waivers of utility bills



Public spending on children and youth

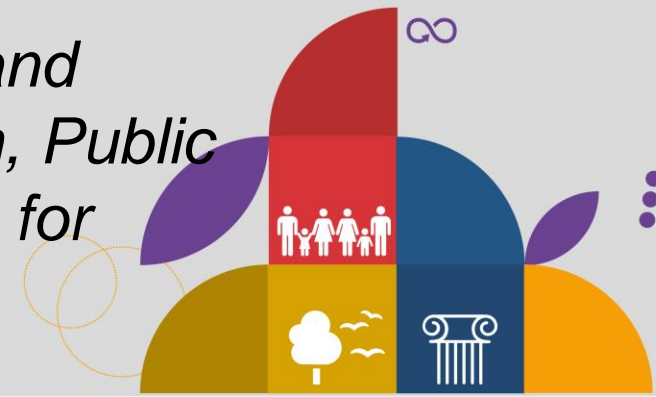
- Public social expenditure specifically supporting children, on average, accounted for 2.5% of GDP, which represents only 14% of total social expenditure in the Arab region
- The bulk of social spending targeted at children is represented by public expenditure on primary and secondary education. However, these remain below the international benchmarks. Early Childhood Education spending is particularly low.
- Education expenditure on youth and adults made up 1% of GDP and 5.5% of social expenditure; most of the spending went to tertiary education
- Employment generation programmes and grants for youth and adults saw \$1.1 billion in support in aggregate for the countries (~73% came from Tunisia)
- Across the Arab region, social assistance expenditure on children is very low. This has consequences in terms of coverage (e.g., only 23% of children are covered by at least 1 social protection benefit, lower than the global average).





Managing Public Finances to Achieve Social Goals

Vito Intini, Regional lead Economist, Inclusive Growth and Sustainable Finance Team Leader and Rania Uwaydah, Public Financial Management Expert, UNDP Regional Bureau for Arab States

