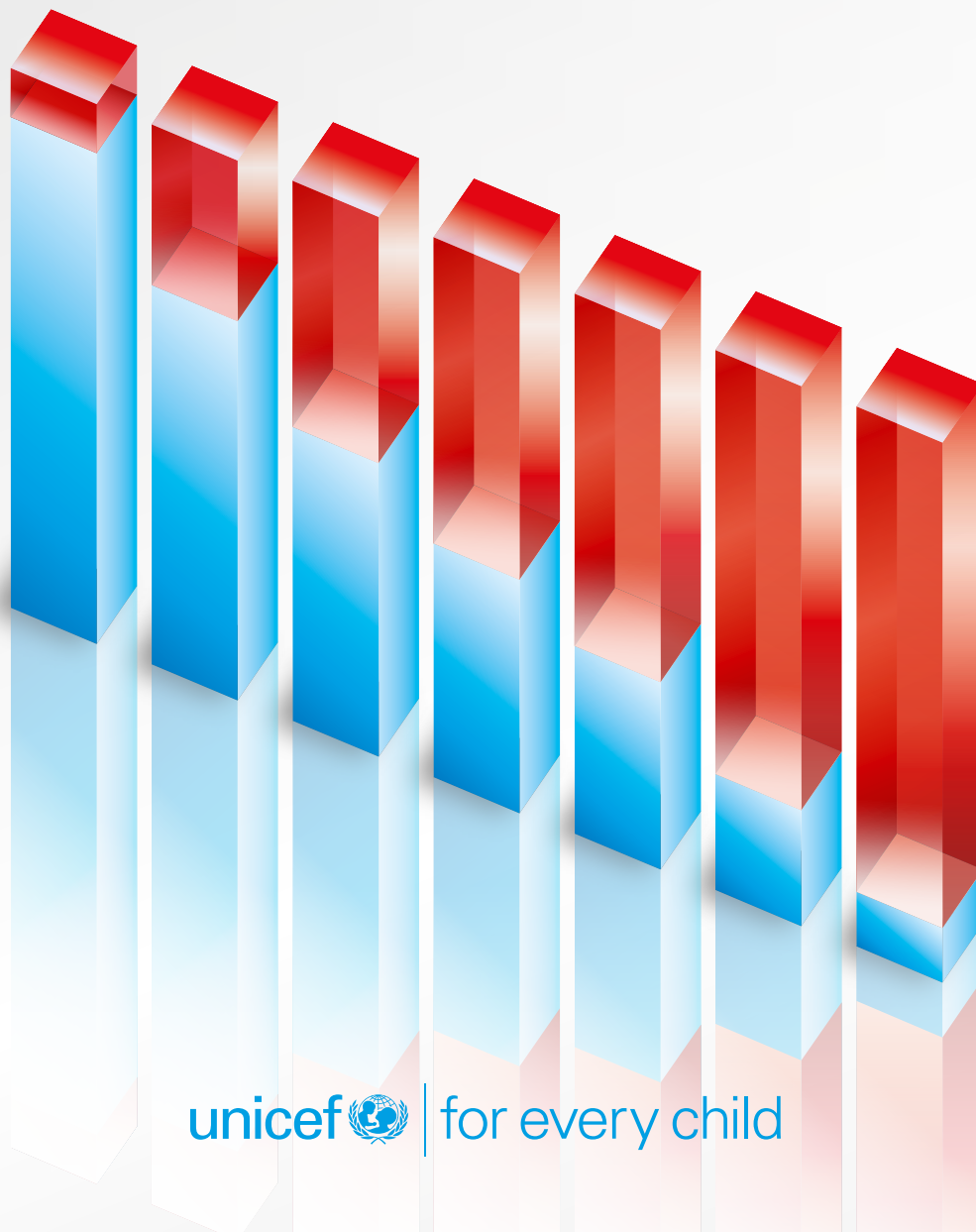


Shortfalls in Social Spending in Low- and Middle-income Countries

COVID-19 and Shrinking Finance for Social Spending

February 2022



UNICEF OFFICE OF RESEARCH – INNOCENTI

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Key messages

Increased public investment and greater mobilization of both domestic and international resources for social spending will be crucial to achieving an inclusive recovery in the post-COVID era. Currently, low- and middle-income countries invest, on average, just one third of their total government expenditure in social spending (defined here as education, health and social protection). Although social spending has risen in many countries in response to COVID-19, it is unclear whether the temporary increases will be maintained.

Expenditure data suggest that, on average, governments in low- and middle-income countries are underinvesting in all three main social sectors. To meet minimum spending benchmarks, low- and middle-income countries will need to spend an additional 0.9 per cent of GDP on education; 4.7 per cent on health; and 0.6 per cent on social protection. Failure to meet these minimum benchmarks is currently resulting in annual shortfalls of, on average, \$281 per child (education); \$513 per capita (health); and \$66 per capita (social assistance, as a component of broader social protection). These average estimates mask the much greater shortfalls for social services in some regions, with low-income countries in sub-Saharan Africa at particular risk of falling further behind.

While meeting the minimum benchmarks is crucial in the short term, ensuring access to adequately funded social services will require increased public investment in social spending in the years to come. There remains huge variance in social spending between richer and poorer regions, with low- and middle-income countries investing, on average, only 1 dollar for every 11 dollars spent in high-income countries. With GDP per capita growth in poorer countries lagging behind that of advanced economies in the wake of the pandemic, there is a danger that, without significant increases in social spending in these regions, existing inequalities will widen further.

The fiscal space to enhance social spending remains constrained in many regions. While advanced economies will see government revenue return to pre-COVID-19 levels by 2025, growth projections suggest that revenue in low- and middle-income countries will take longer to recover. Governments in low- and middle-income countries have taken on increasing debt in recent years, and debt service is the only area of government spending that has risen as a proportion of overall spending in the last five years. As a result of the looming debt crisis, low- and middle-income countries have few resources to draw on to counteract the ongoing socio-economic impact of COVID-19. Despite these challenges, increased domestic resource mobilization will be necessary to sustain and transform investments in social spending, in order

that all children have equitable access to quality education, health and social protection in line with the Sustainable Development Goal (SDG) targets.

The international community may need to do more to support social spending in low- and middle-income regions, including extending the G20 Debt Standstill until at least the end of 2022. Overseas Development Assistance (ODA) remains a fraction of total social spending: sector-specific ODA in low- and middle-income countries amounts to approximately 1.8 per cent of government expenditure on health, 0.9 per cent of government expenditure on education, and 0.3 per cent of government expenditure on social protection. Given the scale of the challenge facing low- and middle-income countries, a renewed focus on international cooperation to bolster finance for the SDGs and address widening inequalities post COVID-19 is needed, including a commitment amongst more donor nations to raise ODA levels to 0.7 per cent of GDP. As UNICEF outlines in the Call to Action on Financing an Inclusive Recovery, a global commitment will be required to invest in social spending that enables an inclusive recovery, in order to minimize the economic impact of the COVID-19 pandemic on children and ensure greater responsiveness to future shocks.

Background

The obligation on governments to ensure economic and social rights through adequate social spending is contained within all key human rights treaties (UDHR, art. 22; UNCRC, art. 4; ICESCR, arts. 11, 12, 13). Together, these treaties call for inclusive, transparent and accountable resource mobilization, budget allocation and spending, and recognize the joint responsibility of all governments to i) allocate the maximum available resources for the progressive realization of social rights and ii) enhance international cooperation to achieve this goal (UNHCHR 2017; 1989). The commitment to achieving this is articulated in SDGs 1. and 17., through which governments pledged to mobilize adequate resources from domestic and international sources (including development cooperation) to implement policies and programmes to reduce poverty (United Nations 2020). A key indicator of this goal (1.a.2) is the proportion of total government budgets allocated to social spending (defined here as education, health and social protection spending).¹ However, even before the onset of COVID-19, the OECD estimated that the annual SDG financing gap for all SDGs stood at US\$2.5 trillion (OECD, 2021).² Current projections suggest this could rise by as much as 70 per cent due to the economic impact of the pandemic. While COVID-19 response measures have focused on bolstering health and social protection in the short term, in the medium to long term, financing constraints may threaten spending across the social sectors in many low- and middle-income countries. Recent [UNICEF data](#) indicate that education spending could be most at risk.

There is a growing concern that the economic impact of the COVID-19 pandemic will put further pressure on social sector spending in low- and middle-income countries. Government revenue as a percentage of GDP is predicted to remain below 2019 levels across the developing world until at least 2025, while fiscal deficits are set to grow in most regions. These trends, alongside the lack of sustainable resourcing strategies, will put considerable constraints on public finances in low- and middle-income countries. In addition, many low- and middle-income countries face growing debt interest payments on loans from multilateral and private sector lenders that are currently not covered by COVID-19 debt relief measures (UNICEF Office of Research – Innocenti, 2021). Due to relatively weak economic growth predictions in low- and middle-income countries, the fiscal space for the increased social spending required to meet the SDGs is likely to remain constrained.

1 United Nations Sustainable Development Goals. All SDG Metadata repository can be found [here](#)

2 This refers to unmet financing needs for all SDGs per year pre-COVID. Using data from the [Global Outlook on Financing for Sustainable Development](#) (2021).

While many low-income countries rely on external assistance to support their social spending, very few donor nations meet their SDG (17.2) target to allocate 0.7 per cent of GDP to ODA. And, while ODA from members of the OECD Development Assistance Committee (DAC) countries grew by 3.5 per cent in real terms between 2019 and 2020, augmented by additional support in response to COVID-19, there remain concerns about donors being able to maintain their current commitments in the coming years (OECD, 2021a). This headline figure also masks long-term trends in development financing, with a greater proportion of assistance being provided through bilateral lending, and non-DAC member countries and private donors becoming increasingly significant in the overall aid landscape. Despite the COVID-19 response financing augmenting health and social protection spending in the short term, the analysis presented here suggests the overall picture is one of stagnating grant-based ODA and increasing debt levels.

Purpose and scope

This policy brief is the second in a series that assesses key issues affecting social spending as part of UNICEF’s work on [Public Finance for Children](#). The brief examines how recent trends are impacting on the financing available for, and directed to, social spending in low- and middle-income countries in different regions, using secondary analysis of public expenditure data collected by international organizations. It calculates median spending figures by region and income group, using World Bank regional aggregates for domestic spending.³

Part 1 outlines progress on mobilizing adequate resources for social services under SDG 1.a.2., using data from UNESCO (education); WHO (health); ILO and Government Spending Watch⁴ (social protection) to analyse social spending as a proportion of total government expenditure and GDP, as well as per capita spending. It also calculates the additional finance that would be required to meet the recommended spending levels needed to meet international commitments. Part 2.1 analyses the domestic resources available to governments to finance adequate social spending, breaking down economic growth trends and revenue and expenditure projections by region, using International Monetary Fund (IMF) data. Part 2.2 asks where additional money might come from, using analysis of external development financing, including ODA figures from the OECD DAC Creditor Reporting System (CRS) and IMF lending data and remittances estimates. Part 3 provides a summary with recommendations addressing the policy responses needed to protect investments in children in the wake of COVID-19.

Box 1. SDG Indicators on Social Spending

Goal 1. End poverty in all its forms everywhere

Target 1.a. Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions.

- **Indicator 1.a.1.** Total official development assistance grants from all donors that focus on poverty reduction as a share of the recipient country’s gross national income
- **Indicator 1.a.2.** Proportion of total government spending on essential services (education, health and social protection)

Source: <https://unstats.un.org/sdgs/metadata/>

3 Countries included in each region may be found [here](#). IMF regional aggregates for public finance data – countries included [here](#). Countries under each World Bank income group classification may be found [here](#). Analysis excludes high income countries.

4 [Governmentspendingwatch.org](https://governmentspendingwatch.org/); [ILO World Social Protection Report 2020-2022](#)

Minimum spending benchmarks

Minimum spending benchmarks and regional averages are necessarily a blunt tool for measuring adequacy of resources for essential social services. This brief gives a comparison of spending trends by region and by income group using three different measures, which all have their own strengths and drawbacks.

Firstly, it looks at social spending as a proportion of **total budget expenditure** as outlined in SDG indicator 1.a.2 (*see Box 1*). The drawback of assessing adequate expenditure levels in this way is that it can fail to capture a country's overall social spending capacity, due to low levels of revenue collection in some countries. Therefore, we also outline social spending as a **percentage of GDP**, in order to assess social spending in relation to a country's overall wealth. Thirdly, the brief calculates **per capita spending** figures to illustrate the spending gaps between regions in absolute terms, something that highlights the significant gap in spending between richer and poorer countries, even once cost difference (purchasing power parity (PPP)) is taken into account. Taken together, these three measures give a broad overall picture of spending divergences between regions and income groups.

While there are no binding international benchmarks for social spending, existing international recommendations on minimum levels of expenditure stipulate that between 15 and 20 per cent of total budget expenditure and/or 4–6 per cent of GDP should go to education and health (Incheon Declaration, 2015; Abuja Declaration, 2001; WHO, 2010). More recent cost estimates for the health sector calculate that achieving universal health coverage would cost at least 7.5 per cent of GDP in low- and middle-income countries (Stenberg et al., 2017). This brief uses a minimum spending benchmark of 6 per cent of GDP for education and the benchmark of 7.5 per cent of GDP for health spending. For social protection, it uses an indicative figure of 3.3 per cent of GDP. This is based on the ILO calculation of the cost of a universal package of four social protection benefits for low- and middle-income countries. In contrast, low-income countries will need to spend 8.5 per cent of GDP to achieve this level of universal coverage (ILO World Social Protection Report, 2020–2022). However, it is recognized that this benchmark refers to basic social protection measures only and does not represent the full cost of social security coverage. More details on the international and regional benchmarks used are found in Box 2.

