Investing in social protection in good times and bad:

An assessment of social protection financing in the Pacific and Timor-Leste

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Partnerships for Social Protection (P4SP) contributes to greater coverage of quality, sustainable social protection systems in Pacific Island Countries and Timor-Leste, that reduce poverty and exclusion, address vulnerabilities through the life-course and stimulate economic growth.

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List of acronyms

ADB	Asian Development Bank
AUD	Australian dollars
CVA	cash voucher assistance
DFAT	Australian Department of Foreign Affairs and Trade
ESCAP	Economic and Social Commission for Asia and the Pacific
FJD	Fiji dollar
FSM	Federated States of Micronesia
FY	fiscal year
GDP	gross domestic product
GNI	gross national income
IDA	International Development Association /international development assistance
ILO	International Labour Organization
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
LCU	local currency unit
ODA	Overseas development assistance
OECD	Organisation for Economic Co-operation and Development
OECD DAC	OECD development assistance committee
P4SP	Partnerships for Social Protection
PGK	Papuan kina (currency)
PIC	Pacific Island country
PNG	Papua New Guinea
RMI	Republic of Marshall Islands
USD	United States dollar
WST	Samoan tala (currency)

Executive summary

Social protection has an important role to play in both good times and bad. At its core, social protection is about ensuring that different kinds of risks and vulnerabilities do not result in 'bad times' for individuals and families. These include both life cycle risks – such as those associated with old age, disability and raising a family – and also covariate shocks, such as natural disasters and economic downturns. Building social protection systems to protect people from these risks plays a key role in addressing poverty and inequality in the Pacific and Timor-Leste but also in strengthening human capital and underpinning economic development into the future. This report provides a survey of the levels of investment in social protection in this region, explores how social protection systems have developed over time and reviews the outlook for financing these systems in the future.

How is social protection expenditure evolving?

Social protection expenditure varies across the region. Countries can be divided into three main groups. The first group of countries have invested in social assistance (non-contributory schemes) and these include Cook Islands, Fiji, Kiribati, Nauru, Samoa, Tonga, Timor-Leste and Tuvalu. Most of these countries also have long-standing provident fund schemes in place providing varying levels of protection to workers in formal employment. Second are Pacific Compact countries (Marshall Islands, Micronesia and Palau) where social protection expenditure is almost exclusively via contributory social insurance schemes. Finally, the third group includes three countries (Papua New Guinea, Solomon Islands and Vanuatu) that have virtually no social protection in place according to the definition used in this report although all countries have provident fund arrangements.

Social assistance expenditure across the region has a distinct pattern. In countries with social assistance schemes in place, expenditure tends to be dominated by non-means-tested old age and disability benefits. While such schemes exist in many low and middle income countries across the globe, the preference for more universal old age and disability benefits is a particular feature of social protection systems in the Pacific and Timor-Leste. Also, various countries have taken initiatives to strengthen benefits for families and children in recent years. However, expenditure on these schemes remains low in most countries and the models used vary from country to country.

Average expenditure on social assistance has nearly doubled over the last decade. The unweighted average expenditure across countries with social assistance has increased from 0.9 to 2.3% of gross national income (GNI) or from 0.9 to 1.6% of GNI when excluding Kiribati where the increases were particularly dramatic. While some countries achieved this through rapid increases in investment, more typically countries increase levels of investment incrementally, for example, by gradually adjusting eligibility and benefit levels, and introducing new schemes over time. While the increasing investment in social assistance in the region partly reflects a global trend, the pace of this increase in the Pacific is notable.

Social assistance has become an established channel to provide support during times of crisis although the scale of investment varies. Expenditure data shows a spike in investment in many countries in response to the COVID-19 pandemic. These investments took different forms, including introducing new short-term schemes (for example, in Timor-Leste and Fiji) and adding short-term top ups to existing benefits (for example, in Samoa and Tonga). The countries that used social assistance in the response were those with existing schemes in place. This reinforces the finding in the Pacific and across the globe that countries with more established social protection systems were in a better position to respond to the crisis (Artificial Fiscal Intelligence, 2023; ILO & ESCAP, 2020). However, the scale of expenditure on short-term social assistance responses varied and in many cases was small compared to ongoing social assistance expenditure.

How is social assistance financed?

Most social assistance expenditure is financed as part of the national budget and draws on a range of sources. These sources include tax and non-tax revenue, borrowing, grants and withdrawals from sovereign wealth funds. Thus the current funding and future sustainability of social protection needs to be understood in the context of the specific mix of financing sources in each country. While the situation varies between the countries, the region as a whole stands out as being one of the most heavily dependent on aid[1] and also highly reliant on non-tax revenues. These other sources of revenue often mask the fact that many countries in the region have low levels of tax revenue by international standards.

Overseas development assistance (ODA) played an important role in enabling regular and short-term social protection expenditure during the COVID-19 crisis. Overseas development assistance allocated to social protection across the region rose sharply in 2021 to nearly USD90 million which was more than three times the maximum value (USD25 million) allocated in the preceding decade (2010–2019). In many cases these disbursements contributed significantly to general government finances and in Fiji, Marshall Islands, Palau, Tonga and Tuvalu, they were equal to more than 1% of GNI. The modality of these disbursements varied from those specifically tied to short-term social protection interventions (such as the top ups to benefits that DFAT financed in Fiji and Tonga) to more general budget support with policy triggers tied to the social protection system. The latter was often part of broader budget support packages to help governments maintain their expenditure in the context of the economic downturn created by the pandemic.

ODA is also supporting the ongoing development of long-term social protection systems across the region. One notable aspect of this is support to the development of child and family benefits in countries including Papua New Guinea, Tonga, Timor-Leste and Marshall Islands. This involves a mix of technical support and timebound financing of transfers and is part of a broader set of technical support activities to social protection policy and delivery provided by a range of actors. The level of assistance through such channels is often lower than the resources mobilised during the COVID-19 pandemic but it still plays a significant role in building sustainable systems.

[1]When measured by aid inflows as a proportion of GDP, the Pacific is considered the most aid-dependent region in the world. The geographic remoteness, exposure to frequent natural disasters and vulnerability to climate change, as well as the strategic importance of the region are some of the factors that drive significant aid from the international community.

How has social assistance weathered inflation?

The role of social assistance in protecting households from recent inflationary spikes has been limited by low benefit adequacy in many countries. Old age and disability benefits in Fiji, Tonga and Tuvalu fall below the global average for such schemes when measured against per capita GNI. However, in Timor-Leste and Cook Islands these benefits are above average by international standards and, in Kiribati, the level of benefits for the old age pension is among the highest in the world by this measure. Levels of child and family benefits vary but they tend to be close to global averages for similar schemes. One notable aspect of social assistance in the region is that disability benefits tend to be lower than old age benefits and the rationale for this is not clear. Where benefit levels are low, they have limited capacity to protect households in the context of inflationary pressures.

Meanwhile, the purchasing power of social assistance benefits has often fallen in the recent inflationary environment since benefit levels are not formally indexed. Countries in the region do not systematically indexe social assistance benefits to price inflation but rather make ad hoc increases. The frequency of these increases varies but in many cases benefits can go for years without being adjusted. As a consequence, the recent high levels of inflation experienced across the region resulted in a drop in the real value of benefits in many countries.

Nevertheless, in some countries, ad hoc increases compensated for recent inflation spikes. A clear example of this is Fiji where the government combined a short-term inflation mitigation package in 2022 with a significant uprating of benefits in 2023. On the other hand, short-term top ups to benefits in Samoa only partially compensated for price rises.

There is a case for countries to explore the use of systematic indexation of social assistance benefits. Indexing social protection benefits formally to prices would ensure that they maintain their purchasing power, particularly in times of high inflation. Countries might still consider additional intermittent ad hoc increases so benefits do not fall behind wages and average incomes. A range of factors influence the fiscal implications of indexing benefits, including levels of inflation and economic growth, and how the coverage of a scheme evolves. In the long run, the costs of inflation-indexed benefits generally fall as a share of gross national product or gross national income (GDP/GNI) in a growing economy, assuming a constant level of coverage. However, short-term spikes in inflation and economic contractions can create financing challenges. Particular challenges also relate to old age pension schemes, for example, where aging populations lead to growing numbers of recipients. Nevertheless, projections for countries with such schemes in the Pacific suggest that indexing these benefits will not necessarily lead to higher costs and any increases are likely to be marginal.

How can investments in social protection be sustainably financed?

Increasing investment in social protection can effectively underpin inclusive and sustainable growth but it requires sustainable financing. Expanding benefits and coverage of these programs can ease the savings and credit constraints that prevent households from investing in developing human capital (Mathers & Slater, 2014). Transfers through such programs also generate multiplier effects that increase spending, consumption and ultimately production (Mathers & Slater, 2014). The direct effects on consumption also affect poverty levels. For example, in Kiribati the two largest social assistance programs (the Senior Citizens' Allowance and the Support Fund for the Unemployed) are estimated to have more than halved the national poverty rate. Meanwhile, countercyclical surges in social protection expenditure can soften the effects of projected economic downturns.

Despite facing major fiscal constraints, countries have different financing options at their disposal. These options vary by country and depend on policy decisions as well as how the macro-fiscal context evolves. The main options include:

- **Mobilising domestic revenue**
- **Allocating higher shares from sovereign rents**
- **Reallocating expenditure from other sectors**
- **Increasing the share of overseas development assistance**
- **Increasing external debt (borrowing)**

The scope for financing social protection depends on the sources available and also other budget priorities. With the exception of Tuvalu, all other countries in the region have a tax gap and scope to mobilise additional domestic revenue. Certain countries have relatively well capitalised sovereign wealth funds in place although the withdrawal rules are sometimes stringent (World Bank, 2023). Countries may have some scope to marginally reallocate existing expenditure but social protection is one of many sectors competing for limited resources. Other sectors across the region are also persistently underfunded and seeking higher shares of government expenditure in parallel. Only a few countries in the region expect their grant revenue to increase as a share of GDP, including Federated States of Micronesia (FSM) and Republic of Marshall islands (RMI). While the overall shares of bilateral and multilateral assistance are unlikely to increase for the remaining countries, they may be able to assign a higher share of their existing allocations to social protection expenditure. Finally, increasing external debt is a feasible option for countries where the debt sustainability analyses are favourable and public debt to GDP ratios remain below regional averages.