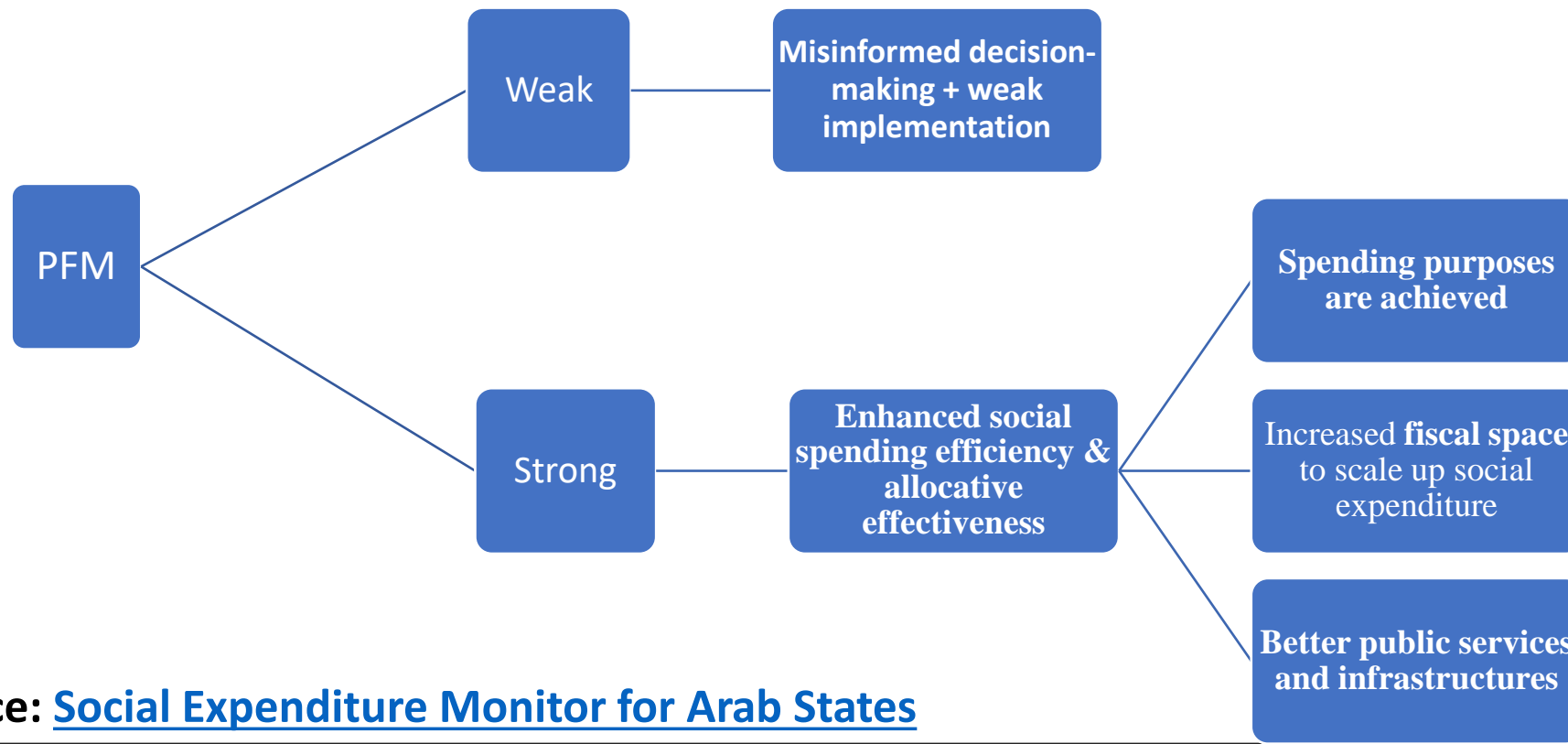


What is Public Financial Management (PFM) and why is it Important?

The purpose of a good PFM system is to ensure that the policies of governments are implemented as intended and achieve their development objectives.

- **Fiscal sustainability and discipline** requires effective control of the budget and management of fiscal risks.
- **Strategic allocation of resources** involves planning and executing the budget in line with priorities.
- **Efficient service delivery** requires using budgeted revenues to achieve the best possible levels of public services.

Advanced PFM system is necessary to fund more adequate, equitable, efficient social expenditures.