Box 2. Minimum Social Spending Benchmarksⁱ

Education

International benchmark: To allocate between 4 and 6 per cent of GDP and/or at least 15 to 20 per cent of total public expenditure on education (Incheon Declaration and Framework for Action, 2015). With reference to the Addis Ababa Action Agenda (2015).

Cost estimate: The Global Education Monitoring Report (2015) estimated that low- and lower-middle-income countries need to increase spending to 6.3 per cent of GDP to deliver universal pre-primary, primary and secondary education (UNESCO, 2015; Education Finance Watch, 2021).ⁱⁱ

Health

Regional benchmark: 15 per cent of the annual budget should go to the health sector (Abuja Declaration, 2001 for African Union countries; World Health Organisation, 2011).

Cost estimate: Between 5 and 7.5 per cent of GDP required to provide universal health coverage for low- and middle-income countries based on various estimates (WHO, 2010; Jowett et al., 2016; Røttingen et al., 2014; Stenberg et al., 2017).

Social Protection

Cost estimate: while there are no internationally agreed benchmarks, ILO calculates the cost of a universal package of four social protection benefits for low- and middle-income countries as 3.3 per cent of GDP. This would cover the following benefits: children, maternity, disability, old age, as well as administrative costs (ILO World Social Protection Report, 2020–2022).

ⁱ While these costings and benchmarks have been published by regional and international bodies, they may not be accurately representing the adequate spending requirements in any given country.

ⁱⁱ This cost estimate does not include upper middle-income countries.

The brief acknowledges that the question of what constitutes adequate government spending will be governed by the specific national context in any country, considering the resources available to governments and the extent to which services are delivered publicly and privately. This overview of public expenditures does not aim to measure the efficiency and equity of spending – for example, the benefit incidence of targeted versus universal policies – nor consider the relative administrative costs of different systems. It also does not measure potential discrepancies between budget allocations and actual disbursements. Few low- and middle-income countries are currently achieving these spending levels across all three sectors, and per capita spending remains very low in relative terms even in those that do.

1. SECTOR SPENDING

1.1. Budget allocations to education, health and social assistance in low-and middle-income countries

EDUCATION

Budget expenditure

Government education spending (primary–tertiary) as a proportion of total budget expenditure has declined in recent years in low- and middle-income countries, with median spending falling from 15.7 per cent in 2014 to 14.4 per cent in 2019. Four out of seven regions now fall below the minimum spending level of between 15 and 20 per cent of total government expenditure set out in the Incheon Declaration. Budget allocations to education are particularly low in the Middle East and North Africa, where they reached just 10.2 per cent in 2019 (see *Figure 1*).

Spending as a percentage of GDP

Overall, low- and middle-income countries are spending a lower proportion of GDP on all levels of education than high-income countries. Median education spending falls below 5 per cent of GDP across all regions and income groups, and below 4 per cent of GDP in low- and middle-income countries in South Asia, Western and Central Africa and Europe and Central Asia. This is below the minimum spending benchmark of 4–6 per cent of GDP set out in the Incheon Declaration (see *Figure 2*).

Per capita spending

On average, high-income countries spend over nine times more per child aged 0–19 on education than low- and middle-income countries, even once cost difference (PPP) is considered.⁵ Spending per child also varies widely between regions: in West and Central Africa, education spending amounts to just \$273 per child, compared to \$3,264 per child in Europe and Central Asia, and \$11,365 in high-income countries (see *Figure 3*).

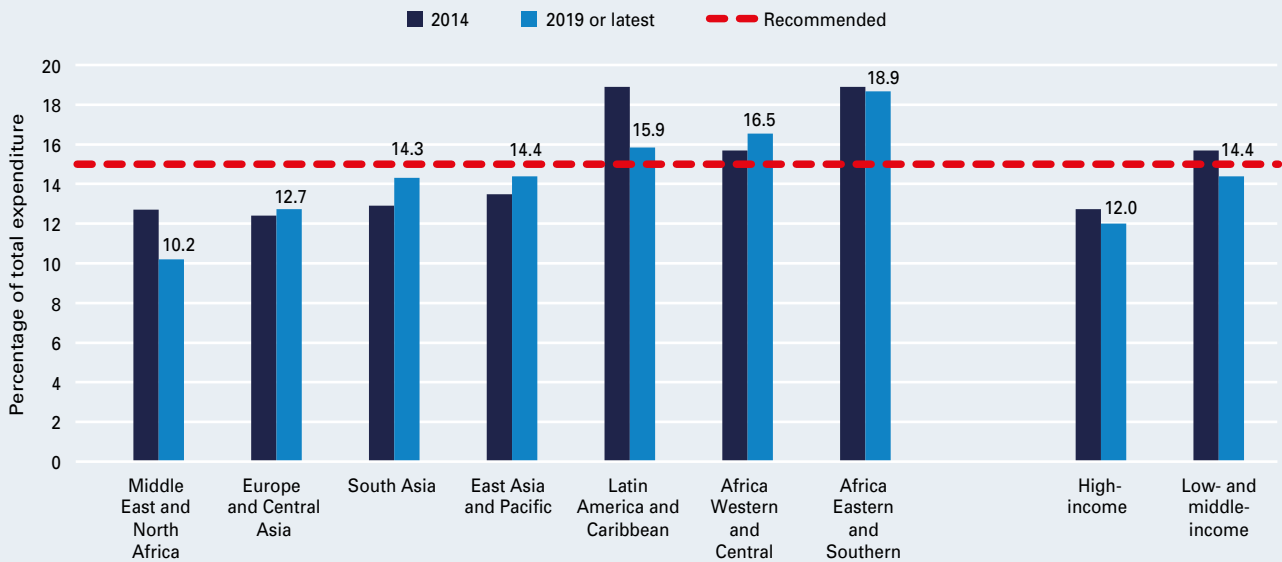
⁵ This calculation is based on per capita spending for all children under 19, using [GDP PPP](#) and UN [World Population Prospects](#) for the given year.

COVID-19 impact

There are already signs that COVID-19 may reduce these spending levels still further, at least in the short term, as countries prioritize funding of health and social protection. According to UNESCO, only 2.9 per cent of COVID-19 fiscal response went to education and training, and 97 per cent of education fiscal response was invested in high-income countries (UNESCO, 2021). Low- and lower-middle income countries also appear to be more likely to have cut education spending in response to the pandemic (World Bank/UNESCO, 2021). South Asia and Western and Central Africa are the only regions that have maintained education spending during this period, with a study from Eastern and Southern Africa reporting that education spending in the region fell by as much as 7 per cent in 2020 (UNICEF, 2020).

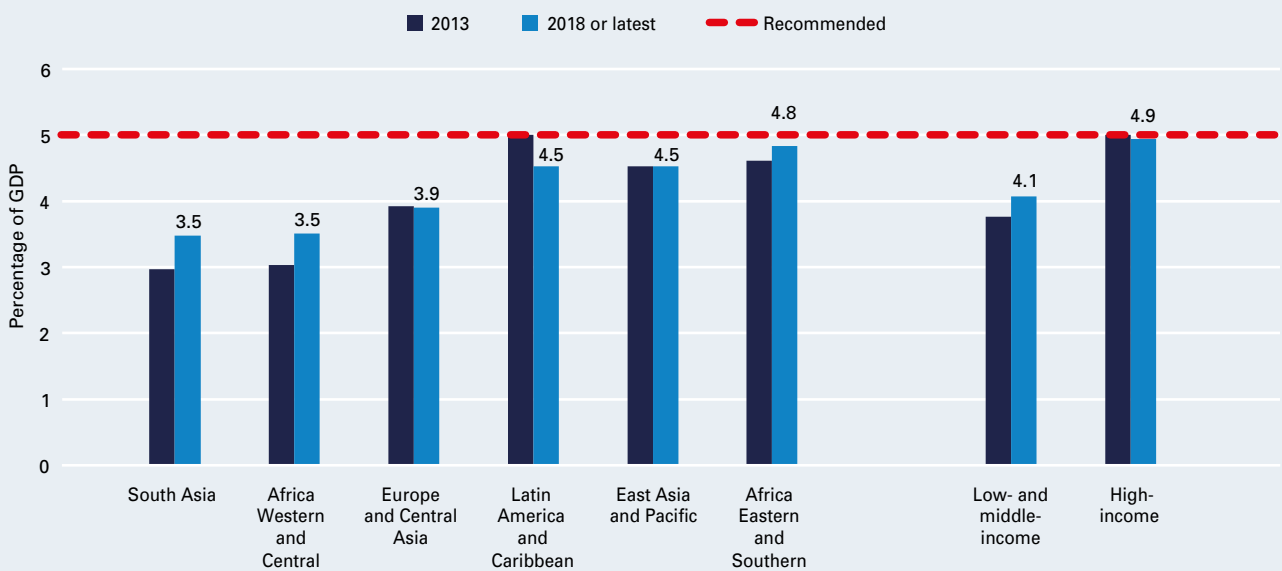
The impact of the pandemic may further widen the already vast per capita spending differences in children's education across different parts of the world. UNESCO estimates that COVID-19 has increased the projected annual financing gap to achieve universal quality education in low- and lower-middle-income countries from \$148 billion pre-COVID to nearly \$200 billion post-COVID (UNESCO, 2020). With the overwhelming majority of primary school children in developing countries unable to access education at some point during the pandemic, governments will have to find the funds to catch up and keep on track for the SDGs (UNDP, no date). Finding the funds to address this will be a struggle for low- and middle-income countries. Along with falls in the share of government spending, aid to education as a proportion of overall aid has been falling since 2013, whereas aid to other sectors including health has risen (UNESCO, 2020).

Figure 1. Median education spending by region as a proportion of total government expenditure



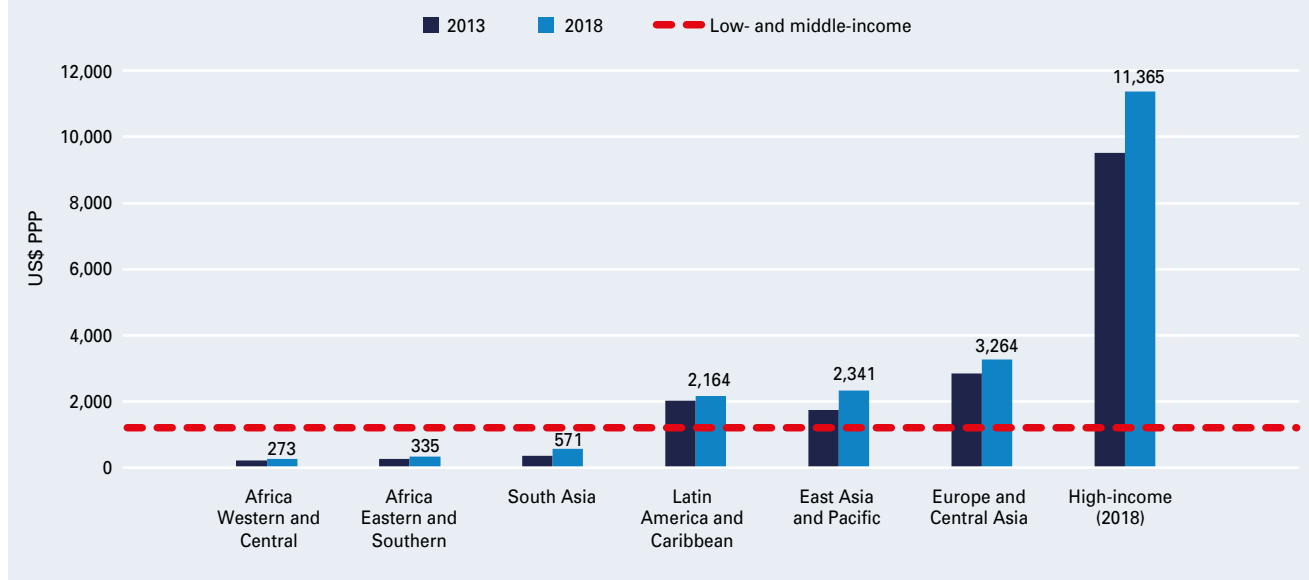
Source: UIS, UNESCO, author's calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries.

Figure 2. Median government education expenditure as a percentage of GDP



Source: Author's calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries. Data missing for Middle East and North Africa (MENA).

Figure 3. Median government education expenditure per child (aged 0–19) by region



Source: Author's calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries. Data missing for MENA.

HEALTH

Budget expenditure

Median public health expenditure in low- and middle-income countries remains well below the regional target in the Abuja Declaration agreed by African countries, which stipulates that 15 per cent of total government spending should go to the health sector. Low- and middle-income countries currently allocate just 7.8 per cent of budget expenditure to health, compared to an average of 18.2 per cent in high-income countries. Health spending is particularly low in South Asia, and Western and Central Africa, where governments allocate under 5 per cent of their national budgets to health expenditure (see Figure 4).

Spending as a percentage of GDP

On average, government health expenditure is also below 5 per cent of GDP in low- and middle-income countries across all regions; and well below recent cost estimates for providing universal health coverage (7.5 per cent of GDP; Stenberg et al., 2017). In South Asia, and Western and Central Africa, median expenditure stands at under 1 per cent of GDP. This compares with average public health spending of 7.7 per cent of GDP in high-income countries (see Figure 5).