In this context, a pragmatic approach is an incremental one. Experience in the region shows that incremental improvements can be fiscally sustainable but lead to a reshaping of social protection expenditure over time. Only a few countries in the region have macro-fiscal outlooks set to prevent higher social protection expenditure in the immediate term. The remaining countries can use one or a combination of the following feasible options: mobilise domestic revenue, use existing sovereign rents, reallocate existing expenditure, use overseas development assistance flows and take on additional external debt.

1 Introduction

Social protection has an important role to play in good times and bad. The framing of this report[2] captures the potential impact of social protection as the Pacific Islands and Timor-Leste navigate a changing and uncertain economic landscape. In its essence, social protection is about ensuring that different kinds of risks and vulnerabilities do not result in ‘bad times’ for individuals and families and they can continue to invest in their wellbeing, livelihoods and human capital. At a national level, social protection systems are critical in supporting households and the economy to weather the ‘bad times’ (such as economic shocks and natural disasters) but they also contribute to the economic foundations that underpin the ‘good times’ (Mathers & Slater, 2014; OECD, 2019). Box 1.1 summarises the role that social protection systems can play in the region and provides some insights from existing evidence.

The social protection landscape across the Pacific and in Timor-Leste has been changing in recent years. Over the last two decades, more countries across the region have taken concrete steps to extend the coverage of their social protection systems, not least by expanding tax-financed social assistance schemes that address different life cycle risks. With the COVID-19 pandemic, a broader array of countries mobilised existing social protection programs and introduced temporary schemes as a core part of national policy responses. As the COVID-19 crisis subsided, countries across the region continued to enhance their social protection systems in diverse ways. These developments could not be more timely, given the potential for social protection systems to support recovery and ongoing socio-economic development, and protect populations from an array of shocks to which the region is particularly vulnerable.

An assessment of social protection expenditure is critical to understanding the true nature of these developments. This data can shed light on how much countries have invested, how this is distributed between different kinds of social protection and how investments compare to other countries. Historical data help to explain ‘how countries got here’ and therefore how social protection investments might evolve over time. This is relevant given the fiscal pressures that many countries in the region are facing. In this context, it is also important to understand the main sources of funding for social protection, including the role of ODA in what is considered the most aid-dependent region in the world.

[2] This framing draws on the late John Hills’ book, ‘*Good times, bad times: The welfare myth of them and us’* (Hills, 2017).

Box 1.1: The role of social protection in the Pacific and Timor-Leste

Global and regional evidence points to the diverse ways that social protection systems can support development outcomes.

- **Poverty and inequality**: Social protection systems provide one of the most direct tools available to reduce levels of poverty and economic inequality. Evidence included in this report shows the impact on poverty levels in countries that have invested most in social protection (see Box 2.2 on Cook Islands and Box 2.5 on Kiribati).
- **Human capital and other development outcomes:** An expansive and growing global evidence base shows how greater economic security contributes to a range of outcomes, such as better nutrition, increased access to health services, higher school enrolment, investments in livelihood activities, improved adult labour market outcomes and reductions in child labour (Bastagli *et al.*, 2016).
- **Addressing gaps in informal social protection:** Formal social protection systems should be understood and designed in a way that complements existing and long-standing informal family and community support arrangements. Nevertheless, formal social protection systems are increasingly relevant considering the trends that put a strain on such arrangements, such as rural–urban migration, modernisation, the commodification of land and population aging.
- **Responding to covariate shocks**: Social protection systems are increasingly recognised as a core measure to prepare for and respond to covariate shocks. The Pacific is particularly vulnerable to such shocks and countries have developed an array of responses to shocks including both natural disasters and the COVID-19 crisis in recent years.
- **Impact on economic growth**: Possibly the most profound impact of social protection is on economic development, although this is arguably the hardest to measure. Impacts on economic growth can result from micro-level impacts (such as those on human capital and productive activities noted above) and meso-level impacts (such as multiplier effects within local economies). At the macro level, social protection can contribute to growth by boosting aggregate demand, reducing inequality and nurturing social cohesion. These are considered key factors underpinning growth (Mathers & Slater, 2014).

Despite these potential roles, the evidence base in the Pacific remains limited, as identified in a recent review of evidence on social protection in the region (P4SP, 2024).

In this report we analyse the shape, composition, historical evolution and outlook for social protection expenditure in the region. The analysis builds on a previous Partnerships for Social Protection (P4SP) survey of social protection expenditure in ten countries across the Pacific and Timor-Leste (Knox-Vydmanov *et al.*, 2023) but expands the scope in a number of ways:

1. A broader range of countries are included, now encompassing the three countries under the Compact of Free Association with the United States (**Federated States of Micronesia** (FSM), the **Republic of the Marshall Islands** (RMI) and the **Republic of Palau**), and the **Cook Islands**.
2. Rather than a simple snapshot of current expenditure, the analysis provides a historical overview of the evolution of social protection expenditure for all countries surveyed.
3. The analysis draws on more recent data to provide an updated view of expenditure, including social protection investments in response to COVID-19, since the waning of this crisis.
4. The report explores the sources of funding for social protection, including the role of ODA in supporting social protection systems.
5. The report reviews the adequacy of social assistance benefits and the extent to which they have maintained their value in the context of recent spikes in inflation across the region and the world.
6. The report considers the fiscal outlook for the region coming out of the COVID-19 pandemic and what this may mean for social protection investments moving forward.

While the report provides a survey of social protection as a whole, it pays particular attention to social assistance schemes. This emphasis relates to the growing prominence of such schemes across the region and the fact they are mainly financed under national budgets.

Some important topics also fall outside the scope of this report. First, the trends documented in this report raise questions about *why* countries decided to invest in the different social protection policies. While existing evidence on the drivers of these decisions is included where possible, in most cases more in-depth national research is required to understand these dynamics. Second, while evidence of impacts is provided where available, this is relatively limited. As highlighted in a recent review of evidence on social protection in the region, the topic remains under-researched compared to in other regions of the world (P4SP, 2024).

1.1 Methodology

The centrepiece of the analysis in this report is a review of current and historical levels of expenditure in Pacific Island countries and Timor-Leste. To this end, a database has been compiled of social protection expenditure by scheme and benefit, covering as many years as possible depending on the data available. This database draws primarily on national budget documents (including budget estimates, reports and speeches) and annual reports or financial statements from provident funds and social security funds. The full database can be accessed at this link.

Social protection is presented according to economic and functional classifications, as described in the International Monetary Fund's *Government finance statistics manual* (IMF, 2014). The advantage of this approach is it distinguishes both the type of scheme (social assistance, social insurance or public servant benefits) as well its function, that is the social risk it addresses (old age, disability, family and children, and so on). A novel feature of this report is that we cross-classify between the two classification systems making it possible, for example, to measure social assistance expenditure by function. This follows the approach in the previous analysis of expenditure across the region (Knox-Vydmanov *et al*., 2023). The main sub-categories of these classifications are outlined in Table 1.1. Some key definitions are summarised in Box 1.2. Annex 1 provides details on the framework, including some minor adaptations, and more detail on expenditure not included in the main report. It also describes where some of the names of categories have been tweaked, for example, 'social insurance' rather than 'social security', to better align with prevailing terminology on social protection.

Table 1.1: Key social protection categories and sub-categories: economic and functional classifications of government expenditure

Economic classification (Expense)	Functional classification (Classification of the Functions of Government – COFOG)
Social benefits (27)	**Social protection (710)**
Social insurance benefits (271)	Sickness and disability (7101)
Social assistance benefits (272)	Old age and survivors (7102/3)
Public servant benefits (273)	Family and children (7104)
	Unemployment (7105)
	Housing (7106)
	Social exclusion not elsewhere classified (n.e.c.) (7107)
	Other (7108/9)

Box 1.2: Key definitions

- **Social assistance** refers to all non-contributory benefits provided by government (individuals do not need to contribute to be eligible) relating to different social risks. This contrasts with other classification systems where the term 'social assistance' is limited to means-tested non-contributory benefits only.
- **Social insurance** refers to contributory schemes managed by government units that are available to the wider population (beyond public servants). Notably, there is not always a direct link between contributions and benefits.
- **Provident fund withdrawals** are not formally included under social protection expenditure, as they are classified as withdrawals of accumulated savings rather than a form of government expenditure.[3] Nevertheless, we present data on provident fund expenditure alongside social protection expenditure for reference purposes.
- **Veterans' benefits** are excluded in Timor-Leste but we present them alongside social protection expenditure as a relevant reference point.
- Certain expenditures sometimes considered as a form of social protection are not included here, most notably, **school feeding programs, scholarship programs** and **labour market programs**.[4]
- One distinction between this report and the previous one is that we include emergency and humanitarian social protection benefits (classified under 'other').

Source: IMF (2014)

To understand the contribution of overseas development assistance (ODA) to social protection financing in the region, we draw on the Organisation for Economic Co-operation and Development (OECD) international development statistics databases. Specifically, we draw on data from the creditor reporting system (that classifies disbursements by their purpose). The analysis uses two definitions of social protection within the classifications of the purpose of expenditure (both narrow and broad). These definitions are descrtibed in Annex 2. It should be noted that Cook Islands is not included in this

[3] The IMF government finance statistics framework does not consider provident funds as social security funds as 'for each contributor segregated assets exist and it is not foreseen for government to be able to alter the benefits.' Instead, resident provident funds are defined as public financial cooperations whose expenditure is not a component of general government expenditure (IMF, 2014, p. 37).

[4] Within the Classification of the Functions of Government, labour market programs are included under general labour affairs (70412) and scholarships under education (709). School feeding is a borderline case, mainly depending on the targeting approach used but this is considered as falling under education (709) here for simplicity.

analysis as it is no longer eligible for ODA since it has high-income country status (New Zealand Foreign Affairs and Trade, 2024).

Our analysis of benefit adequacy in the context of price inflation draws on data on benefit levels collected from a range of secondary sources. Data on price inflation from the IMF World economic outlook database (October 2023 edition) was used to calculate the real value of benefit levels over time (IMF, 2023).