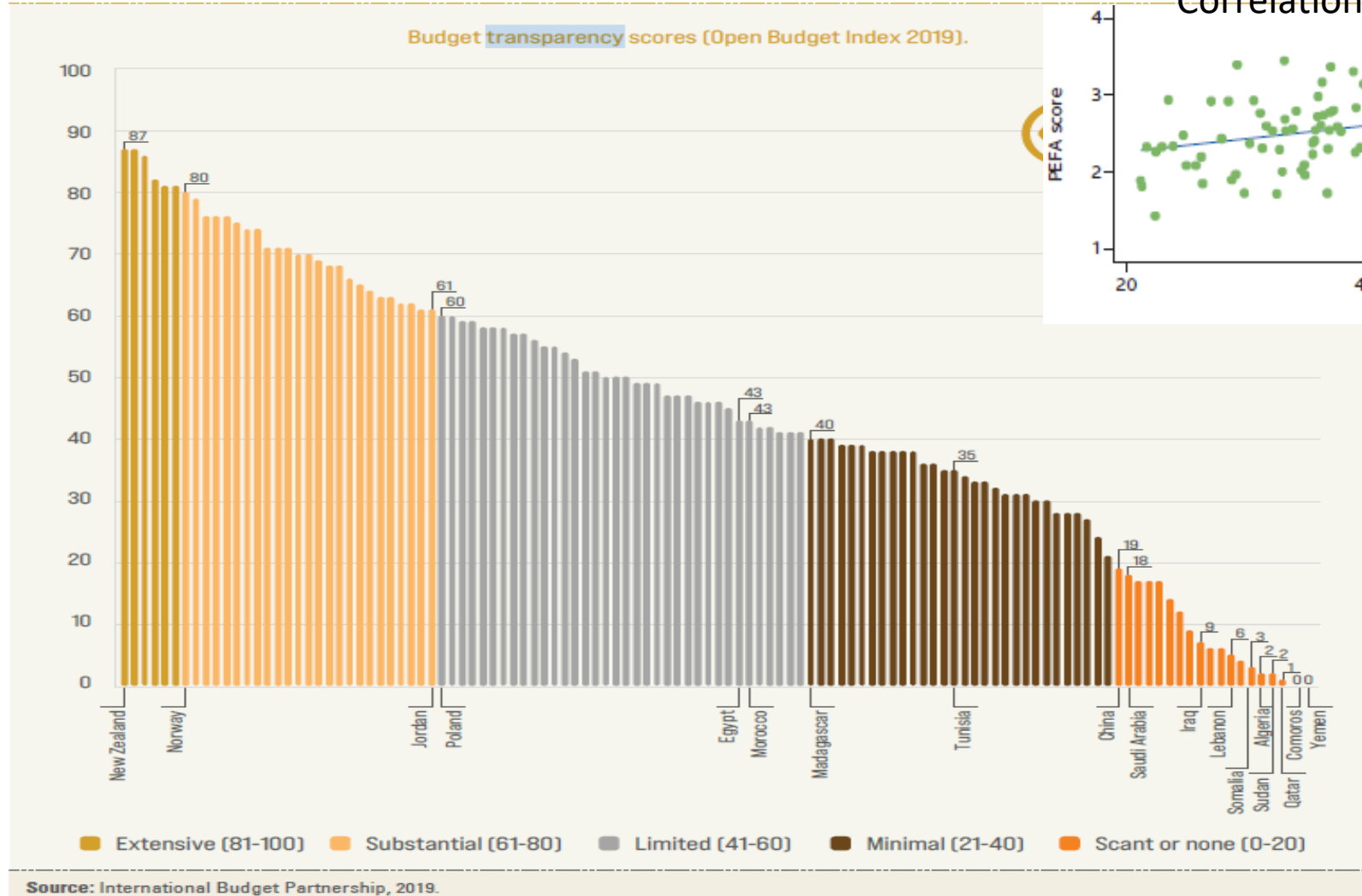


Evidence from the global literature

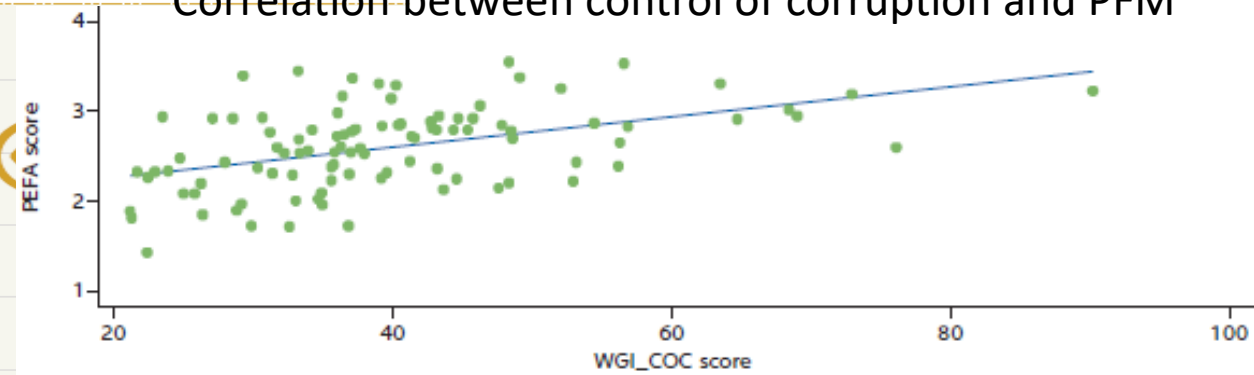
- The literature has shown that countries characterized by higher reliance on natural resources and political instability are associated with lower PFM quality
- Positive relationship between PFM and sovereign credit rating
- Improvements in PFM lead to improvement in perceptions of corruption
- It is estimated that 10 to 25% of public contracts' value may be lost to corruption (WB, 2019).

Budget transparency and control of corruption as key to PFM

Figure 107. Most Arab States fall on the low end of budget transparency scores



Correlation between control of corruption and PFM



- 2/3 of the PEFA assessments worldwide are publicly available
- The average in the Arab states region is 62%

PFM Performance across the Arab Region

The Public Expenditure and Financial Accountability (PEFA) framework is the most common comprehensive diagnostic of PFM quality. It identifies 7 core PFM pillars within the budget cycle disaggregated into 31 indicators and 94 dimensions.

- I. Budget reliability.** Comparing actual revenues and expenditures with the original approved budget.
- II. Transparency of public finances.** Information on PFM is comprehensive, consistent, and accessible through budget classification, transparency of all government revenue and expenditure, published information on service delivery performance, and ready access to budget documentation.
- III. Management of assets and liabilities** ensures that public investments provide value for money, assets are recorded and managed, debts/fiscal risks are prudently planned and monitored.
- IV. Policy-based fiscal strategy and budgeting** are prepared with due regard to government strategic plans, and adequate macroeconomic and fiscal projections.
- V. Predictability and control in budget execution** ensures that resources are obtained and used as intended.
- VI. Accounting and reporting** of good quality and produced and disseminated at appropriate times.
- VII. External scrutiny and audit** for external follow-up on the implementation of recommendations for improvement by the executive.