Per capita spending

Although per capita⁶ government health expenditure spending in low- and middle-income countries is rising slowly, high-income countries spend, on average, at least eight times as more on health per capita than low- and middle-income countries. In the lowest spending regions, per capita financing is just \$35.4 per person (Western and Central Africa); \$68 per person (South Asia), and \$94 per person (Eastern and Southern Africa) compared with \$3,769 per person in high-income countries (see *Figure 6*).

COVID-19 impact

Most countries increased health expenditure to respond to COVID-19, though the additional expenditure was predominantly directed to the pandemic response.⁷ These increases therefore do not signal any increase in primary health spending. While two thirds of countries reported an increase in planned health expenditure in the first quarter of this year, eight countries reported a decrease in spending during this time, suggesting additional COVID-19 funds may have been halted in some countries. Three countries in the Middle East and North Africa and two countries in both Eastern and Southern Africa, and Latin America and the Caribbean have decreased spending.

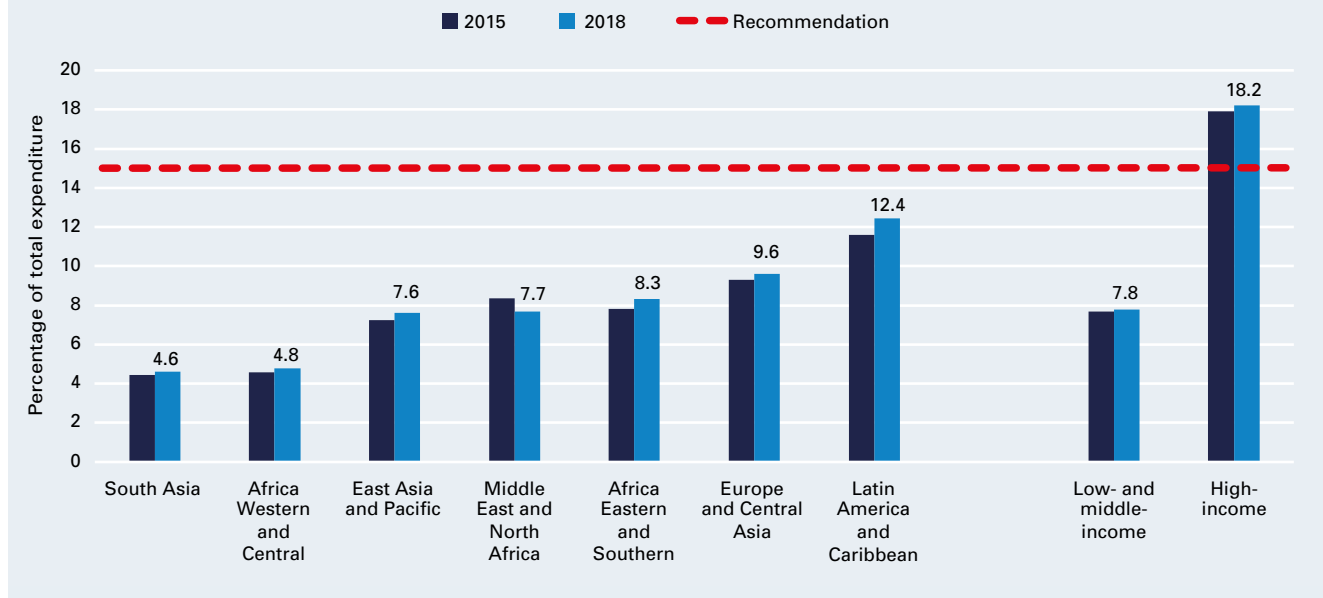
As domestic sources of finance – including government expenditure, private insurance, and out-of-pocket expenditure – make up around 98 per cent of total health spending in low- and middle-income countries (WHO, 2018), addressing existing health financing vulnerabilities will be crucial to building sustainable health systems to weather future health crises. In 2019, ODA to health accounted for just 1.8 per cent of total health expenditure in low- and middle-income countries, though it does make up a much higher proportion of health expenditure in the poorest countries.⁸ Over half of health ODA goes to sub-Saharan Africa, representing 25 per cent of total health financing in some countries (Knox, no date).

6 All per capita spending figures in US\$ PPP

7 [Database of Fiscal Policy Responses to COVID, 19](#). IMF.

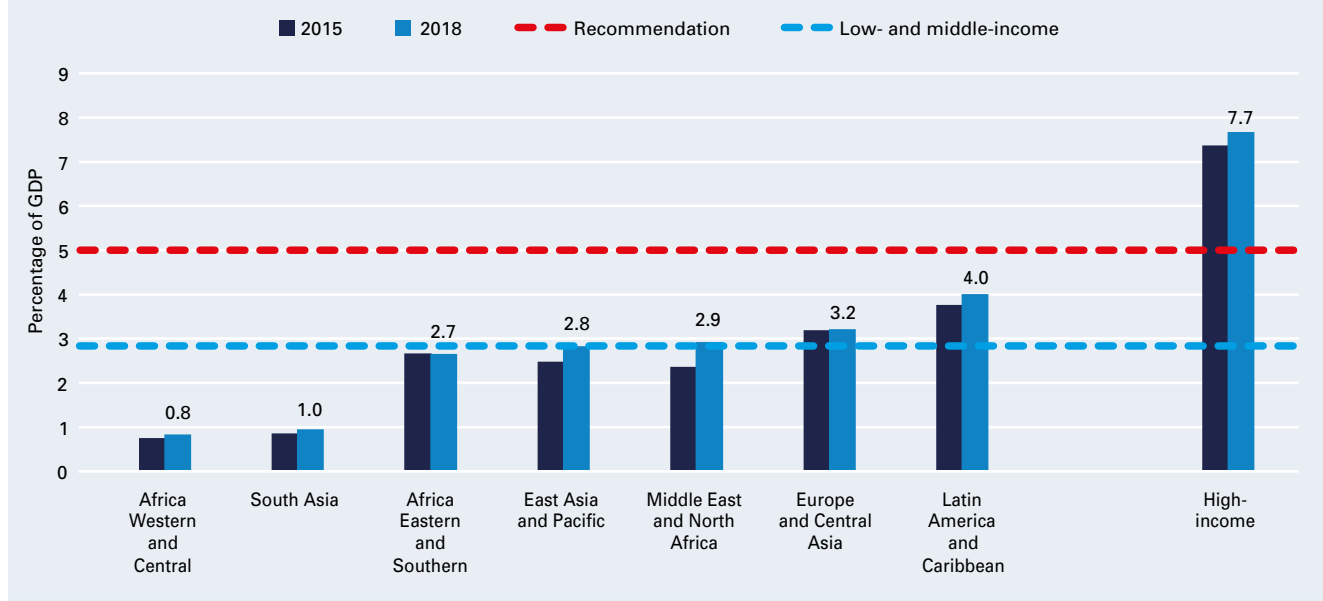
8 Authors calculations based on [OECD CRS ODA](#) to health (total official donors); [IMF expenditure statistics](#); [WHO expenditure statistics](#). Based on 2019 or latest data. Sector data excludes aid channelled through non-bilateral channels (humanitarian agencies, multilaterals; private donors).

Figure 4. Median government health expenditure by region as a proportion of total expenditure



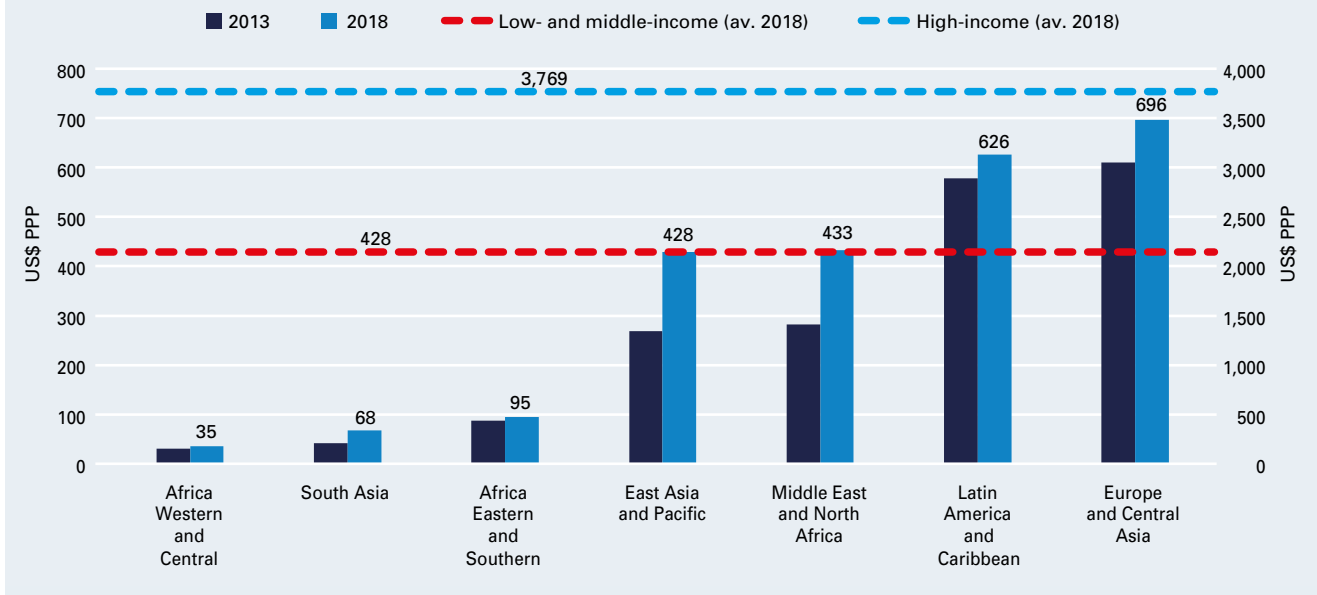
Source: Author's calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries.

Figure 5. Median government health expenditure as a percentage of GDP



Source: Author's calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries.

Figure 6. Median per capita government health expenditure by region (PPP)



Source: Author’s calculations based on aggregate data from [World Development Indicators](#); regional groupings exclude high-income countries.

SOCIAL PROTECTION

Budget expenditure

While data on total social protection expenditure as a proportion of government expenditure are sparse, Government Spending Watch data,⁹ which is a key data source used by ILO in its recent 2021 report,¹⁰ suggests that median spending on social protection remains under 4 per cent of total budget expenditure in low- and middle-income countries, with countries in Western and Central Africa and East Asia and Pacific allocating under 3 per cent of total expenditure to non-contributory social protection. Social assistance spending as a proportion of total government expenditure in low- and middle-income countries decreased across sub-Saharan Africa; Latin America and the Caribbean; and Europe and Central Asia between 2018 and 2020 (see Figure 7).¹¹

9 <https://www.governmentspendingwatch.org>

10 ILO World Social Protection Report 2020–2022 Report [wcms_817572.pdf \(ilo.org\)](#)

11 Based on data from 86 low- and middle-income countries compiled by [Government Spending Watch](#) (data for MENA based on Jordan alone). While government social protection reporting differs between countries, this is based on poverty-targeted social assistance spending.

Spending as a percentage of GDP

Median social protection spending in low- and middle-income countries is just 2.7 per cent of GDP. This contrasts with much higher spending levels in richer countries (11.5 per cent). Average social protection spending in sub-Saharan Africa, South Asia, and East Asia and Pacific is below 3 per cent of GDP. The recent ILO World Social Protection Report, 2020–2022 calculates that low- and middle-income countries will need to spend 3.3 per cent of GDP to provide a universal package of four social protection benefits for: children, maternity, disability, old age, plus administrative costs. Low-income countries will need to spend 8.5 per cent of GDP to achieve this level of universal coverage, as per ILO’s World Social Protection Report, 2020–2022 (see *Figure 8*).¹²

Per capita spending

The ILO country data for Total Public Social Protection Expenditure (excluding health) shows that high-income countries spend 18 times more per capita¹³ on social protection than low- and middle-income countries. Median per capita social assistance spending in low- and middle-income countries is just \$459 per person, compared to \$8,294 per person in high-income countries. Governments in sub-Saharan Africa and South Asia have the lowest levels of social protection spending: spending reaches just \$55 per capita in Western and Central Africa. Low-income countries will need to spend an additional \$188 per capita on social protection annually to reach the 8.5 per cent of GDP required for universal social protection coverage (see *Figure 9*).