The discussion of the fiscal outlook for the region draws on extensive literature and data including analyses by actors such as the Asian Development Bank (ADB), World Bank and IMF (most notably under its Article IV consultations). This analysis identifies key contextual factors that may influence the financing of social protection in the medium to long term.

Other notable definitions include the following:

- The main benchmark used in analysing current and historical levels of social protection expenditure is **gross national income (GNI)** although gross domestic product (GDP) is used to refer to the future fiscal outlook (see
- Box 1.3). The full expenditure database includes both GNI and GDP as denominators and also presents expenditure in local currency units, United States dollars (USD) and in relation to government expenditure.
- The scope of the report includes **13 Pacific Island countries as well as Timor-Leste**. For simplicity, we refer to these countries as 'the region'.
- The term '**fiscal year**' (or FY) refers to the calendar year in which the budget year ends. For example, a budget year running from 1 July 2023 to 30 June 2024 would be FY2024.
- Expenditure data varies in terms of whether figures are **budgeted/estimated**, **revised** or **actual**. This is captured in detail in the full expenditure database.
- The report presents expenditure at the level of **general government** that includes central government, sub-national levels of government (state and local) and social security funds. However, some levels of government may not be fully accounted for in national budget documents.

Box 1.3: Gross domestic product or gross national income?

An important reference point in assessing public finance is the size of a country's economy. This is typically used as a benchmark to measure both government revenue and expenditure against – and that relating to sub-sectors like social protection. The main indicators of the size of a nation's economy are GDP or GNI. While these two measures have distinct definitions,[5] in most countries the differences in reported levels of GDP and GNI are marginal.

However, certain characteristics in Pacific economies bring these distinctions to the fore. Many countries in the region have high levels of national income from foreign sources (such as fishing licences, grants and natural resource revenues) which are not factored into the GDP figures. Consequently, major components of what we might consider 'the size of the economy' are absent. This can lead to an inflated picture of key aspects of public finance.

As a result, we use GNI as the main benchmark for the size of the economy and use it consistently in relation to historical (or budgeted) levels of expenditure. This draws on the extensive historical GNI data available in international databases (up to 2021 or 2022), with estimates made of GNI in more recent or current years.[6] GNI per capita is also used to assess the adequacy of benefits.

Nevertheless, given that most economic projections use GDP, we discuss the fiscal outlook for the region (Section 5) by referring to GDP.

[5] 'Gross national income measures the total income earned by residents of a country, including income earned abroad. Gross domestic product instead counts only income generated from goods and services produced domestically' (Our World in Data, 2024).

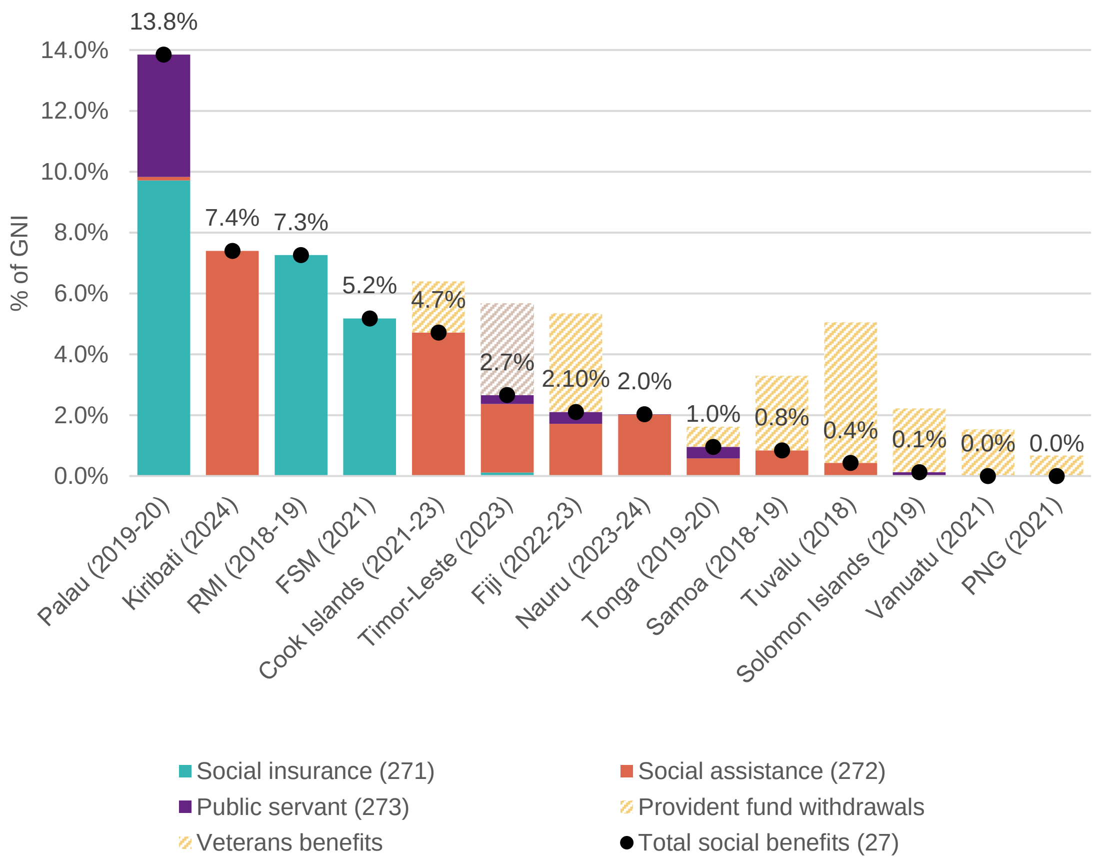
[6] For more recent years, GDP data from the IMF World economic outlook database is multiplied by the ratio of GNI to GDP in the latest available year. This has been tested to ensure it does not inflate GNI based on short-term economic circumstances.

2 The evolving shape of social protection expenditure

2.1 The shape of social protection expenditure

The scale of social protection expenditure varies significantly across the region. Figure 2.1 presents social protection expenditure by type (economic classification) as a share of GNI for the latest year where data is available for all sources. The figure also presents provident fund withdrawals – which are not technically considered to be general government expenditure on social protection – and expenditure on veterans benefits in Timor-Leste (see methodology). Overall levels of expenditure vary significantly from nearly 14% of GNI in Palau, to no expenditure in Vanuatu and Papua New Guinea (PNG) (according to definitions used in this report and available data).

Figure 2.1: Social protection expenditure by type, percentage of gross national income, latest year

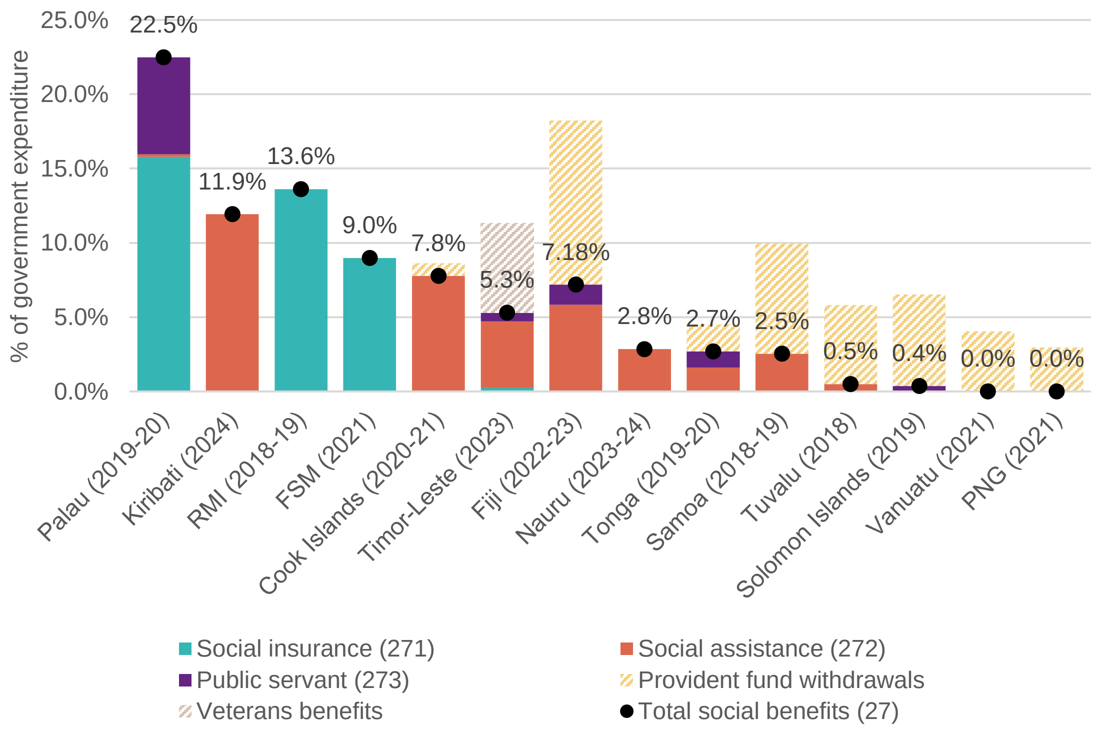


Note: Provident fund withdrawals are not included for Kiribati due to data being unavailable.

Levels of expenditure on social protection in the region are broadly in line with those in middle-income countries. Comparing expenditure on social protection with other countries across the globe is challenging given the inconsistencies in definitions and weakness in data collection.[7] Nevertheless, benchmarks from data collated by the ILO give some indication. Most countries in the region are spending more on social protection than the average for low-income countries (1.1% of GDP) and some are spending at a similar level to the average for lower-middle-income countries (2.5% of GDP). Those with higher levels of expenditure (Palau, Kiribati and Republic of Marshall islands) are more in line with the averages for upper-middle income countries (8% of GDP) although they fall far short of averages in high-income countries (16% of GDP) (ILO, 2021).