Source: [Social Expenditure Monitor for Arab States](#)

Significantly weak PFM system components

Management of assets and liabilities, Pillar III

Table 5. Pillar III PEFA scores

	Country	Year	PI-10	PI-11	PI-12	PI-13	Total number of scores	20
			Fiscal risk reporting	Public investment management	Public asset management	Debt management		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	NU	C+	D+	D, not applicable scores	55
	State of Palestine	2019	D	D+	D+	C+	C scores	25
Least developed countries	Mauritania	2020	D+	C	D+	D+	B scores	15
Middle-income countries	Morocco	2016	B	C	B	C	A scores	5
	Jordan	2017	B	D+	D+	A	Total	100

Source: PEFA, n.d.a.

Source: [Social Expenditure Monitor for Arab States](#)

Significantly weak PFM system components

Accounting and reporting, Pillar VI

Table 6. Pillar VI PEFA scores

	Country	Year	PI-27	PI-28	PI-29	Total number of scores	15
			Financial data integrity	In-year budget reports	Annual financial reports		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D	D+	D+	D, not applicable scores	60
	State of Palestine	2019	B+	B+	D+	C scores	20
Least developed countries	Mauritania	2020	D+	D+	C	B scores	20
Middle-income countries	Morocco	2016	B+	D	D+	A scores	0
	Jordan	2017	D+	C+	C+	Total	100

Source: PEFA, n.d.a.

Significantly weak PFM system components

External scrutiny and audit, Pillar VII

Table 7. Pillar VII PEFA scores

	Country	Year	PI-30	PI-31	Total number of scores	10
			External audit	Legislative scrutiny of audit reports		Breakdown of scores, percentage
Countries with fragile and conflict-affected situations	Iraq	2017	D+	Not applicable	D, not applicable scores	70
	State of Palestine	2019	C+	Not applicable	C scores	20
Least developed countries	Mauritania	2020	D+	D+	B scores	10
Middle-income countries	Morocco	2016	B	Not applicable	A scores	0
	Jordan	2017	D+	C	Total	100

Source: PEFA, n.d.a.

Weak PFM components have gaps on some indicators

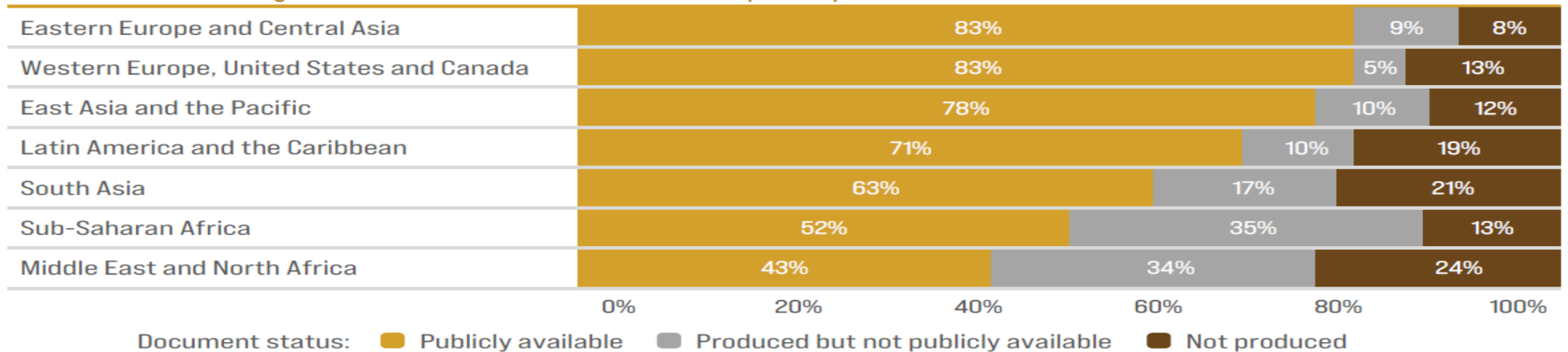
- **Budget reliability, Pillar I:**

- Expenditure composition outturns: significant variances (> 10%) between actual and budgeted expenditures at the sub-aggregate or functional level

- **Transparency of public finances, Pillar II**

- Access to information: During 2008-2019, the region was the lowest scoring globally on budget transparency – with no improvement

Table 11. The Arab region has the world's smallest share of publicly available documents



Source: International Budget Partnership, 2019.