COVID-19 impact

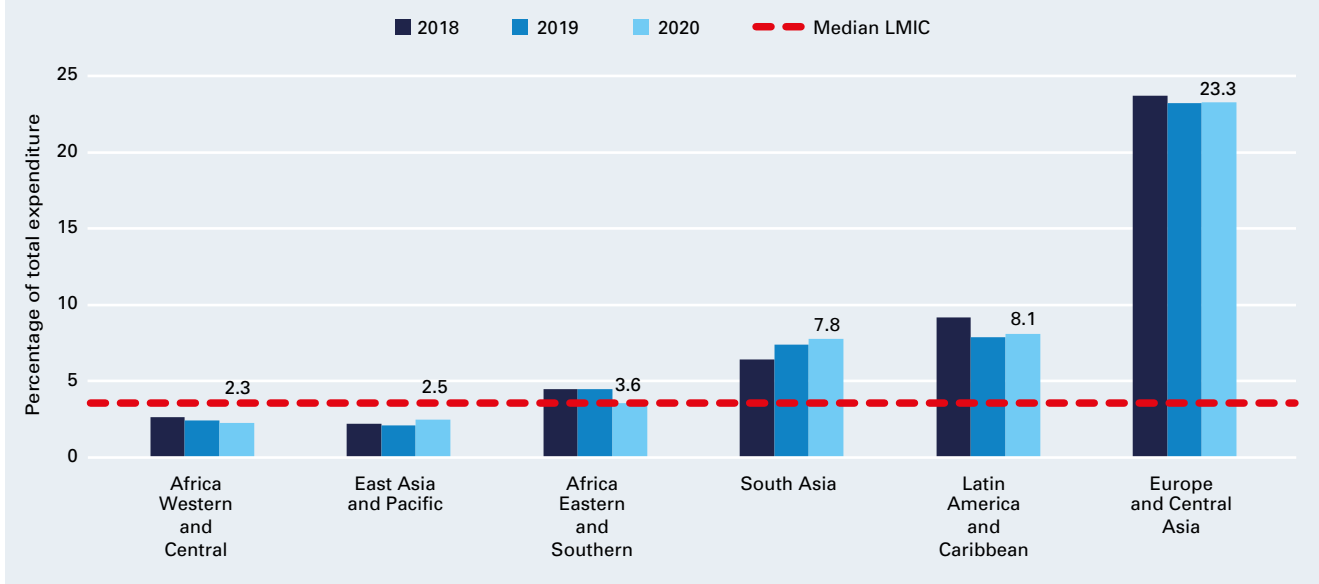
Gentilini et al. found that at least 171 countries worldwide have planned or introduced new social protection measures, the overwhelming majority of these being in the form of cash-transfers. However, while increased spending has been ‘relatively generous’ for high-income countries, with the equivalent of \$99 per capita in social protection COVID-19 response, low-income countries are only found to have spent an additional \$1 per capita since the start of the pandemic (Gentilini et al., 2020). Reported ODA for social protection was just 0.3 per cent of total social protection spending in low- and middle-income countries in 2019.¹⁴

12 ILO World Social Protection Report, 2020–2022 [wcms_817572.pdf \(ilo.org\)](https://www.ilo.org/wcmsp5/groups/public/-/dca/press-room/-/press-releases/wcms_817572.pdf)

13 All per capita spending figures based on US\$ PPP.

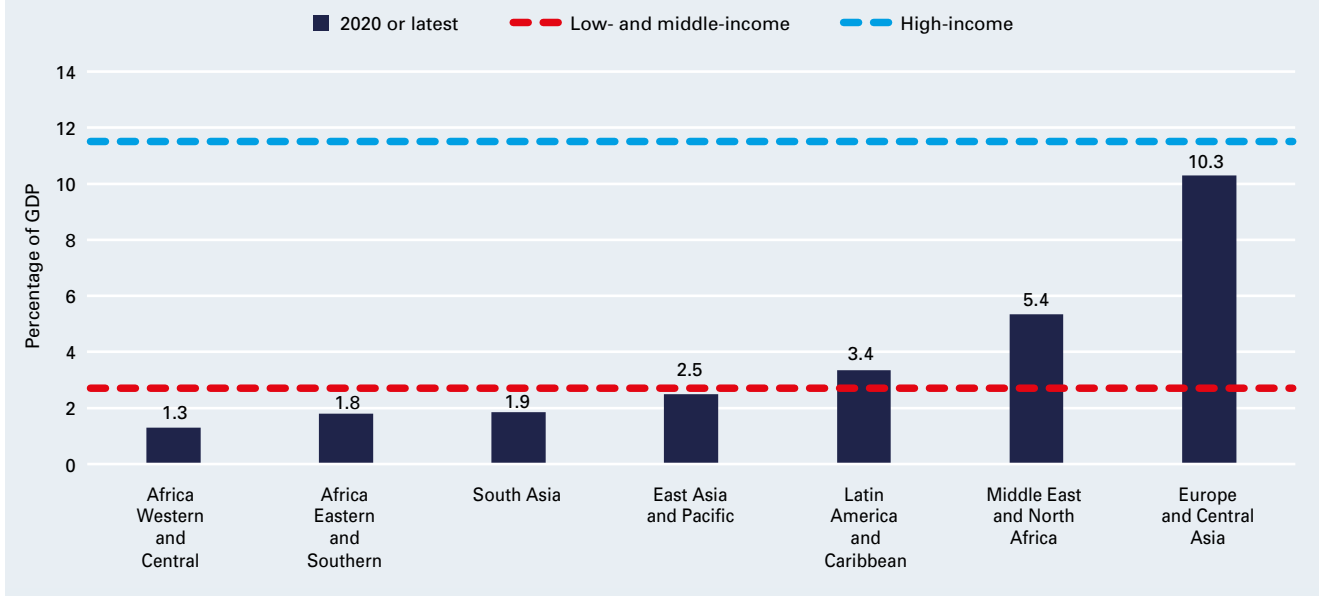
14 Author’s calculations based on OECD CRS ODA to social protection (total official donors); IMF expenditure statistics; ASPIRE expenditure statistics. Based on 2019 or latest data. Sector data excludes aid channelled through non-bilateral channels (humanitarian agencies, multilaterals; private donors).

Figure 7. Median government social protection expenditure in low- and middle-income countries as a proportion of total expenditure



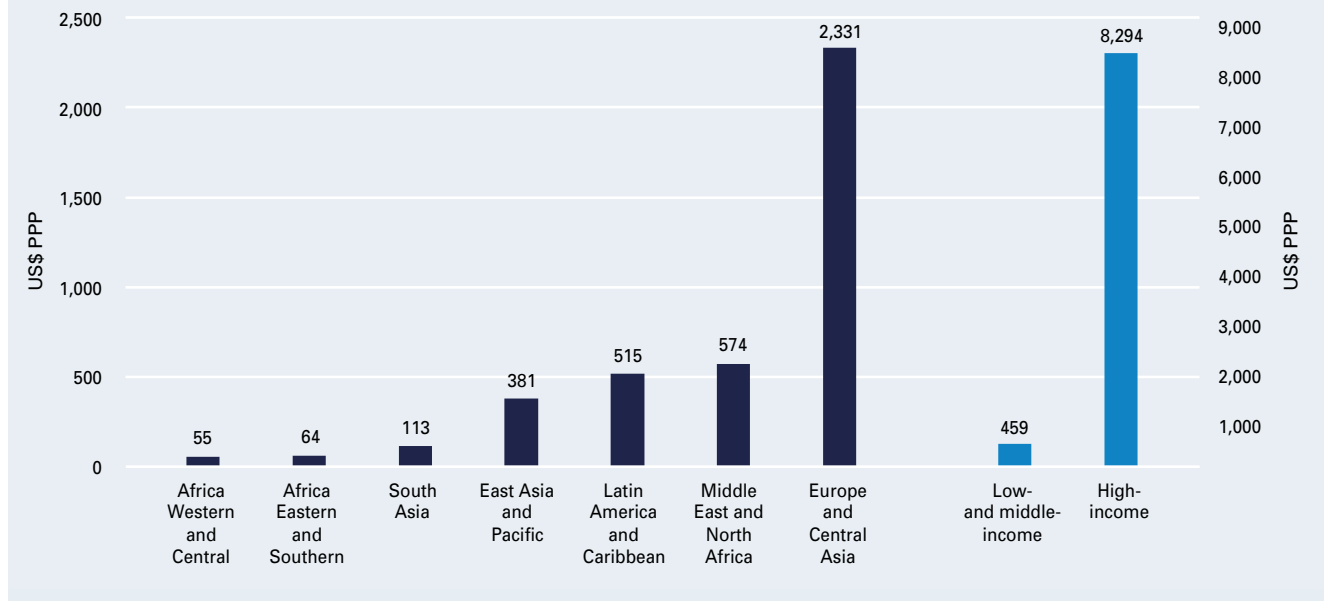
Source: Author’s calculations based on data downloaded from *Government Spending Watch*. Regional groupings exclude high-income countries. Data missing for MENA.

Figure 8. Median social protection expenditure in low- and middle-income countries as a proportion of GDP



Source: Based on ILO country data for Total Public Social Protection Expenditure (excluding health) (World Social Protection Report, 2020–22). Note: Excludes high-income countries.

Figure 9. Median public expenditure on social protection per capita (income groups on right axis)



Source: Based on ILO country data for Total Public Social Protection Expenditure (excluding health) (World Social Protection Report, 2020–22) and World Population Statistics. Note: Excludes high-income countries.

1.2. Financing adequate social spending in the wake of COVID-19

This analysis highlights that, even before COVID-19, lower- and middle-income countries were investing relatively low proportions of their overall budgets to social spending. Social spending on education, health and social protection currently makes up just over one quarter of total government expenditure in low- and middle-income countries. While social spending as a proportion of GDP is slowly increasing in low- and middle-income countries, there remains a wide gap between levels of spending in richer and poorer countries, especially in health spending. Despite additional spending in 2020 in response to the pandemic, there is little sign of increased long-term investment in social spending to the extent that will be required to build back better after COVID-19. While social protection and health continue to receive additional financing in the wake of the pandemic, several countries are already cutting education spending (*see Table 1*).

Table 1. Summary of pre- and post-COVID trends in social sector spending

Region	Pre-COVID trend in spending (2013–2018) (as % Total Expenditure)			COVID response (No. of countries reporting increase (+) and decrease (-) in planned expenditure)		
	Education	Health	Social Protection	Education	Health	Social Protection
	INCREASE (+) / DECREASE (-)					
East Asia and Pacific	+	+	+	-3 / +9	-1 / +20	+15
Eastern Europe and Central Asia	+	+	-	-2 / +8	+15	-2 / +11
Eastern and Southern Africa	-	+	-	-4 / +9	-2 / +15	-1 / +12
Latin America and Caribbean	-	+	-	-2 / +8	-2 / +14	+13
Middle East and North Africa	-	-	...	-3 / +6	-3 / +15	-2 / +13
South Asia	+	+	+	+3	+7	-1 / +4
Western and Central Africa	+	+	-	+3	+11	+11
Low- and middle-income countries	-	-	+	-10 % + 34%	-6% +74%	-5% +60%

1.3. Additional government expenditure required to adequately finance social spending

In the post-COVID era, low- and middle-income countries will need to spend much more on social services to avoid falling further behind. As the calculation in Table 2 outlines, to meet the minimum spending benchmarks recommended in Box 1, an additional \$4.4 trillion dollars of social spending in low- and middle-income countries will be needed annually. If these spending benchmarks (namely 6 per cent of GDP for education; 7.5 per cent of GDP for health; and 3.3 per cent of GDP for social protection) were reached, this would require an additional \$677 per capita to meet basic social rights in these countries. An extra \$281 could be made available for each child for education, an additional \$513 per capita would be spent on health, and an additional \$66 per capita to social protection (*see Tables 2 and 3*).

Table 2. Calculation of additional expenditure required to meet minimum recommended social spending in low- and middle-income countries

	Current spending (US\$ bn)	Current Spending (% GDP)	Target (% GDP)	Total additional spending required (US\$ bn)	Per capita spend required to meet target (US\$ PPP)
Total GDP PPP (2020)	71,380.3				
Education	3,640.4	5.1	6.0	642.4	281
Health	2,023.8	2.8	7.5	3,354.9	513
Social Protection	1,927.3	2.7	3.3	428.3	66
Total additional expenditure to meet minimum benchmarks				4,425.6	677

ⁱ Education spending calculated for population 0–19 years. Health and social protection spending calculated for total population. Total additional expenditure adjusted for total population. Author's calculations based on IMF WEO, 2021; and World Development Indicators, 2021).

However, reaching these minimum benchmarks will still leave per capita social spending in low- and middle-income countries far behind equivalent spending in high-income countries. Taken together, high-income countries are spending over eight times more on social services than poorer countries, even when PPP is considered. As the calculation in Table 3 outlines, low- and middle-income countries would need to spend an extra \$10,457 per child on education, and \$3,341 on health and \$7,835 on social protection per person to meet social spending levels in high-income countries. While these broad averages mask the individual spending levels of different countries and regions, they do highlight the significant shortfall in government social spending in low- and middle-income countries.

This discussion has focussed on minimum spending benchmarks in a context of constrained finances in the wake of COVID-19. However, the costs of providing quality social services are likely to be much higher. A recent UNICEF study on Eastern and Southern Africa found that, if governments were to meet the 6 per cent of GDP benchmark for **education** spending, they would be able to recruit an additional 3 million teachers in the region. However, they estimate that to effectively maximize learning outcomes, governments would need to spend as much as 7 to 8 per cent of GDP on education (UNICEF, 2020c). COVID-19 has also highlighted **health** financing vulnerabilities, with WHO calculating that an additional \$150 billion per year of public funding is needed to prepare the world for future pandemics (WHO, 2020). As they argue, the lessons of the pandemic call for a ‘reset’ in countries’ health financing systems priorities, with the aim of achieving universal health coverage as a priority (ibid.). In terms of **social protection**, while this brief has provided data on a package of four social protection benefits, much higher levels of spending would be required in low- and middle-income countries to match overall spending on social security in high-income countries. OECD countries, for example, spend up to 20 per cent of GDP on social protection (including unemployment; disability; pensions; and family benefits).¹⁵ Moreover, the ILO calculates that the financing gap for providing full social protection floors has widened by 30 per cent worldwide since the beginning of the COVID-19 pandemic. In consequence, lower-middle-income countries would need to spend the equivalent of 5.1 per cent of GDP, and low-income countries as much as 15.9 per cent of GDP, to guarantee a basic level of social security in the coming years (ILO, 2021).