Comparing levels of investment to total government expenditure gives a slightly different picture (Figure 2.2). For example, the seemingly high levels of social protection expenditure in Kiribati (relative to GNI) partly reflects that the country has a high level of government expenditure by international comparison. Therefore, when social protection

Figure 2.2: Social protection expenditure by type, percentage of government expenditure, latest year



Note: Provident fund withdrawals are not included for Kiribati due to data being unavailable.

expenditure is compared to government expenditure, Kiribati is less visibly an outlier, with social protection expenditure at 12% of government expenditure. For other countries, the

[7] For example, the ILO World social protection database draws on data from various organisations (including OECD, IMF and ADB) that use different definitions of social protection. In many cases, countries self-report this data which can reflect gaps in their understanding of the classification systems. The denominator used is also GDP rather than GNI but these are similar so the averages for country groups are likely to be comparable.

comparison to government expenditure highlights that even where governments have made major investments, they constitute a small portion of total government expenditure. In all but three countries, social protection expenditure is less than 10% of government expenditure and in most cases it is at around 5% or less.

Countries vary considerably in the shape of their social protection expenditure but they can generally be grouped into three main categories.

- **Countries that emphasise social assistance expenditure (Cook Islands, Fiji, Kiribati, Nauru, Samoa, Timor-Leste, Tonga and Tuvalu)**: Most of these countries also have provident fund schemes in place and annual expenditure on withdrawals often significantly exceeds that of social assistance. Timor-Leste also has a program that provides benefits to veterans which is not included within the scope of social protection here – as noted in the methodology.
- **Pacific Compact countries with high levels of expenditure from contributory social insurance schemes (Palau, Micronesia and Marshall Islands)**: These schemes are based closely on the social security system in the United States with their roots in a single scheme introduced in 1968 when the islands were a joint United Nations trust territory administered by the United States. In all cases, expenditure on these schemes now exceeds 5% of GNI, with the scheme in Palau reaching nearly 10% of GNI. This relatively high expenditure appears to be linked to the comparatively high coverage of these schemes although reliable data is scarce.[8] The role of these schemes is noteworthy given that social insurance schemes have historically been absent from other Pacific Island country social protection systems. Timor-Leste also recently introduced a contributory social insurance scheme but expenditure remains low. By contrast, social assistance in Pacific Compact countries is limited (if not non-existent) although this may be starting to change. Palau introduced a non-contributory disability benefit in 2016 while Marshall Islands recently rolled out a cash transfer for young children.
- **Countries with little or no social protection expenditure (Papua New Guinea, Solomon Islands and Vanuatu)**: In Solomon Islands, the only existing social protection expenditure is in the form of public servant benefits. These countries are becoming more interested in extending social protection and some concrete developments are not yet accounted for in the data. For example, Papua New Guinea is introducing a benefit for vulnerable households with pregnant women and mothers with young children, with financial and technical support from the Australian Government and the World Bank.

The relationship between social protection expenditure and a country's level of economic development is not obvious. At a global level, social protection expenditure tends to be higher in countries that are more developed economically (ILO, 2021). However, this trend is not clear in the Pacific, as shown in Figure 2.3 that compares social protection

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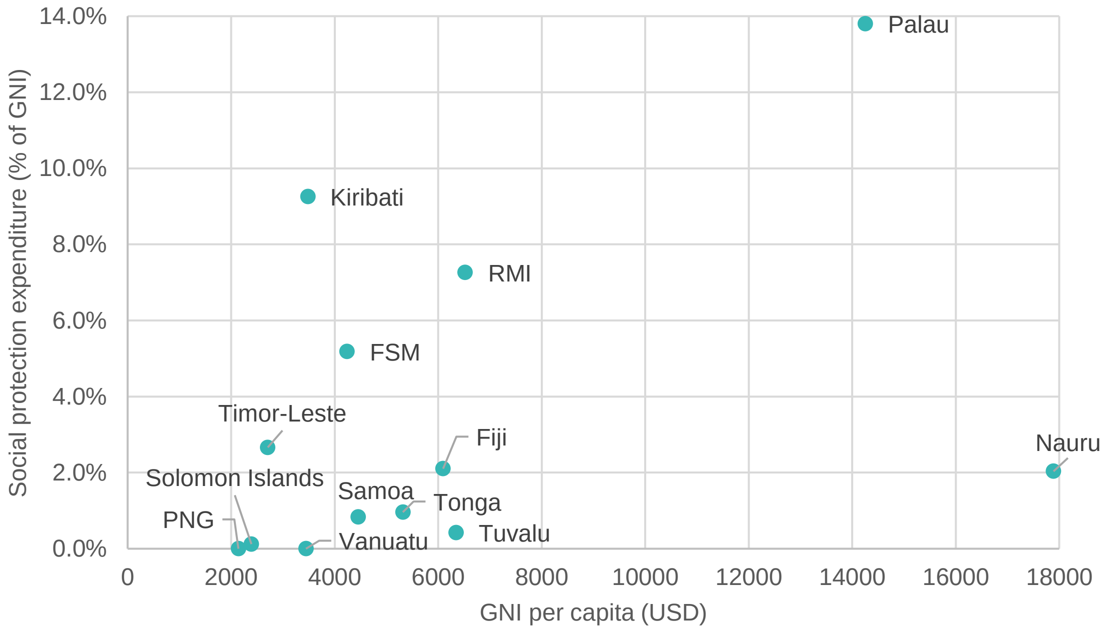
[8] ILO data suggests active contributors to the schemes are equivalent to 82% of the labour market in Marshall Islands (high by international standards) although only 41% in Micronesia. For Palau the figure is 100%, which would be internationally unprecedented and warrants further investigation (ILO, 2021).

expenditure (as a share of GNI) with GNI per capita (in USD). For example, GNI per capita in Vanuatu (no social protection expenditure) is slightly higher than in Kiribati (9% of GNI). Equally, Tuvalu spent less on social protection (as a share of GNI) than Fiji, Kiribati, Samoa, Timor-Leste and Tonga, despite having a higher GNI per capita than all of these countries. The three Pacific Compact countries have higher levels of social protection expenditure than their peers (almost exclusively on social insurance) and levels of expenditure appear to correlate positively with GNI per capita. Nevertheless, in general, this unclear picture implies other factors such as culture, politics, international influence and path dependencies are at play as drivers of investment in social protection.

Figure 2.3: Social protection expenditure (percentage of gross national income) compared to gross national income per capita (USD), latest year of data



Note: Year of data is the same as in Figure 2.2. Micronesia is excluded here as GNI per capita far exceeds other countries

Provident fund withdrawals are significant in scale in many countries. In Fiji, Samoa and Tuvalu, provident fund withdrawals far exceed expenditure on social assistance while in Papua New Guinea, Solomon Islands and Vanuatu they exist in relative isolation in the social protection space. However, the role of provident funds as a true social protection mechanism is disputed. While members are mandated to participate and funds are managed by government agencies, they are fundamentally a mechanism for individual saving. This means they lack the risk-sharing and redistribution mechanisms that are considered characteristic of social protection schemes. Meanwhile, various factors in their design and implementation limit the level of protection they provide in practice (Box 2.1).

Box 2.1: The role of provident funds in the Pacific Islands

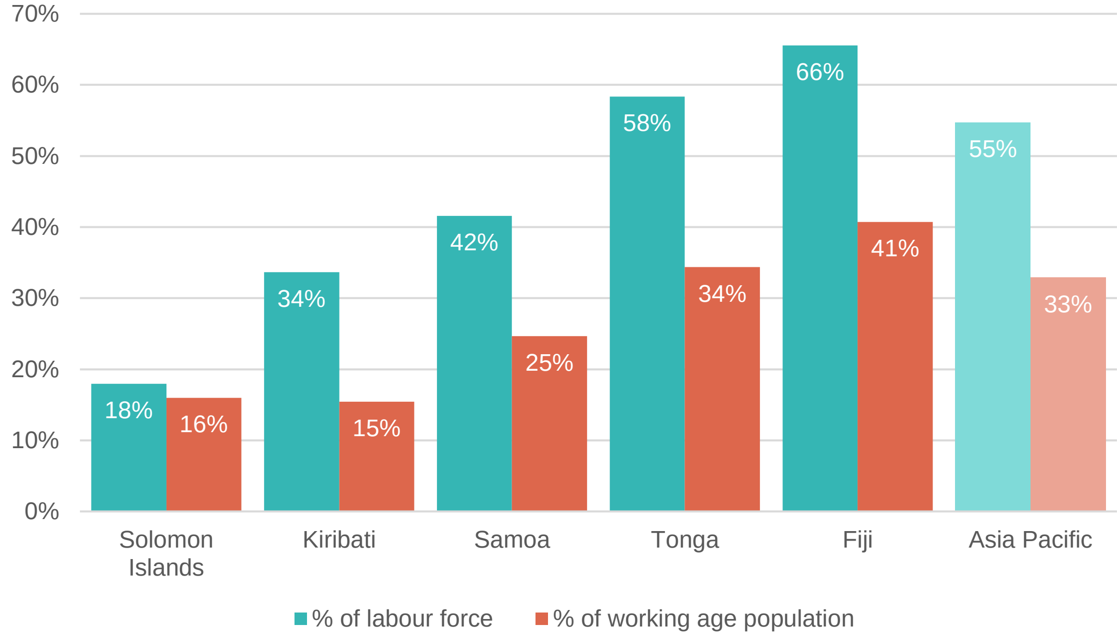
The varied design and performance of provident funds across the region has a bearing on the level of protection they can provide against social risks.

- **Coverage** of provident funds is typically limited to workers in the formal economy,[9] meaning a large share of the population do not actively participate in these schemes. Data in Figure 2.4 shows that the proportion of the labour force contributing to such schemes ranges from 18% in Solomon Islands to 66% in Fiji. Even in countries with seemingly higher coverage of the labour force, this can hide the fact that in many Pacific Island countries a significant proportion of the working age population is outside the labour force. As a result, a minority of the working age population (aged 15–64) contributes in any country. There may also be issues with whether this data only captures active contributors (for example, those making at least one contribution in the previous year) or the wider membership.[10]
- **Scope:** The largest share of withdrawals from provident funds relates to retirement (Figure 2.4) equal to more than 46% of withdrawals in all countries except Tonga (due to the scheme being introduced only recently). In countries like Kiribati, Tonga and Vanuatu, early partial withdrawals are also significant and sometimes linked to hardship or unemployment but also simply linked to age. All countries have withdrawals linked to death and disability or sickness but they tend to be a small portion of benefits. In many countries, withdrawals linked to migration form a significant portion of the total (although this is excluded from the aggregated data in Figure 2.1 and Figure 2.2).
- **Adequacy:** Withdrawals are almost always made as a lump sum which has major implications for predictability and the level of protection they provide. An issue associated with provident funds in the Pacific and beyond is that recipients typically deplete these savings within a short time after withdrawals. This is exacerbated by the relatively low contribution rates and early ages for withdrawal in international comparison (World Bank, 2023b). The interaction of early withdrawals with adequacy is complex. While the funds provide some protection from risks people face during working age, the accumulated savings are likely to be small and withdrawals undermine the level of their retirement savings.