Source: [Social Expenditure Monitor for Arab States](#)

Weak PFM components have gaps on some indicators

- **Policy-based fiscal budgeting, Pillar IV**

- Macro-economic and fiscal forecasting | medium-term perspective in expenditure budgeting | Legislative scrutiny of budgets

- **Predictability and control in budget execution, Pillar V**

- Expenditure arrears beyond 10% of total expenditure | Weak monitoring

Countries with fragile and conflict affected situations (FCS)

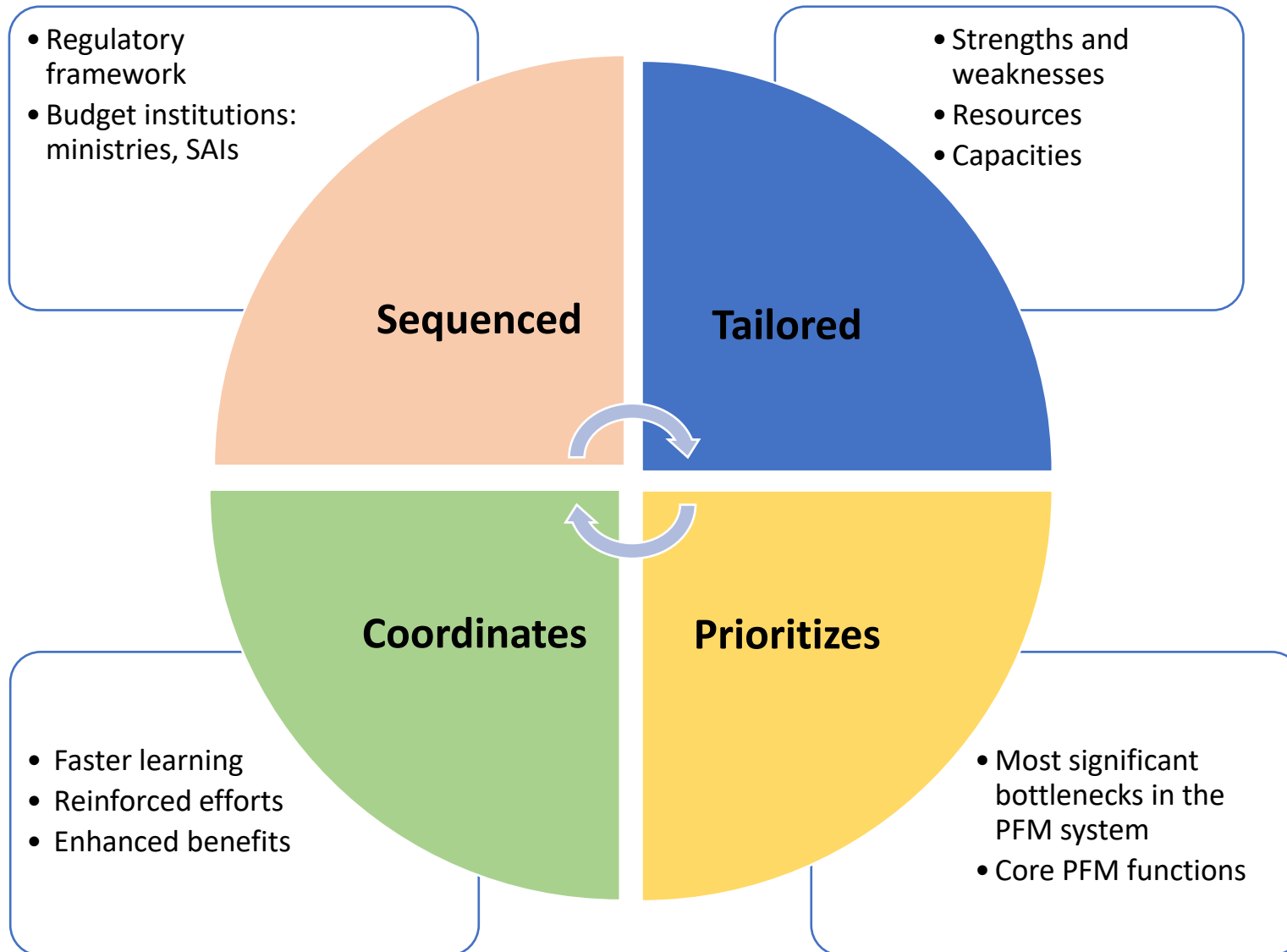
- **Payroll controls**

- Managing public wages | maintaining personnel records
- Risks of unwarranted growth in the wage bill | unmet payroll obligations | payments to ghost employees,

- **Procurement mechanisms**

- Bottlenecks | fraud and corruption | quality of public goods and services

A roadmap to PFM reform is more vital than ever



Source: [Social Expenditure Monitor for Arab States](#)



Thank you!



Shared Prosperity **Dignified Life**



*Empowered lives.
Resilient nations.*