Table 3. Calculation of additional per capita expenditure required in low- and middle-income countries to meet high-income social spending levels (US\$ PPP)

Public expenditure by sector	Current spending per capita: low and middle income	Current spending per capita: high income	Spending gap
	(US\$ PPP) ⁱ	(US\$ PPP) ⁱ	(US\$ PPP) ⁱ
Education	1,207	11,664	10,457
Health	428	3,769	3,341
Social Protection	459	8,294	7,835
Total social spending	1,308	14,639	13,330

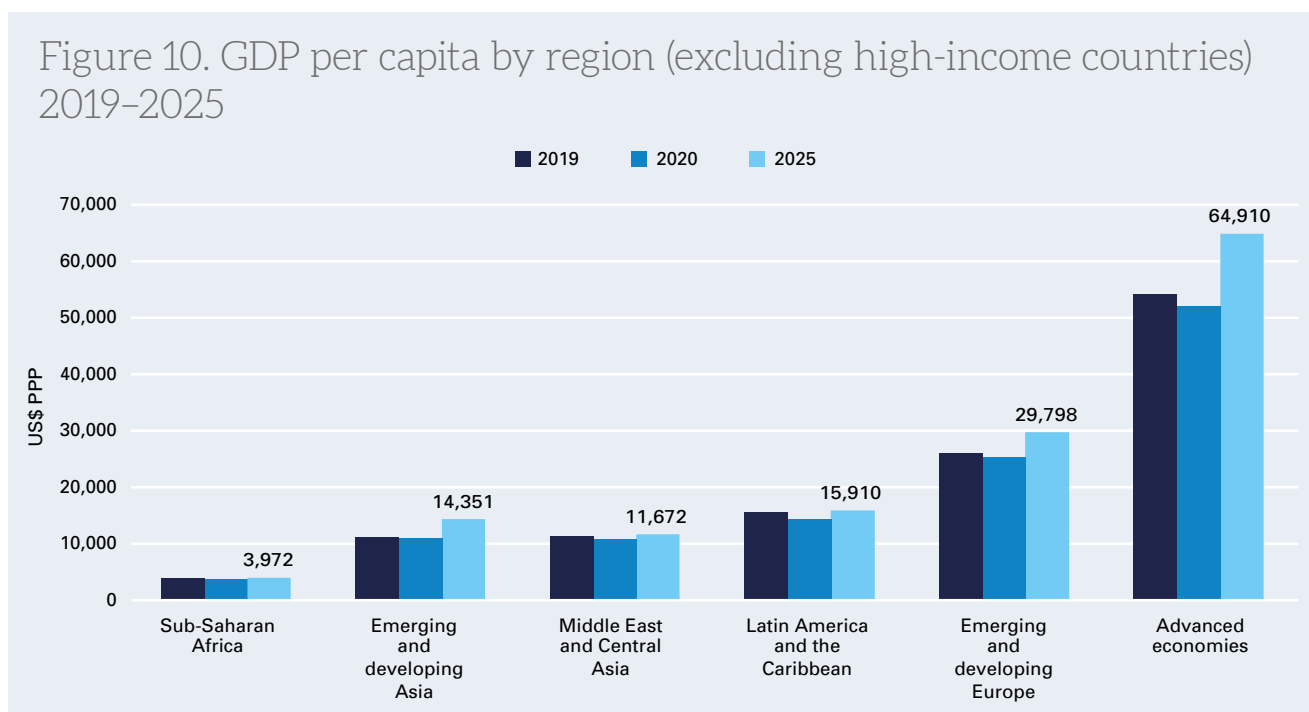
ⁱ Education spending calculated for population 0–19 years. Health and social protection spending calculated for total population. Total additional expenditure adjusted for total population. Author’s calculations based on IMF WEO, 2021; and World Development Indicators, 2021).

15 ILO (2021a); OECD: <https://data.oecd.org/socialexp/social-spending.htm#indicator-chart>

2. FINANCING SOCIAL SPENDING IN THE WAKE OF COVID-19

2.1. Economic growth trends and projections¹⁶

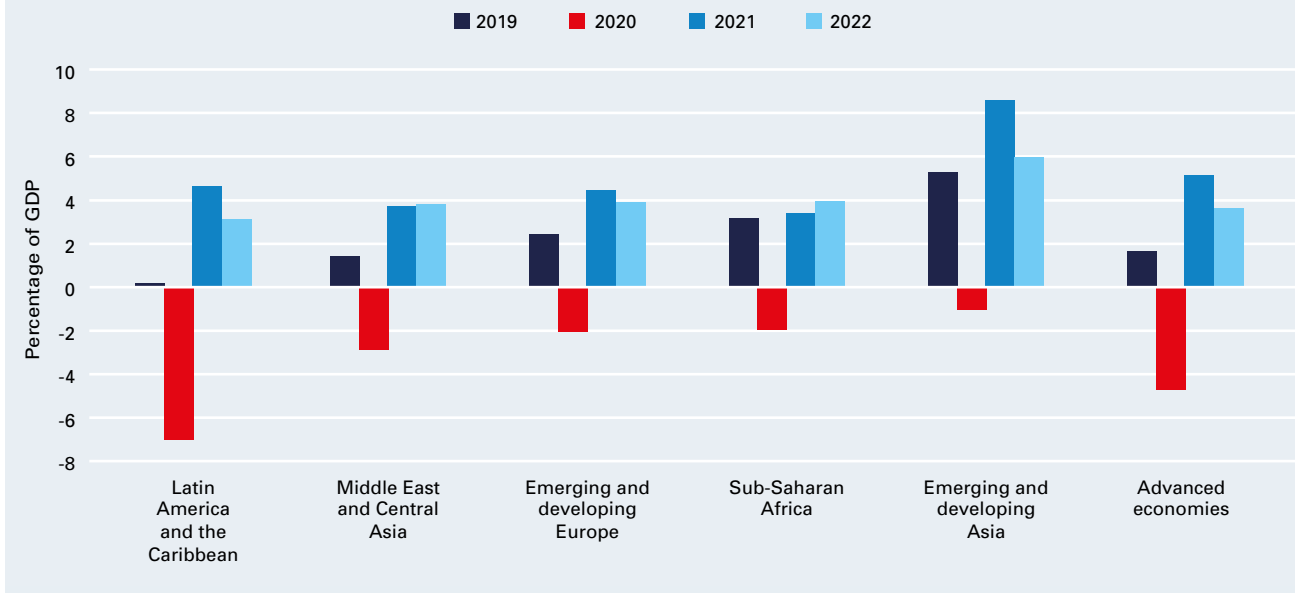
Developing countries entered the global pandemic of 2020 with vastly different levels of resources with which to respond to COVID-19. Existing disparities in wealth remain stark, with **GDP per capita** (see Figure 10) in advanced economies in 2020 almost 14 times greater than that of sub-Saharan Africa; and almost five times that of Asia and the Middle East, even once PPP is considered. **Overall GDP** (see Figure 11) fell sharply in 2020, with Latin America and the Caribbean and the Advanced Economies seeing the sharpest declines. While GDP is predicted to recover in 2021, developing nations face the dual threat of declining domestic resources and the decline in overseas aid in the future, as donor nations prioritize rebuilding their own economies. In the wake of the economic impact of the pandemic, the wealth disparity between advanced economies and low- and middle-income countries is projected to increase in most regions by 2025. Asia will be the only region projected to narrow this gap in relative terms by 2025. Poorer developing nations, particularly those in sub-Saharan Africa, remain at risk of falling further behind.



Source: Based on data downloaded from the IMF World Economic Outlook Database, April 2021, projections after 2020.

¹⁶ This section uses IMF regional aggregates for public finance data (countries included [here](#)), which differ slightly from the [WDI regional aggregates](#) used in the social spending analysis. Countries under each World Bank income group classifications may be found [here](#).

Figure 11. GDP growth predictions between 2019 and 2022 (percentage change)



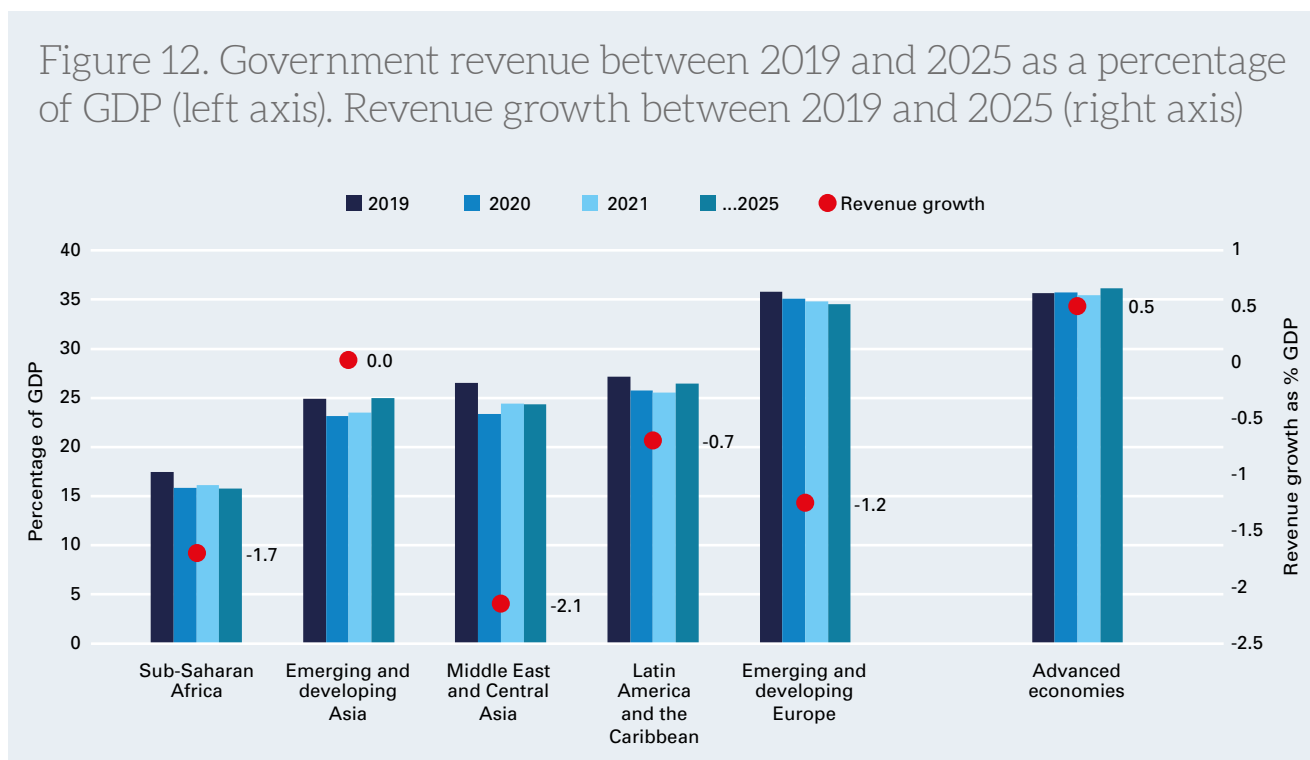
Source: Based on data downloaded from the IMF World Economic Outlook Database, April 2021

DOMESTIC RESOURCE MOBILIZATION FOR SOCIAL SPENDING

Government revenue

Low- and middle-income countries face growing financing constraints, exacerbated by the economic impact of the pandemic. Overall government revenue as a percentage of GDP is predicted to decline in low- and middle-income countries between 2019 and 2025 in all regions except Asia, in contrast to modest revenue growth in advanced economies. The economies of the Middle East and Central Asia and sub-Saharan Africa will see some of the biggest declines in revenue as a proportion of GDP between 2019 and 2025, with revenue predicted to decline by -2.1 and -1.7 percentage points in these regions respectively. In contrast, overall revenue collection amongst the advanced economies is set to rise by 0.5 percentage points over this period. Poorer nations in sub-Saharan Africa continue to lag behind richer economies in terms of revenue collection in relative as well as absolute terms: in 2020, sub-Saharan Africa collected just 16 per cent of GDP in revenue compared with 36 per cent in advanced economies (see Figure 12).

These figures highlight the extent to which domestic resource mobilization in low- and middle-income countries requires strengthening if they are to meet the SDGs and to prevent their comparative resource



Source: Based on data downloaded from the IMF World Economic Outlook Database, April 2021, projections after 2020.

mobilization falling further behind. The concentration of projected population growth in low- and middle-income countries, particularly in Africa and Asia, adds an additional challenge to achieving SDG targets on spending (UN DESA, 2015).

Drivers of declining revenue by region

While the fall in revenue in 2020 was, to a large extent, driven by the economic contraction triggered by COVID-19, weak revenue collection is an ongoing concern in low- and middle-income countries. It is driven by diverse factors across these regions; some are systemic, such as weak tax collection mechanisms, and some have been exacerbated by the pandemic. Direct effects of the economic downturn include increased unemployment and the effect on income taxes; declining commodity prices and income from tourism; as well as a fall in foreign direct investment. Indirect effects include deferred revenue as part of the policy response, with many countries offering tax breaks and discounts on public utilities to alleviate the impact of the economic lockdown (IMF WEO, 2021).

Enhancing tax collection mechanisms in low- and middle-income countries is a key commitment of the Addis Ababa Action Agenda to support the implementation of the SDGs (United Nations, 2015).

Tax revenue remains lower in relative terms in low- and middle-income countries than in high-income economies.¹⁷ This is due to a variety of factors including administrative constraints and poor governance, as well as both external and internal political interests, which may facilitate tax evasion and illicit flows, and fail to maximize tax revenue (Mills, L., 2017). It is estimated that developing countries are losing around US\$138 billion in tax breaks, and around US\$200 billion in non-payment of tax per year (ActionAid, 2020). Slow progress in incorporating the informal sector into contributory social security systems is another factor hindering a growth in tax revenue, and something that needs to be addressed through inclusive social security systems as part of wider systemic legal and labour market reforms (ILO, 2021).