[9] Some funds have voluntary schemes that may include workers outside the formal economy but the coverage of these tends to be low.

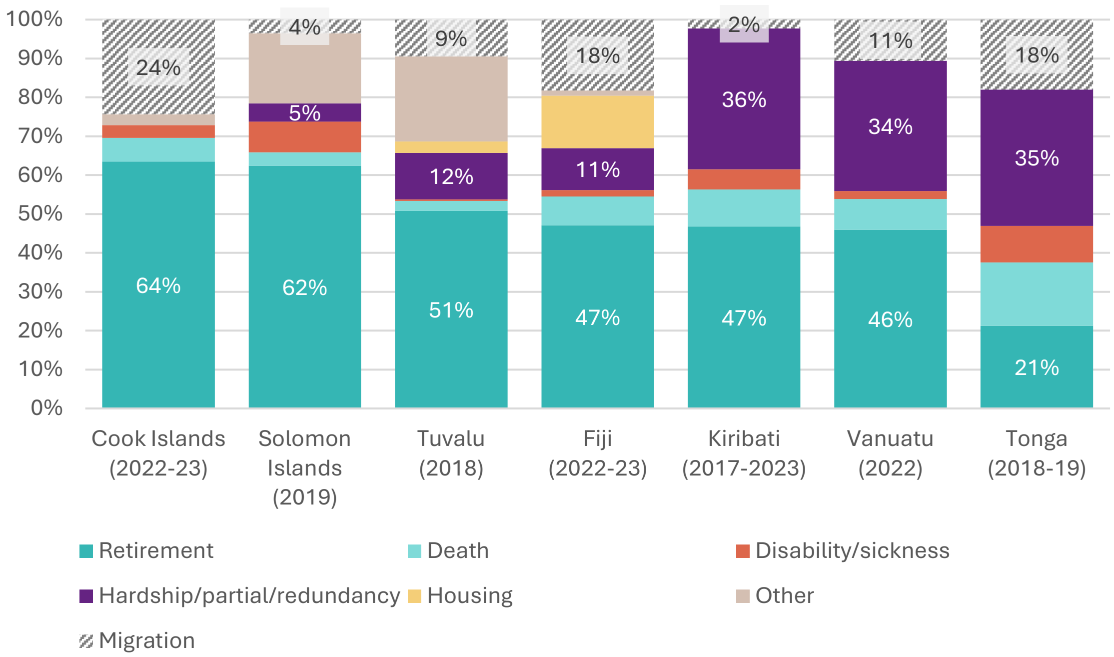
[10] Figure 2.4 includes only data on reported active contributors but the definition for this is not always clear.

Figure 2.4: Active contributors to provident funds as a percentage of the labour force and working age population, latest year



Source: Provident fund annual reports and data from ILOSTAT (2023) and UN Population Division (2022)

Figure 2.5: Provident fund withdrawals by type, percentage of total withdrawals, latest year



Source**:** Provident fund annual reports

Note: Our concern was that the latest year should not overlap with the height of the COVID-19 crisis but in practice the latest data was either prior to or following the COVID-19 crisis in all cases.

In contrast to many low and middle income countries across the globe, expenditure on public servant benefits is limited across the region. Most public servants do not benefit from stand-alone social protection entitlements but make contributions to provident funds or social insurance schemes in the same way as other workers in formal employment. A key driver of this situation is that – unlike some countries across the globe that began building their social protection system with a focus on public servants – Pacific Island countries more commonly began with general schemes for a wider set of workers. The provident fund approach is common among ex-British colonies (Kaseke *et al.*, 2011). Some countries have dedicated tax-financed expenditure on public servant benefits (Timor-Leste, Fiji, Solomon Islands and Tonga) but expenditure on these schemes tends to be limited. In some cases this is because the benefits cover a small subset of public servants (Fiji) or because public servants are in transition from dedicated tax-financed schemes to contributory schemes (Timor-Leste and Tonga). Nauru has just completed this process. This contrasts with other countries in the Asia Pacific region where tax-financed benefits for public servants constitute a significant share of social protection expenditure (ESCAP & ILO, 2020).

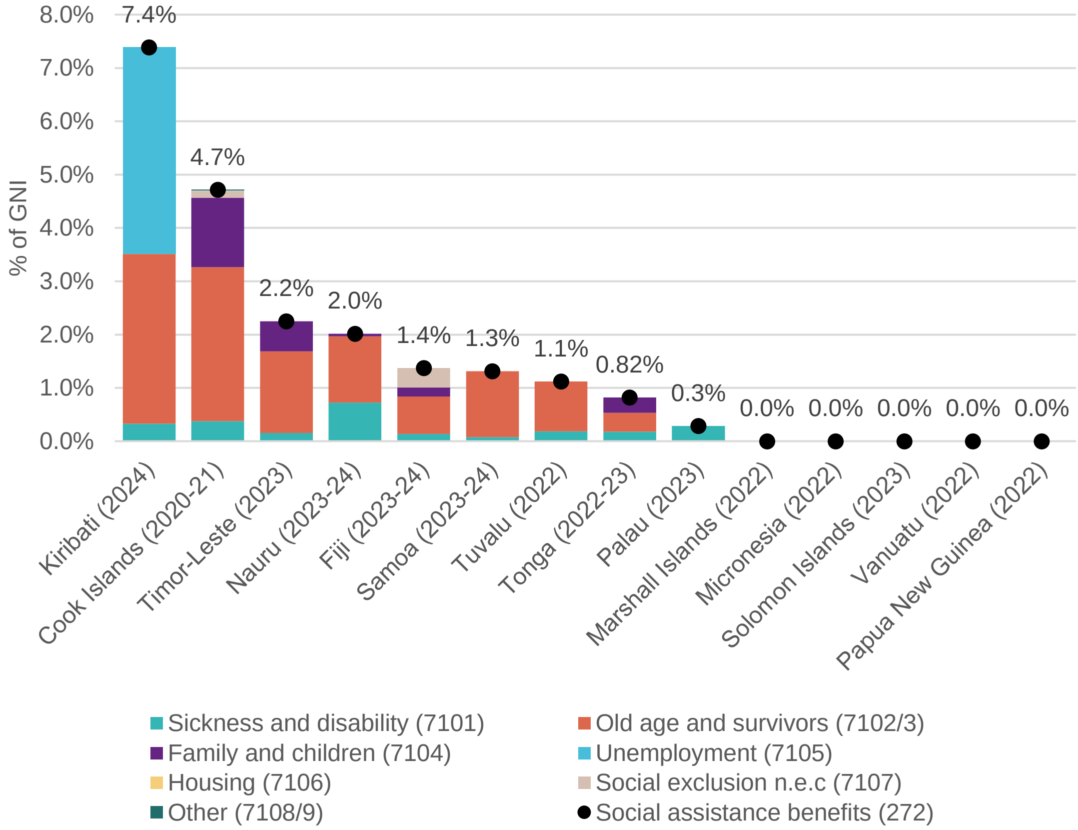
2.2 Social assistance in focus

Even in countries where social assistance is more developed, the scale of investment varies considerably. Figure 2.6 presents social assistance expenditure by function, relating to the different social risks each scheme seeks to address (see Annex 1). Kiribati (7.4%) and Cook Islands (4.7%) are the highest spenders on social assistance in the region. Six other countries – Fiji, Nauru, Samoa, Tonga, Timor-Leste and Tuvalu – spend between 0.8% and 2.2% of GNI on social assistance. This is similar to the average among low and middle income countries that stands at 1.5% of GDP according to the World Bank's ASPIRE database (World Bank, 2023b).[11] All other countries have no social assistance expenditure, except for Palau that has a small investment in its disability benefit. Note that the ASPIRE data are often more up to date than the aggregated social protection expenditure figures used in Figure 2.1, so the numbers do not directly match between the two figures.[12]

[11] While the definition of social assistance used in the World Bank ASPIRE database varies from that used here, it still provides a relevant point of comparison.

[12] Data on social assistance expenditure are often available as estimated/budgeted values for the current budget year. By contrast, provident fund and social security fund data are based on actual data from annual or financial reports published by these funds. There is typically a delay of some months or years before these documents are published.

Figure 2.6: Social assistance expenditure by function, percentage of gross national income, latest year



Universal old age and disability benefits form a core part of social assistance expenditure in the region. These schemes exist in low and middle income countries across the globe but they are particularly prominent in Pacific Island social protection systems. As noted in a previous P4SP survey of social protection expenditure, this appears to be linked to their relative simplicity in terms of administration and the political popularity of more universal approaches. They may also draw on the example of other countries in the wider region – including Australia and New Zealand (Knox-Vydmanov, 2023).[13] If anything, this trend has continued in recent years, with expansion in coverage of Tuvalu's senior citizen scheme in 2022 and the introduction of a new universal disability benefit in Samoa in the 2021–22 fiscal year.

Disability benefits are one of the newest features of the social protection landscape. Six countries have introduced disability benefits since 2015 – Fiji, Kiribati, Palau, Samoa, Tonga and Tuvalu. An important driver of this process was the ratification of the Convention on the Rights of Persons with Disabilities and new or revised national disability laws. For example, in Fiji, the Disability Allowance Scheme was directly linked to the passing of the Rights of Persons with Disabilities Act of 2018 (UNICEF, forthcoming).

[13] New Zealand and Australia are both examples of countries with high coverage non-contributory pensions, universal in the case of New Zealand and means-tested in the case of Australia (OECD, 2023)

Meanwhile, various initiatives are underway to strengthen social assistance for families with children. Such schemes have been limited in the region, with the exception of significant investments in the Cook Islands (Box 2.2) and smaller schemes in Fiji and Timor-Leste. In 2023, Timor-Leste took a major step to expand social protection for families with children with the *Bolsa da Mae – Jerasaun Foun* (new generation), a universal benefit for pregnant mothers and children aged 0–6 years financed through Australian direct budget support (P4SP, 2023). This resulted from an increased investment in social assistance for families with children from around 0.3% of GNI in recent years to 0.6%. However, the Government of Timor-Leste announced in late 2023 that they are discontinuing the program (Government of Timor-Leste, 2023).

Box 2.2: The Cook Islands – Social protection for families with children

The Cook Islands has one of the most comprehensive packages of social assistance benefits in the Pacific region and spent a total of 4.7% of GNI in the 2021–22 fiscal year. The package consists of old age, disability, child, maternity and destitution benefits, many of which are provided universally. The package reaches most households in the country with 91% receiving at least one benefit and it is simulated to more than halve the national poverty rate (from 19.6% to 9.4%).

A notable aspect of social assistance in the Cook Islands is the benefits in place for families with children. The country spends 1.3% of GNI on such benefits, mainly via a universal child benefit for children from 0–16 but also through a one-off payment on the birth of a child. This level of expenditure is similar to many high-income countries and also middle-income countries that have extended high coverage child benefits, such as South Africa.

These schemes have a major impact on child poverty. A recent P4SP study found that over two thirds of households in the country receive the child benefit, with higher coverage among the poorest households. Consequently the scheme is simulated to reduce the child poverty rate by nearly a third (from 17% to 12%).

The child benefit follows a pattern seen in universal social assistance benefits across the Pacific, expanding progressively over time. The scheme was introduced in 1979 for children aged 0–6 and was subsequently expanded to children aged 0–10 in 1983, children aged 0–12 in 2006, children aged 0–15 in 2018 and children aged 0–16 in 2019.

Source: Gorman *et al*. (2023)

A notable dimension of the shift towards social assistance for children has been its inclusion in donor projects on social protection. Since 2020, **Tonga** has provided a conditional cash transfer to children of secondary school age under the grant-funded World Bank Skills and Employment for Tongans (SET) project which includes a contribution from the Australia-Pacific Islands Partnership Trust Fund. The scheme had reached 3,880 students by 2022 (World Bank, 2023c). **Papua New Guinea** is initiating a child nutrition grant targeting households with pregnant or lactating women and young children under two with technical support and financing from the World Bank and the Australian government. This grant will provide a monthly cash benefit of Papuan kina (PGK) 30 (approximately USD8) per month (World Bank, 2022c).[14] Finally, **Republic of Marshall Islands** recently rolled out a conditional cash transfer for families with pregnant women and children aged 0–5 years under a World Bank grant focused on early childhood development (World Bank, 2022b).

Benefits to address risks people face during their working age are more limited in the region. To some extent this reflects the situation in low and middle income countries in general. Benefits relating to working age risks, such as maternity, work injury and unemployment, are typically limited to those provided through contributory social insurance schemes that have limited coverage in low and middle income countries (ILO, 2021). However, the role of social protection systems in relation to these risks is even more limited in the Pacific.

Key reasons for this include the following:

- Benefits relating to maternity, work injury and redundancy are generally considered an **employer liability**[15] which tends to provide weak levels of protection (ESCAP & ILO, 2020).
- While provident funds often have options for **early withdrawal** (for example, in the case of redundancy and hardship) the pay outs are normally low, especially for those claiming benefits earlier in their careers who have had less time to accumulate savings. Such withdrawals also undermine retirement savings.
- Furthermore, **social insurance schemes in the Pacific Compact countries** do not cover working age risks (all being limited to old age, disability and survivors' benefits). This is distinct from many other social insurance schemes across the globe that cover a wider array of risks. Timor-Leste's social insurance scheme includes maternity and paternity benefits but not unemployment or work injury benefits (UN *et al*., 2018).

Kiribati's Support Fund for the Unemployed is unique in the region but its function needs to be understood in the national context. The scheme, introduced in 2020, is labelled as an unemployment benefit and is classified under the unemployment function in

[14] This will initially be through 'nudging' or 'soft' conditioning with compliance being more closely monitored and enforced as a monitoring system for services is being established.

[15] Under employer liability arrangements, employers are legally obliged to provide and finance benefits for workers such as those relating to maternity, work injury and redundancy.

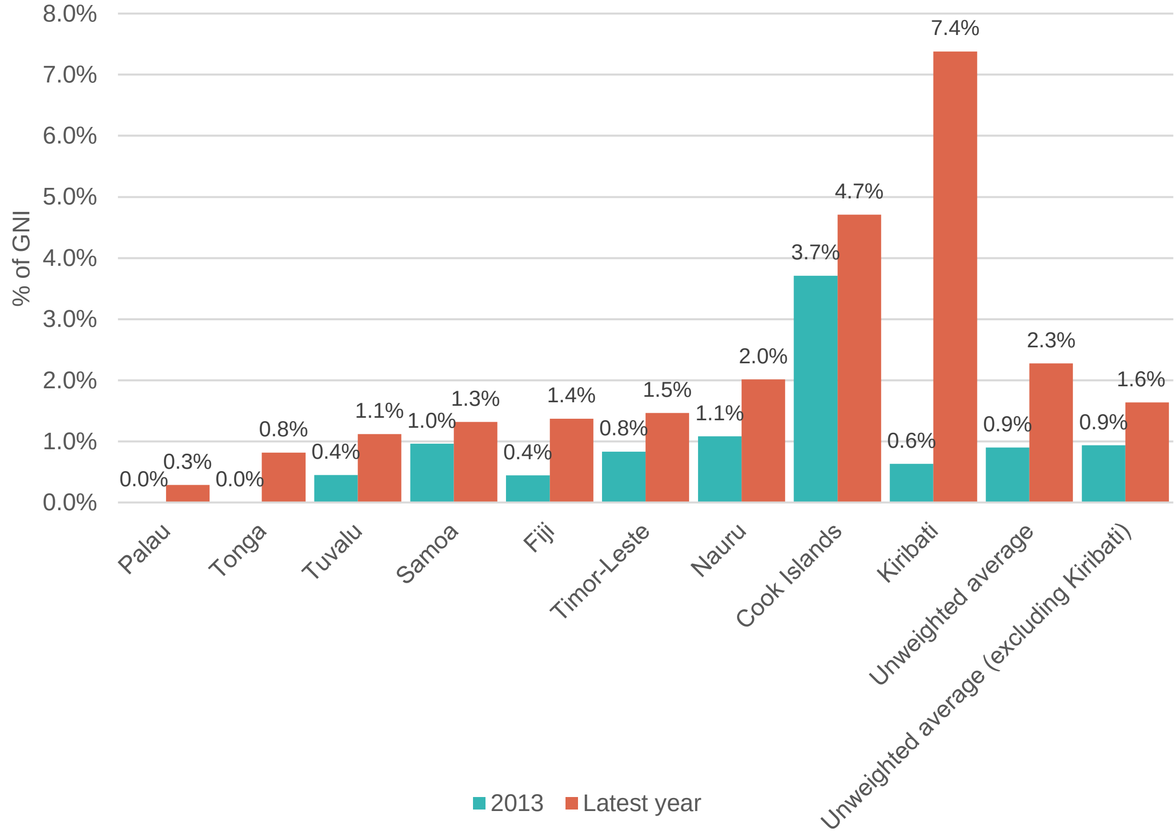
this report. However, the scheme is arguably better understood as a form of basic income for families in Kiribati. In countries with unemployment benefits, they are typically a short-term response to labour market frictions. By contrast, eligibility for the scheme in Kiribati is broad and includes all working age individuals (ages 18–59) who do not have access to formal employment. The rationale for the fund was not linked to short-term protection from unemployment but rather to supporting urban households that do not benefit from the copra subsidy that reaches a large portion of households in Kiribati. Coverage of the fund also echoes a broad-based basic income, being estimated to cover nearly half (46%) of individuals in the population and be received by nearly every household in the country. A recent diagnostic review of the Kiribati social protection system proposes reframing the fund as a family basic income scheme. This would help people better understand the scheme and its effectiveness, and ensure long-term sustainability (Barrett, forthcoming).

2.3 How social protection expenditure has evolved

Expenditure on social assistance has increased significantly over the last decade. Figure 2.7 shows the change in expenditure from 2013[16] up to the latest year where data is available for countries with social assistance expenditure. Across the nine countries, the unweighted average expenditure has increased from 0.9% to 2.3% of GNI or from 0.9% to 1.6% of GNI if we exclude Kiribati where the increases were most dramatic. In four countries – Cook Islands, Fiji, Kiribati and Nauru – the increases have been equal to or higher than 1% of GNI. Two countries, Tonga and Palau, spent nothing on social protection at the start of the period but have since invested 0.8% and 0.3% of GNI respectively. In most cases the latest data relates to the 2023 or 2024 fiscal years, representing a longer-term trajectory rather than temporary social assistance expenditure relating to the COVID-19 pandemic.

[16] 2013 is the earliest year where data on social assistance expenditure is available for all countries.