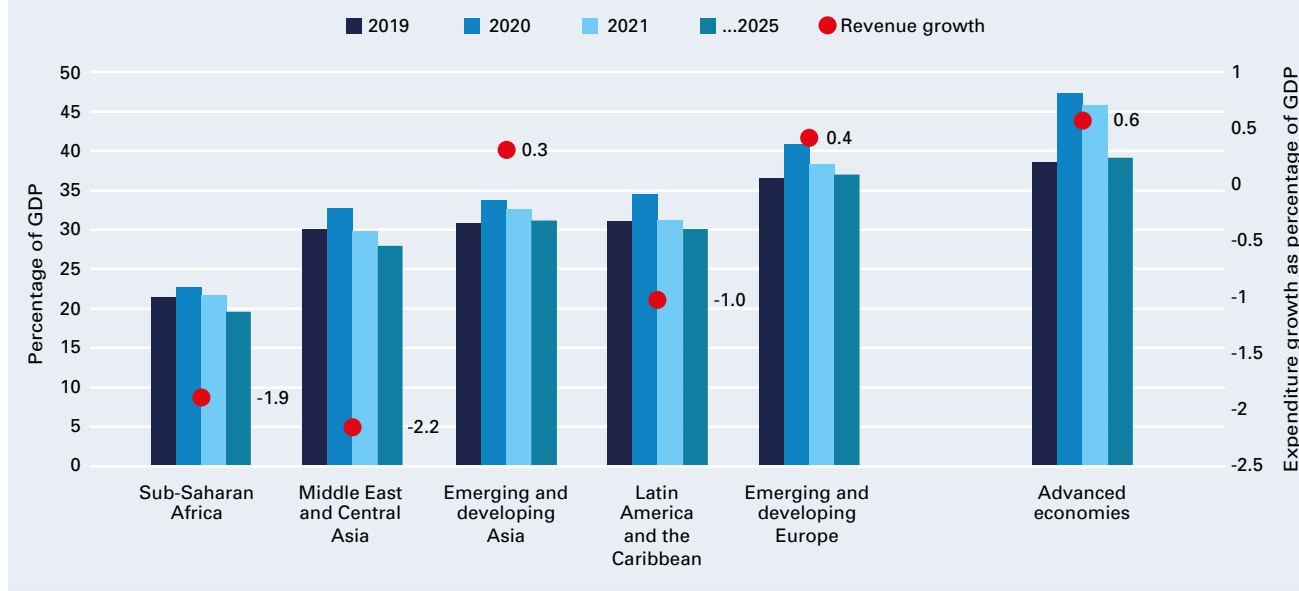
Although data revealing the impact of the pandemic on tax revenue globally is not yet available, a recent UNICEF study projects that tax revenue will fall by as much as 5.8 per cent in Eastern and Southern Africa (UNICEF, 2020b); and the OECD reports that tax revenues in the Asia-Pacific region are also likely to decrease significantly as a result of the pandemic (OECD, 2021b). It is likely that these trends will be replicated in other regions affected by slow economic growth in the wake of the pandemic. While data is missing for the Middle East and North Africa, countries that are heavily dependent on fossil fuel exports are also likely to be hard hit.

Overall government expenditure

Overall government expenditure spiked in 2020 across all regions, as governments responded to COVID-19. However, this spike was more marked in advanced economies, where government expenditure grew by almost 9 percentage points between 2019 and 2020. In comparison, government expenditure grew by just 1.3 percent points in sub-Saharan Africa during this period. Overall government expenditure is on average lower as a proportion of GDP in poorer countries than in richer ones. On average, low- and middle-income countries reported 31.2 per cent of GDP in expenditure in 2021, compared to of 47.3 per cent of GDP in advanced economies. Moreover, while government expenditure is predicted to increase by 0.5 percentage points in high-income countries, overall government expenditure in low- and middle-income countries is predicted to be 1.0 percentage point lower in 2025 than in 2019. These diverging trajectories may threaten prospects for increasing, or even maintaining, current social spending levels in poorer regions (*see Figure 13*).

17 Latest available data, World Development Indicators database. Comparable data from IMF regional groupings not available.

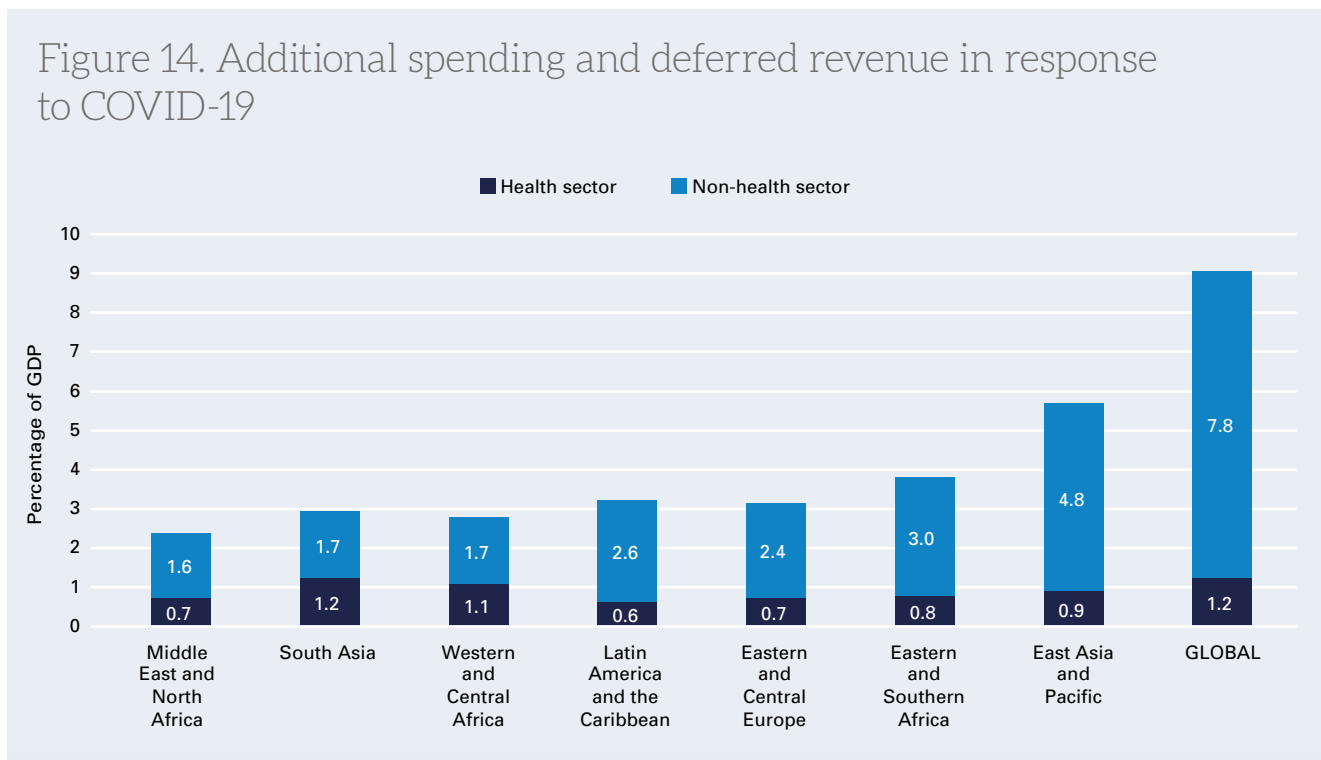
Figure 13. Government expenditure growth between 2019 and 2025 as a percentage of GDP (left axis). Expenditure growth between 2019 and 2025 (right axis)



Source: Based on data downloaded from the IMF World Economic Outlook Database, April 2021

COVID-19 response

The IMF has calculated additional spending and deferred revenue in response to COVID-19 by country. The data illustrate the divergence in the scale of the COVID-19 response between low- and middle-income countries and higher income economies. On average, low- and middle-income countries mobilized just 3.5 per cent of GDP in additional spending compared to 7.8 per cent of GDP globally in response to the pandemic. Of this, only one in seven dollars has gone to the health sector (see Figure 14).

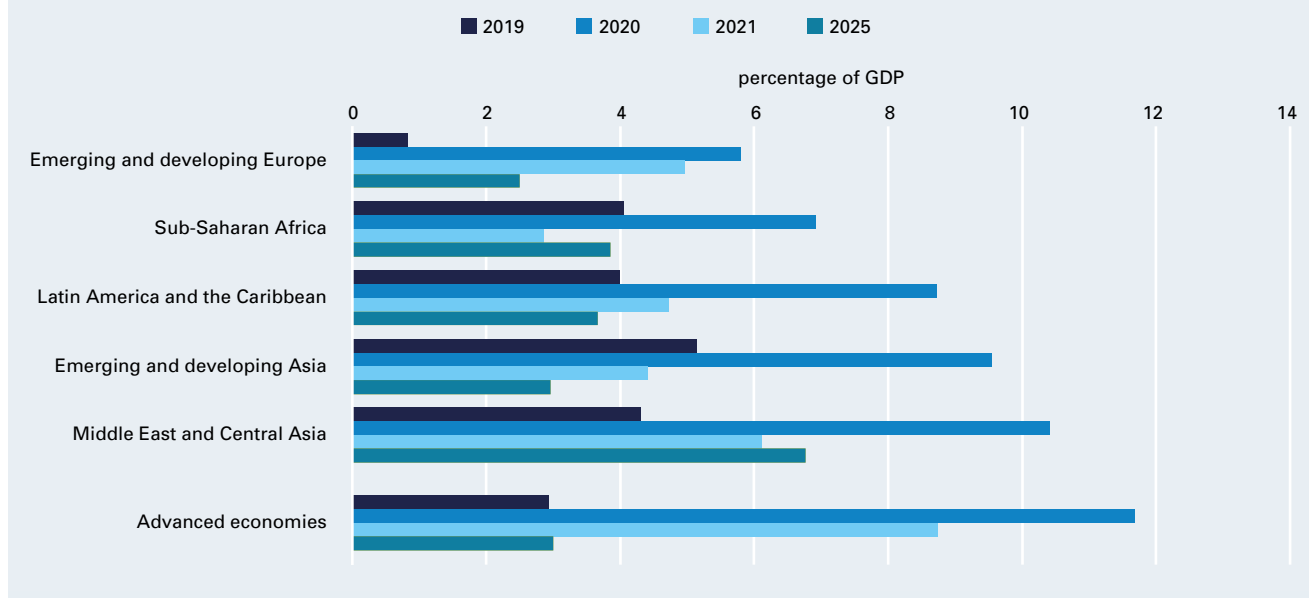


Source: Based on data downloaded from the IMF Fiscal Policies-Database-in-Response-to-COVID-19

Overall fiscal deficit

Nonetheless, despite the relatively low increases in expenditure in response to COVID-19, low- and middle-income countries are projected to run large fiscal deficits until at least 2025, due to declining revenue and slower economic recoveries. For many economists, increasing deficits triggered by low revenue rather than increased expenditure are a cause for concern, as the fiscal stimulus of social or infrastructure investments is hindered by low spending (Hakura, 2020). In other words, while advanced economies might spend their way to growth, lower- and middle-income countries have far less capacity to do so (see Figure 15).

Figure 15. Fiscal deficit by region as a percentage of GDP between 2019 and 2025



Source: Author's calculations based on data downloaded from the IMF World Economic Outlook Database, April 2021

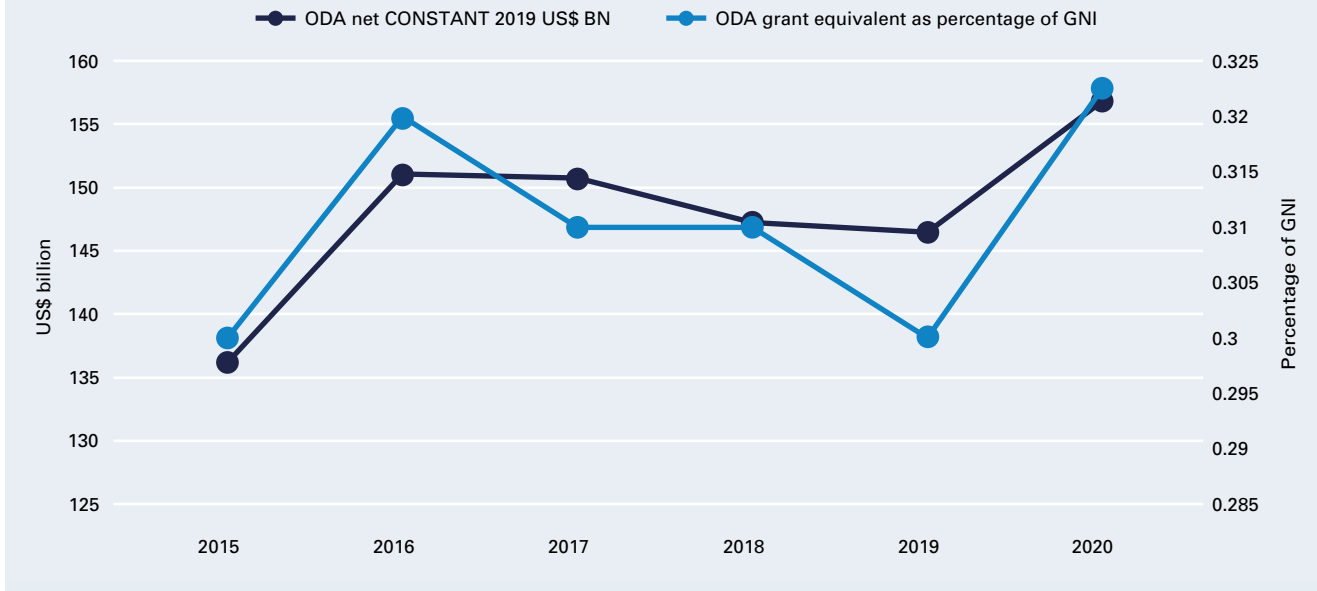
2.2. External financing of social sector spending in low- and middle-income countries

OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

ODA from DAC member countries, encompassing bilateral and multilateral grants (the grant-equivalent component of soft loans and debt relief), totalled \$161.2 billion in 2020. This represents a 3.5 per cent increase on 2019 in real terms, with ODA now at its highest level since 2015. Preliminary figures from OECD suggest that ODA from DAC members increased in 2020, both in real terms (2019 US\$) and as a percentage of GNI (*see Figure 16*).¹⁸

¹⁸ ODA is reported by 30 members of the OECD Development Assistance Committee (DAC) and about 80 other non-DAC contributors (other countries, multilateral organisations and private foundations). Preliminary data for 2020 is from DAC member countries only.