Figure 2.7: Social assistance expenditure, percentage of gross national income, 2013 and latest year

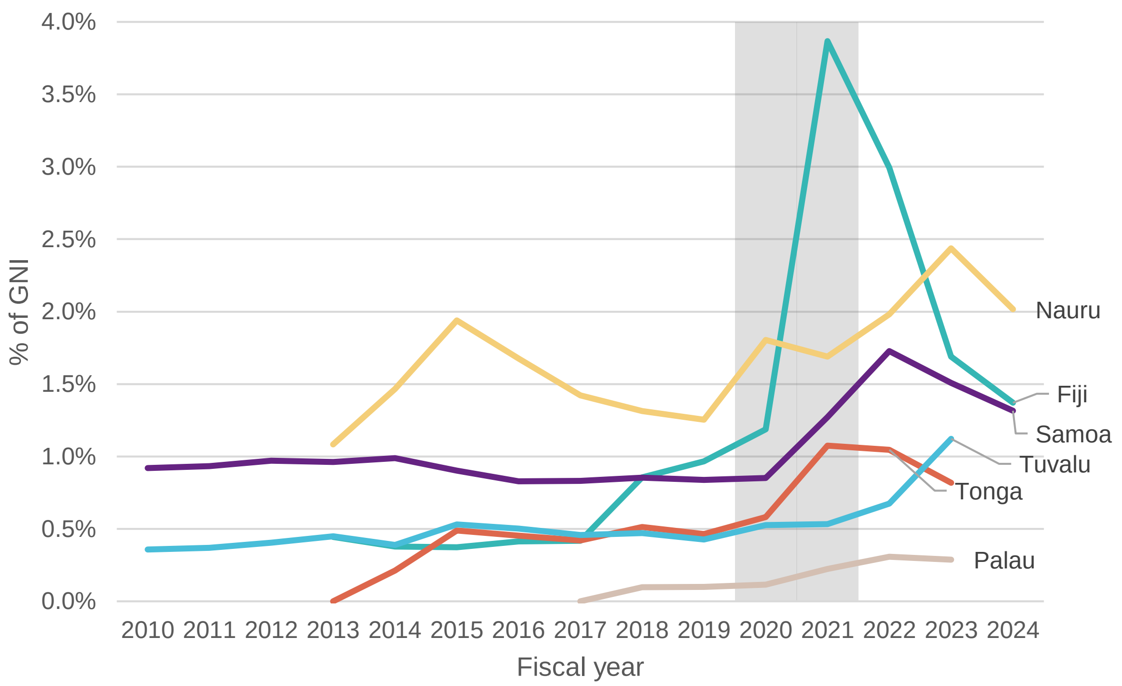


Note: Latest years are FY2024 (Fiji, Kiribati, Samoa and Nauru), FY2023 (Palau, Timor-Leste, Tonga and Tuvalu), FY2022 (Cook Islands)

In most countries, social assistance expenditure has grown through incremental increases in allocations over time. Figure 2.8 shows year-on-year expenditure on social assistance for six countries (excluding Cook Islands, Kiribati and Timor-Leste).[17] The expenditure pathway in each country is distinct, in some cases it is more erratic, for example in Nauru, and in others it involves smaller year-on-year changes, for example in Palau and Tuvalu. Nevertheless, increases to social assistance expenditure over the last decade generally involved adjustments in multiple budget years, rather than one single increase. This is illustrated by the cases of Tonga (Box 2.3) and Samoa (Box 2.4) where the shape of social assistance has changed significantly but through small changes in annual budget allocations. A contrasting case is Kiribati where expenditure increased sharply from 2020 although this has since stabilised (Box 2.5).

[17] Kiribati and Timor-Leste are excluded due to the sharper fluctuations in social assistance expenditure which hide the trend in other countries (see Box 2.5 and Box 2.6). Cook Islands is excluded given the lack of more recent data.

Figure 2.8: Social assistance expenditure, percentage of gross national income, 2010 to latest year of data



The response to the COVID-19 pandemic was associated with a short-term boost in social assistance expenditure in most countries, however, the scale and nature of these investments varied. Figure 2.8 shows this trend, with some countries experiencing a spike in social assistance expenditure in the fiscal years of 2020 and 2021. However, this can be misleading. In some cases, these increases were linked to reforms not directly linked to the pandemic, such as the expansion of the conditional cash transfers in Tonga (Box 2.3) or the sharp increase in investment in social protection in Kiribati, planned before the onset of the pandemic (Box 2.5). Another factor is that many Pacific economies contracted in the 2020 and 2021 fiscal years so relatively constant social protection expenditure formed a larger share of their reduced GNI. Fiji and Timor-Leste were the two countries with the largest social protection responses. In Timor-Leste, social protection expenditure increased from under 3% of GDP up to 7% in 2021 (Box 2.6). Fiji combined a short-term unemployment benefit and top ups to existing social assistance benefits with a policy to allow withdrawals from the country's provident fund (see Box 2.7). One data gap is in Tuvalu that introduced a short-term form of universal basic income but the expenditure data on this are not available (Gentilini *et al*., 2021).

Box 2.3: Tonga – from zero to 1% of gross national income in a decade

In 2012, Tonga's social protection expenditure consisted of public servant benefits amounting to 0.7% of GNI and provident fund withdrawals making up an additional 0.6% of GNI (Figure 2.9). Over the last decade, social assistance expenditure grew from zero to around 1% of GNI during the COVID-19 pandemic and fell to 0.8% as of the 2022–2023 fiscal year. As shown in Figure 2.10, this involved an old age pension introduced in 2012 (Social Welfare Scheme), shortly followed by a disability benefit in 2015 (Disability Welfare Scheme).[18] Since 2019, the country has implemented a conditional cash transfer (falling under family and children benefits) financed by the World Bank grant-funded Skills and Employment for Tongans (SET) project. These initiatives have reshaped social protection expenditure, moving towards social assistance, with a falling share of GNI dedicated to tax-financed public servant pensions. Provident fund withdrawals were still equal to around 0.7% of GNI as of 2019–20 (the latest complete year of data).

Figure 2.9: Tonga – Social benefit expenditure (economic classification) by type, percentage of gross national income plus provident fund withdrawals, 2012–2022

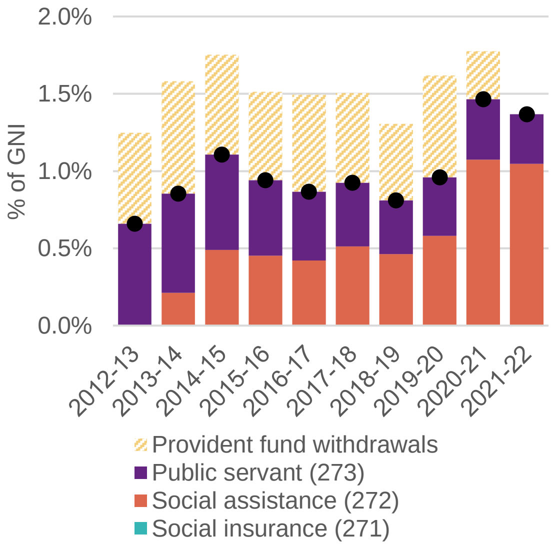
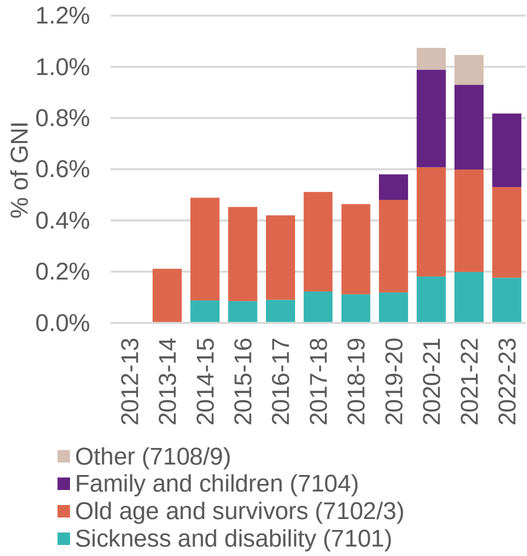


Figure 2.10: Tonga – Social assistance expenditure (economic classification) by function, percentage of gross national income, 2012–2023



Note: Provident data is incomplete for 2020–21 and unavailable for 2021–22.

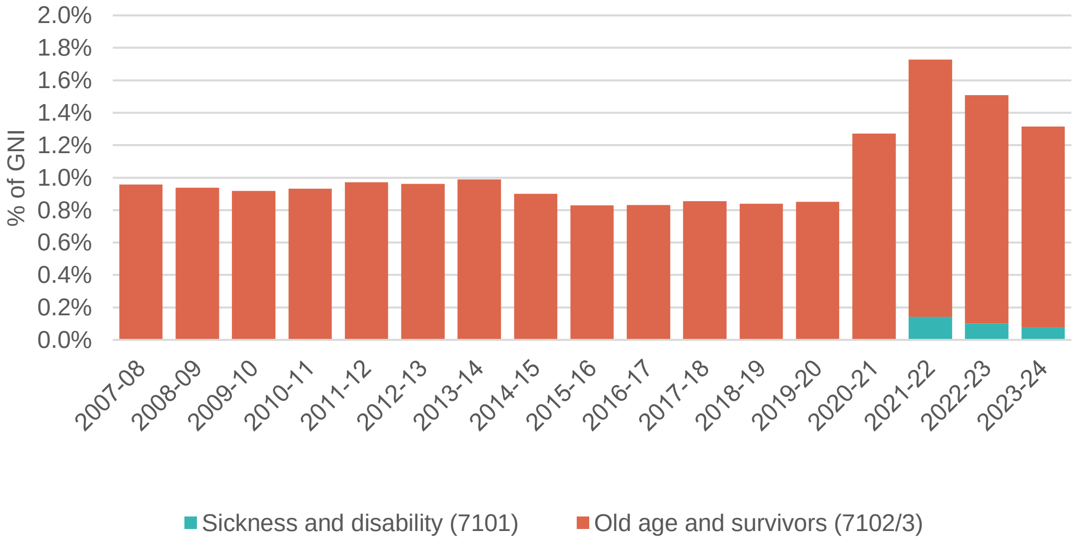
[18] For reasons that are not clear, neither the Social Welfare Scheme nor the Disability Welfare Scheme appear clearly in the budget for the fiscal year when they were introduced.

Box 2.4: Samoa – Broadening the scope of social assistance

Samoa was one of the first countries in the region to put in place a universal pension (Senior Citizens Pension) for those aged 65 and over which was introduced in 1990. By the 2019–20 fiscal year, expenditure on the scheme was equal to 0.8% of GNI. In the 2021–22 fiscal year, a new Disability Benefit Package was introduced, extending social assistance beyond old age. As of the 2023–24 fiscal year, budgeted social protection expenditure was 1.2% of GNI although this mostly reflects increases in the benefit level of the Senior Citizens Pension, with the Disability Benefit Package remaining a small share of expenditure.