Figure 16. Total ODA from DAC members in US\$ billion and as a percentage of GNI



Source: Based on data downloaded from OECD DAC CRS (preliminary data for 2020)

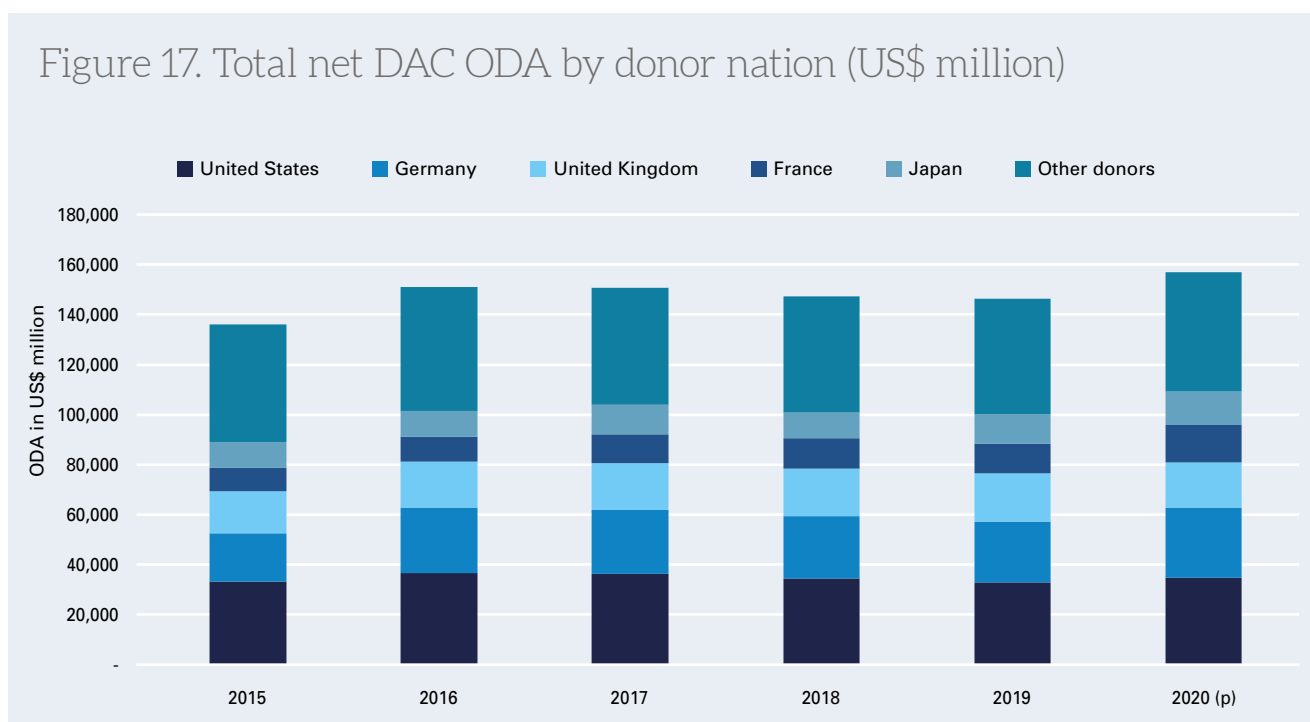
However, most of this increase was taken up with the COVID-19 response. Total ODA for COVID-19 activities (\$11.9 billion) represented 7.3 per cent of total aid last year, of which 2 per cent (\$3.3 billion) has gone to the health sector. Non-COVID allocations for education spending amount to around 7 per cent, with an equivalent proportion going to health financing. Humanitarian funding made up an additional 10 per cent, with the remainder going to economic infrastructure, debt relief and multi-sector assistance (ibid.). ODA channelled through the World Bank and regional development banks to IDA/IBRD countries amounts to a further 7.2 per cent of overseas aid. In 2020, non-grant disbursements amounted to \$13 billion of loans to recipient governments (8.3 per cent of total ODA) and \$1.9 billion in loans and equities to private companies. \$554 million in debt relief was also recorded.¹⁹

While ODA only makes up a small proportion of government budgets in low- and middle-income countries, at around 2 per cent of total government revenue and about 1.5 per cent of total government expenditure, it represents a core commitment on behalf of the international community to mobilize adequate resources to promote economic development. On average, DAC member countries contributed 0.32 per cent of their GNI to aid in 2020.

19 OECD ODA CRS. <https://stats.oecd.org/Index.aspx?ThemeTreeId=3>

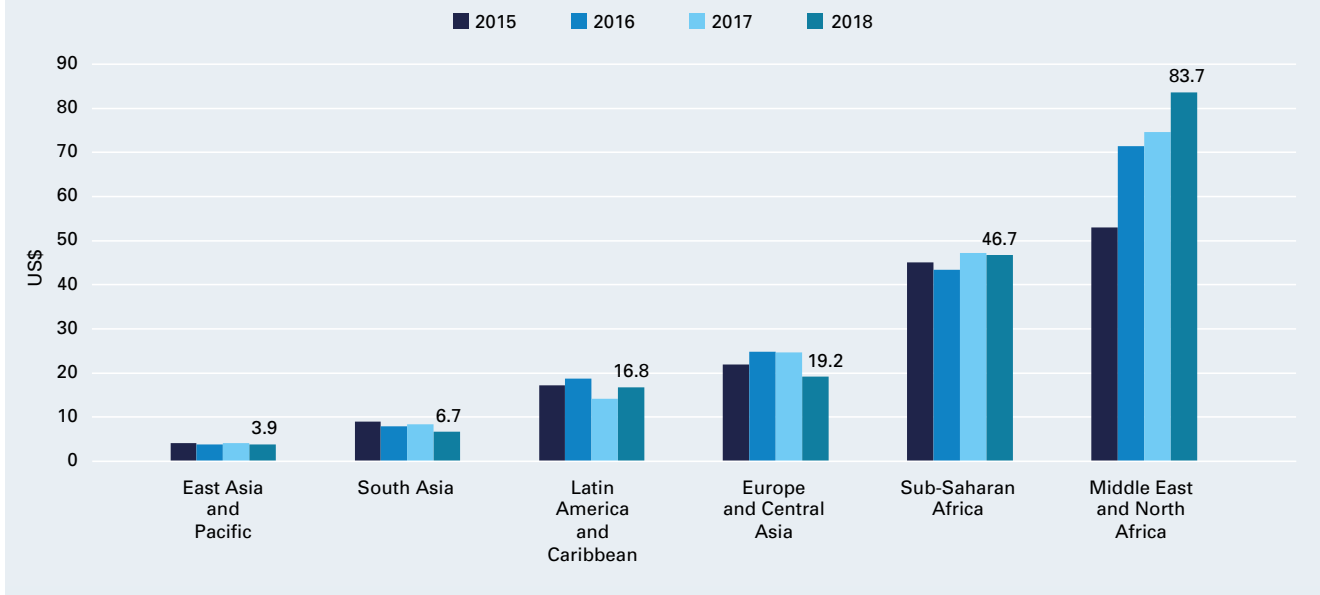
However, as the OECD points out, ODA contribution is only a fraction of the domestic fiscal response to COVID-19, equivalent to 1.4 per cent of the fiscal stimulus measures initiated by DAC member countries (Ahmed and Carey, 2021).

In the short term, however, there are already signs that contracting economies in donor nations could have knock-on effects for aid budgets over the next few years. The UK's ODA commitment was down by 10 per cent in 2020, with the decrease in GNI cutting the aid budget by \$1.86 billion. In 2021, the UK aid budget was cut from 0.7 per cent of GNI in recent years to 0.5 per cent, with \$4 billion of cuts affecting health, education and WASH programmes, as well as humanitarian funding. Other OECD countries have also warned their ODA budgets may decrease in 2021 (ibid.). As the UK is the third biggest DAC donor nation after the USA and Germany, these developments will significantly affect the aid landscape: in 2020, the five biggest donor nations, which include France and Japan, contributed over twice as much in overseas aid as the other 25 DAC nations combined – \$109.2 billion out of a total of \$156 billion (see Figure 17). On the other hand, non-DAC and private donors are becoming increasingly significant contributors to foreign aid. Since 2015, aid from non-DAC donors has grown by almost 24 per cent, and private lenders by 56 per cent. In the same period, aid from multilateral agencies has decreased by 3 per cent. This represents the fluctuating aid landscape that developing nations will need to negotiate in the medium term.



Source: Based on data downloaded from OECD DAC CRS (preliminary data for 2020)

Figure 18. Net ODA received per capita per region (excluding high-income countries)



Source: Based on data downloaded from OECD DAC CRS

Different regions will be affected by these developments in different ways. In recent years, most aid has been directed to low- and middle-income countries, with low-income countries receiving 35 per cent of total ODA in 2020. Most strikingly, per capita ODA varies widely between regions. In 2018, per capita ODA to sub-Saharan Africa (\$47 per person) amounted to more than the total per capita aid to four other regions combined (see Figure 18). In the same year, however, the Middle East and North Africa received \$84 per capita, amounting to almost half (48 per cent) the total ODA worldwide. MENA is the only region in the world where ODA per capita has continued to rise since 2015.

The pandemic has also exacerbated an existing humanitarian crisis in many low- and middle-income countries. The IRC calculates that the impact of COVID-19 saw humanitarian need rise by as much as 40 per cent on 2019 (IRC, 2021). Although around \$18 billion in humanitarian grants has been reported in 2020, of which \$6.6 billion contributed to the global COVID-19 response (ibid.), UN OCHA estimates that a further \$29 billion will be needed to meet humanitarian needs, including social spending, in 2021.²⁰

20 OCHA data on Humanitarian Aid. Available at: <https://fts.unocha.org/>

DEVELOPMENT LENDING

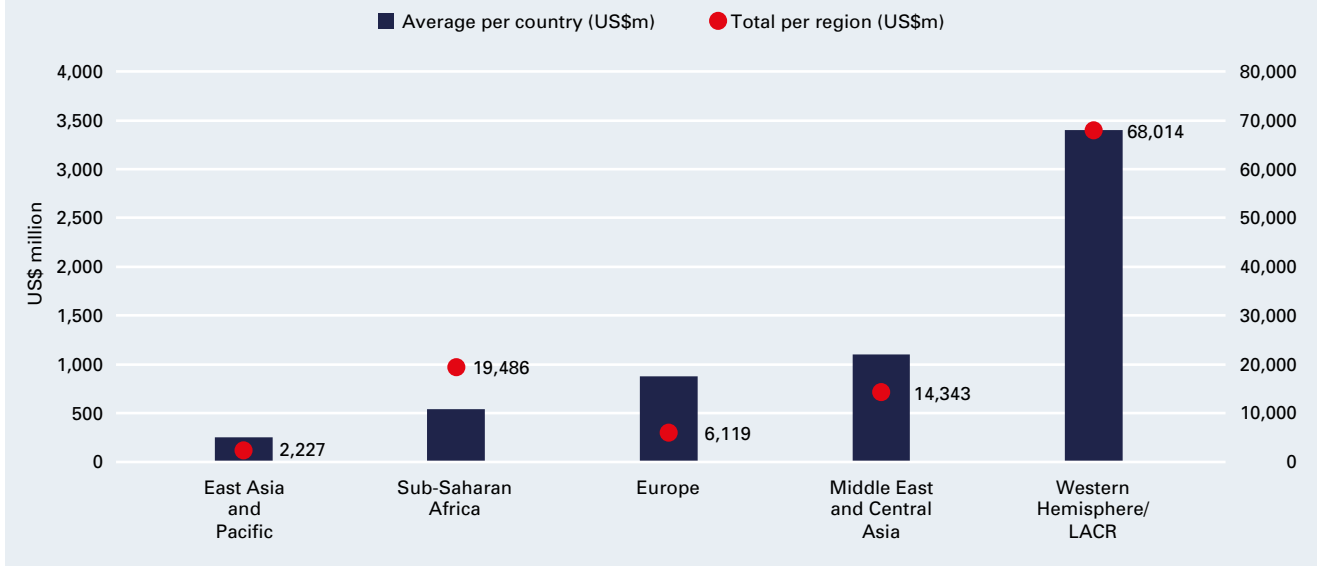
For many middle-income countries, **non-concessional lending** is making up an increasing proportion of the external financing needed to plug the revenue-expenditure gap triggered by the pandemic. The World Bank has made available an additional \$160 billion in COVID-19 financing since April 2020; of that, less than a third (\$50 billion) is concessional lending or grants to IDA countries.^{21, 22} The IMF provided an additional US\$110 billion in lending and debt relief through its COVID-19 response facility. By far the most development lending has gone to Latin America and the Caribbean, which has received \$3.4 billion per country on average in total additional finance, although other countries have received significant sums (*see Figure 19*).²³ Taken together, non-concessional lending from the World Bank and IMF alone is now 1.3 times greater than ODA from DAC member countries. Although some of this has been offset by the COVID-19 financing (in particular through the IMF's Catastrophic Containment and Relief Fund), in the medium term, this increasingly important source of external financing will add to a growing debt burden amongst low- and middle-income countries (UNICEF Office of Research – Innocenti, 2021). Conversely, low-income countries, and countries in fragile context without access to external markets, may struggle to support their economies in the current context without additional assistance (*see Figure 20*).

21 IMF Lending Tracker: <https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker#APD>

22 A list of countries qualifying for concessional lending terms through the International Development Association (IDA) may be found [here](#).

23 The regional distribution of countries follows the organizational distribution at the IMF. Details may be found [here](#).

Figure 19. IMF COVID-19 lending average per country (left axis) and total per region (right axis)

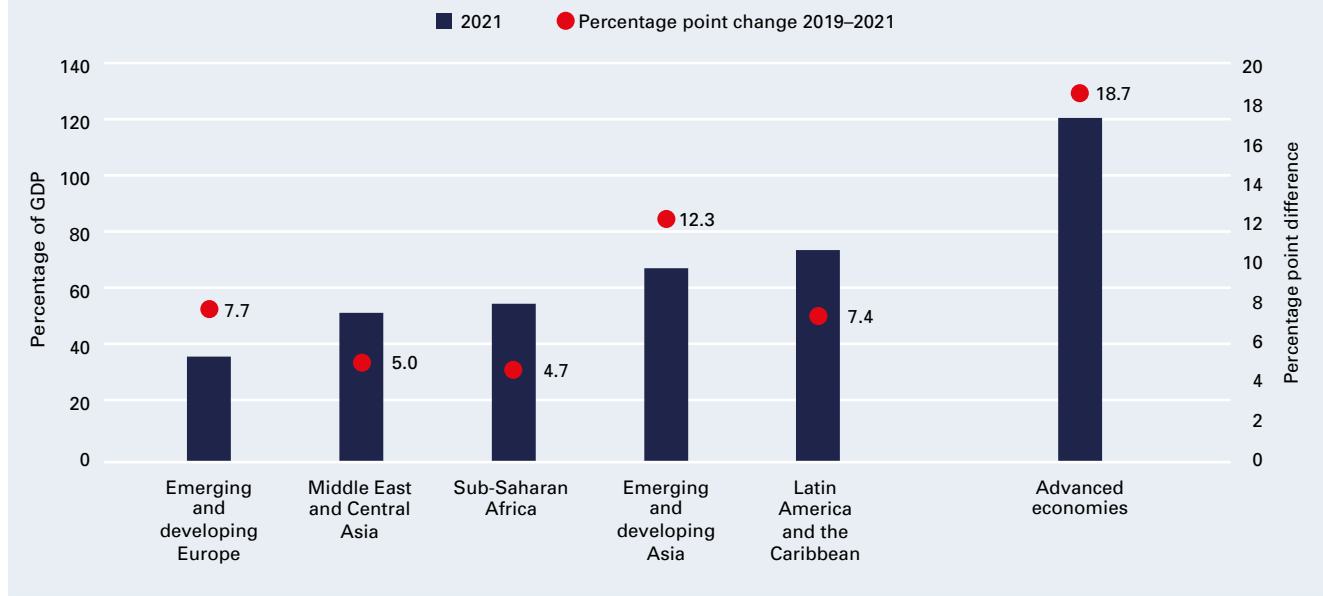


Source: [IMF COVID Lending Tracker](#), downloaded June 2021

GOVERNMENT DEBT

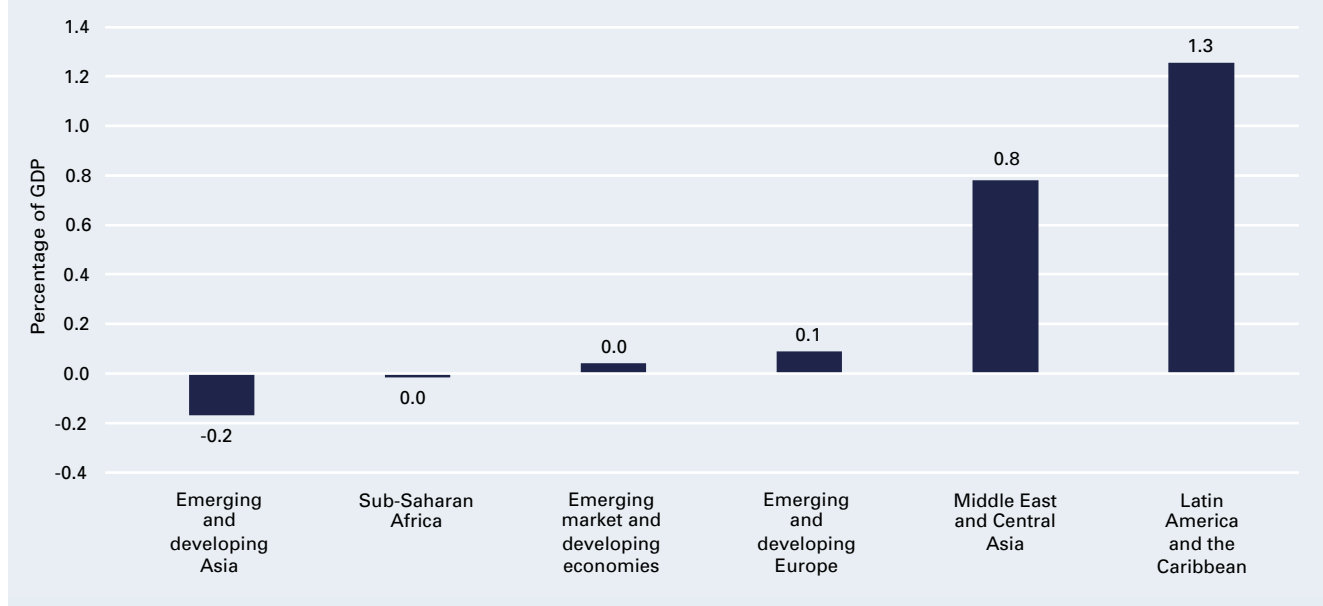
Government debt in low- and middle-income countries stands at 64 per cent of GDP at the beginning of 2021. Since 2019, overall government debt has grown as a percentage of GDP in all regions, most notably in Asia (*see Figure 20*), although average *debt service* has fallen slightly as a proportion of GDP in low- and middle-income countries (*see Figure 21*). This is due in part to the G20 Debt Standstill in low and lower middle-income countries. In regions with a bigger proportion of upper middle-income countries, notably Latin America and the Caribbean and the Middle East and North Africa, debt service has grown significantly. In Latin America and the Caribbean, overall debt reached 75 per cent of GDP in 2021 and debt service grew by 1.3 percentage points as a proportion of GDP. This level of debt service will make it harder for upper middle-income countries in particular to find the resources to support social spending under current financial constraints, with low- and middle-income countries facing a similar struggle once the debt standstill comes to an end, as currently planned, in December 2021 (*see Figure 21*).

Figure 20. General Government Gross Debt as a percentage of GDP in 2021 (left axis): growth in Government Gross Debt between 2019 and 2021 (right axis)



Source: Based on data from the IMF, World Economic Outlook Database, April 2021

Figure 21. Percentage point change in Debt Service as a percentage of GDP between 2019 and 2021



Source: Based on data from the IMF World Economic Outlook Database, April 2021

3. SUMMARY AND POLICY RECOMMENDATIONS

3.1. Summary

In order to meet SDG1a., greater mobilization of both domestic and external resources will be needed to counteract the impact of the COVID-19 pandemic on developing countries' finances. Pre-COVID-19, average spending remains below minimum recommended benchmarks in education, health and social protection, both as a proportion of overall government expenditure and as a percentage of GDP. With per capita public social expenditure in low- and middle-income countries being a fraction of that in high-income countries, there remains a wide variation in spending between regions, with the poorest regions in Africa and Asia continuing to lag behind. Children, as key beneficiaries of social spending, are likely to be particularly affected by these shortfalls in spending. In some countries, as much as half of child-focused social expenditure comes from these three main social sectors (UNICEF, 2020c). Unless these minimum levels are reached, prospects for meeting SDG1.a.2. in the near future appear bleak, leaving children's lives and futures at risk.

Furthermore, due to predicted weak economic growth in low- and middle-income countries over the coming years, even current modest levels of social spending may come under strain. Overall government revenue has fallen in low- and middle-income countries since 2019 and is not predicted to recover to pre-COVID levels until after 2025. This is driven by diverse factors, including weak revenue collection in many regions. In addition, developing countries face a growing debt burden, with some regions seeing a significant increase in debt service since the beginning of the pandemic. Consequently, low- and middle-income countries have struggled to mobilize the increased levels of social expenditure seen in high-income countries in response to the pandemic. In several regions, government expenditure as a proportion of GDP will remain under 2019 levels until after 2025, raising question marks over countries' ability to finance the increased social spending needed to build back better after the crisis.

Increased prioritization of social spending both from Governments and development partners will therefore be required, to ensure all have access to quality social services. International development assistance remains crucial to supporting social spending, particularly in low-income countries. Even at current historically high levels, ODA remains a fraction of the resources required to finance the SDGs. Globally, ODA is the equivalent of just 1.5 per cent of total expenditure in low- and middle-income countries and just 2.2 per cent of total revenue. Financing adequate social spending in the future will require improved domestic resource mobilization through strengthened revenue

collection systems. Unless this is achieved, continued low levels of public investment in social spending will fail to ensure equitable access to quality essential services in many low- and middle-income countries. In the wake of COVID-19, an increased commitment to social spending will be required, on behalf of both domestic governments and donor nations, in order that inequalities between richer and poorer countries do not widen, leaving future generations further behind.

3.2. Policy recommendations

- In the wake of the COVID-19 crisis, which has severely impacted economies and access to social services, Governments and international development partners must continue to progressively realize universal access to education, health and social protection in line with existing human rights commitments and the SDGs. In the short term, Governments should act on their commitment to ensure the right to social services by increasing social spending towards existing minimum international benchmarks. In the medium term, countries should progressively increase social spending allocations in national budgets as part of Medium-Term Expenditure Frameworks, in order to adequately provide quality social services for all who need them. This might include the reprioritization of existing funds to raise the efficiency of public expenditures across social sectors and ensuring equitable spending to reach the most disadvantaged groups.
- This brief has highlighted the revenue constraints low- and middle-income countries face in financing adequate social spending. In order to enhance domestic resource mobilization, systematic reform of tax collection systems to enhance tax revenue is a key means to achieve this, while ensuring progressive taxation that does not place the burden on the poorest quintiles. Strengthened governance systems to improve capacity, phase out politically driven tax exemptions, fight tax evasion and stop illicit financial flows are crucial components of such reforms. Measures to formalize the economy may also be important to increase social contributions and protect informal workers. Governments and development partners should also explore more innovative options for financing, including ring-fenced education and health taxes, potentially using natural resource levies in resource-rich nations. Governments with sustainable debt levels could also consider the option of leveraging private finance for investment in public services and infrastructure, while ensuring the right to social services for the poorest populations is protected. In addition, countries could also take advantage of the increased liquidity of the new Special Drawing Rights allocated by the IMF to increase social spending.

- This analysis has highlighted the wide inequalities in per capita social spending between richer and poorer countries. In the wake of COVID-19, divergent economic recoveries risk exacerbating this gap further. While the extent of the additional social spending required to ensure the right to social services is context specific, it will be crucial to establish new, internationally agreed benchmarks for measuring adequate social spending to better monitor progress towards SDG 1.a.2. Alongside this, countries should develop nationally appropriate spending targets for quality investments in education, health and social protection to ensure equitable access to quality social services. This will include providing fiscally sustainable social protection floors, with a focus on vulnerable groups, including children.
- Governments and civil society organizations have a critical role in supporting citizen engagement and advocacy around Governments' SDG commitments and obligations under the Conventions on the Rights of the Child to ensure required budget allocations have adequate financing of social services enshrined in national legislation, as well as budget transparency and reporting on investment on children and the most disadvantaged groups.
- Renewed international cooperation is required to usher in a new era of social spending based on human rights and equal opportunities as countries build back better from COVID-19. Bolstering grant-financed ODA in line with the commitment to meet the 0.7 per cent GNI target, and close cooperation between donor nations, private sector and philanthropists on joint goals to achieve the SDG targets, will be needed to build back better in the wake of COVID-19. In light of the looming debt crisis, further debt relief measures should be considered, including the extension of the G20 Debt Standstill until at least the end of 2022. The incorporation of multilateral and commercial lenders into debt relief measures will be crucial to avoiding an erosion of social spending, with debt service comprising an ever-larger share of government budgets in developing countries. A renewed social contract between governments and societies will require the safeguarding of social spending to guarantee the social rights of all and minimize the economic impact of the COVID-19 pandemic on children.

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