The fall in expenditures as a share of GNI since the 2021–22 fiscal year is due to relatively stable social assistance expenditure (in nominal terms) in the context of growth in GNI as the economy recovers from the COVID-19 crisis.

Figure 2.11: Samoa – Social assistance expenditure (economic classification) by function, percentage of gross national income, 2013–2024

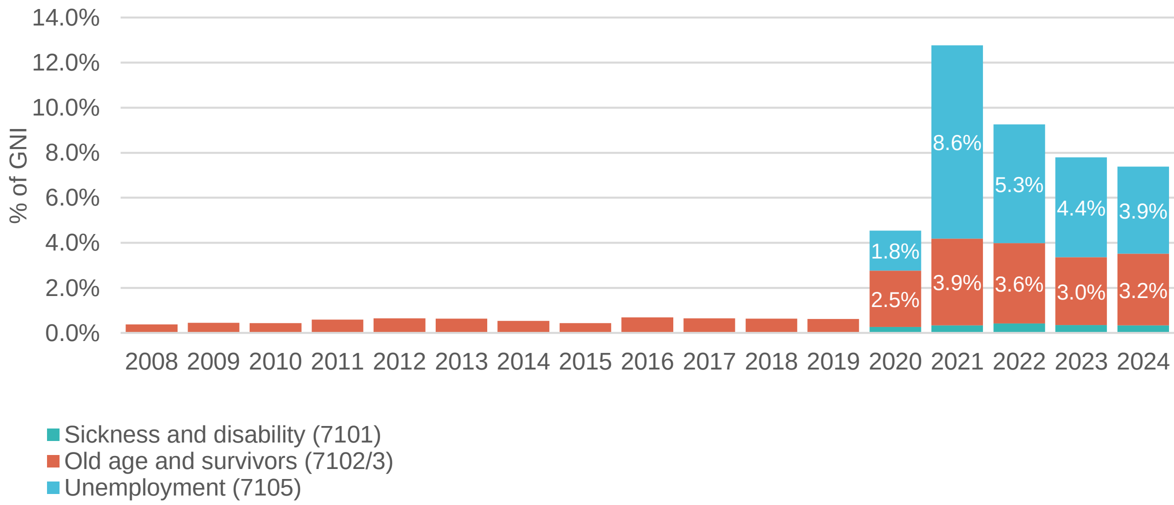


Box 2.5: Kiribati – Stabilising social assistance investments

A previous P4SP mapping of social protection expenditure in the Pacific documented the significant developments in investment in social assistance in Kiribati after 2020 (Knox-Vydmanov *et al.*, 2023). Up to 2019, expenditure on social assistance consisted of a universal old age pension (Senior Citizens Benefit), with expenditure at around 0.5% of GNI. In 2020 the benefit level and coverage of the Senior Citizen Benefit increased significantly, alongside government introducing a non-contributory unemployment benefit (Support Fund for the Unemployed) and a disability benefit (Disability Support Allowance). These two new schemes were planned prior to the onset of the COVID-19 pandemic. The result was a peak in expenditure at nearly 13% of GNI in 2021. The high expenditure on the unemployment benefit in 2021 is linked to delays in processing claims from 2020.

Since 2021, however, expenditure on the system has reduced and is stabilising at around 7% of GNI. This level of expenditure is high compared to other lower-middle-income countries but we need to take into account the particular economic conditions in Kiribati. Government expenditure is around 60% of GNI (and over 110% of GDP) which is higher than other countries at a similar level of economic development. However, social assistance expenditure at 12% of total government expenditure in 2024 is not unprecedented. Social protection programs of this scale can have a significant impact. Analysing household survey data showed that the two largest social assistance programs alone (the Senior Citizens' Allowance and the Support Fund for the Unemployed) significantly reduced the percentage of the population living in poverty from 23% to 6% (Barrett, forthcoming).

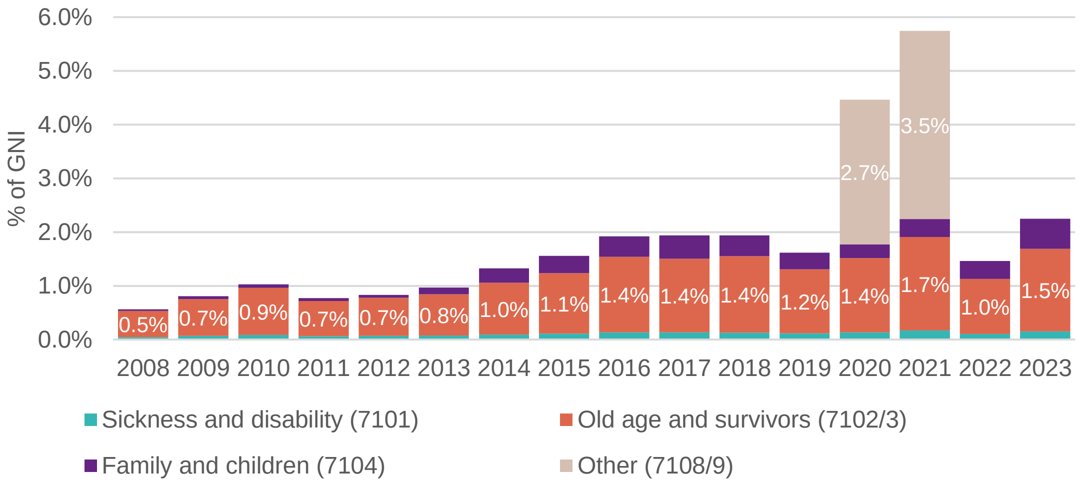
Figure 2.12: Kiribati – Social assistance expenditure (economic classification) by function (Classifications of the Functions of Government), percentage of gross national income, 2008–2024



Box 2.6: Timor-Leste – A major social protection response to the COVID-19 pandemic

Timor-Leste was one of the countries with the most substantial responses to the COVID-19 pandemic among the focus countries of this report. As shown in Figure 2.13, core social assistance expenditure increased gradually from less than 1% to nearly 1.5% of GNI between 2008 and 2022, although these changes should be interpreted with care given the particular macro-fiscal context in Timor-Leste.[19] Regardless of these measurement issues, it is clear that specific programs in response to the pandemic resulted in significant additional expenditure. In 2020 and 2021 social protection expenditure reached between 4.5% and 5.5% of GNI. This consisted of the near-universal *Uma Kain* household cash transfer in 2020 and the 'Basic basket' distribution in 2021 (both schemes are captured under 'other'). Expenditure returned to the historical trend in 2022 but in 2023 there was a substantial increase (to over 2% of GNI) primarily due to the increase in benefit levels of the non-contributory old age and disability benefits and the introduction of a new cash benefit for young children (now discontinued).

Figure 2.13: Timor-Leste – Social assistance expenditure (economic classification) by function (Classifications of the Functions of Government), percentage of gross national income, 2008–2023



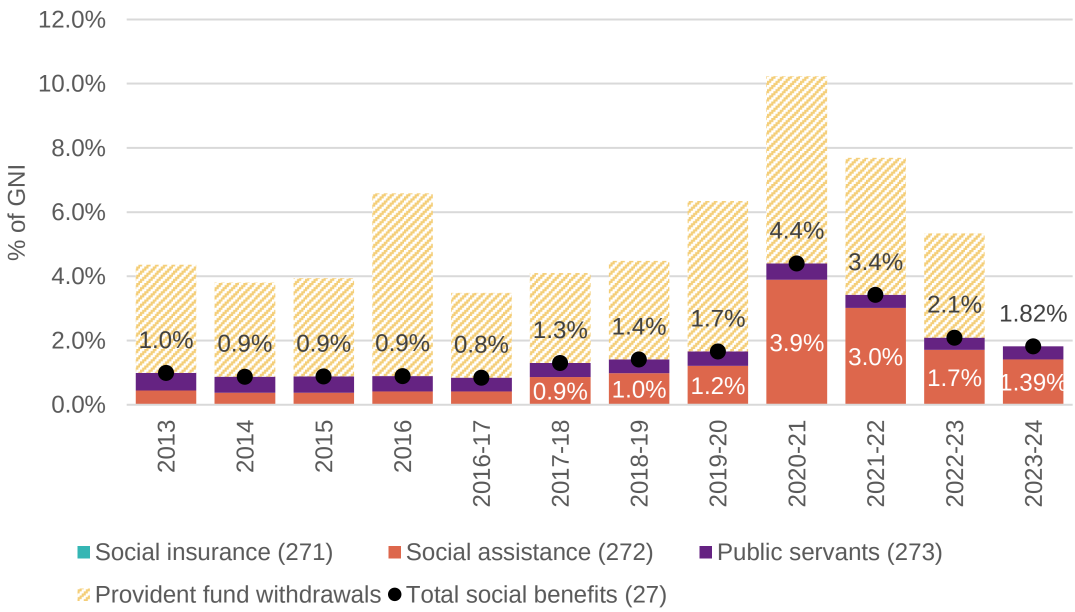
[19] Timor-Leste relies on withdrawals from its Petroleum Fund even though, as of 2024, gas and oil production has stopped. In ths context, this limits the two main indicators of the size of the economy. GDP (usually non-oil GDP) does not account for this revenue stream and therefore overstates the levels of social protection expenditure. Meanwhile, GNI figures capture uneven levels of drawdowns from the fund over time, for example, the seeming rise insocial protection expenditure relative to GNI is due to a fall in drawdowns from the fund (IMF, 2024a).

Box 2.7: Fiji – COVID-19 support via multiple channels

Fiji is an example of a country that used both social assistance and provident funds in its response to the COVID-19 pandemic. Social assistance expenditure has increased gradually over the last decade, as shown in Figure 2.14, from 0.4% of GNI in 2013 to 1.4% in the 2023–2024 fiscal year. However, the COVID-19 crisis saw a spike in expenditure (reaching nearly 4% of GNI in 2020–21). The most significant component of this expenditure was a short-term unemployment benefit paid to 340,000 workers in the formal and informal sectors, around a third of Fiji's population. This alone was equal to 2.3% of GNI in 2020–21 (Figure 2.15). In addition, short-term top ups were provided to the Disability Allowance, Care and Protection Allowance and Poverty Benefit Scheme financed by the Australian government (DFAT) although this was in direct response to tropical cyclone Harold.

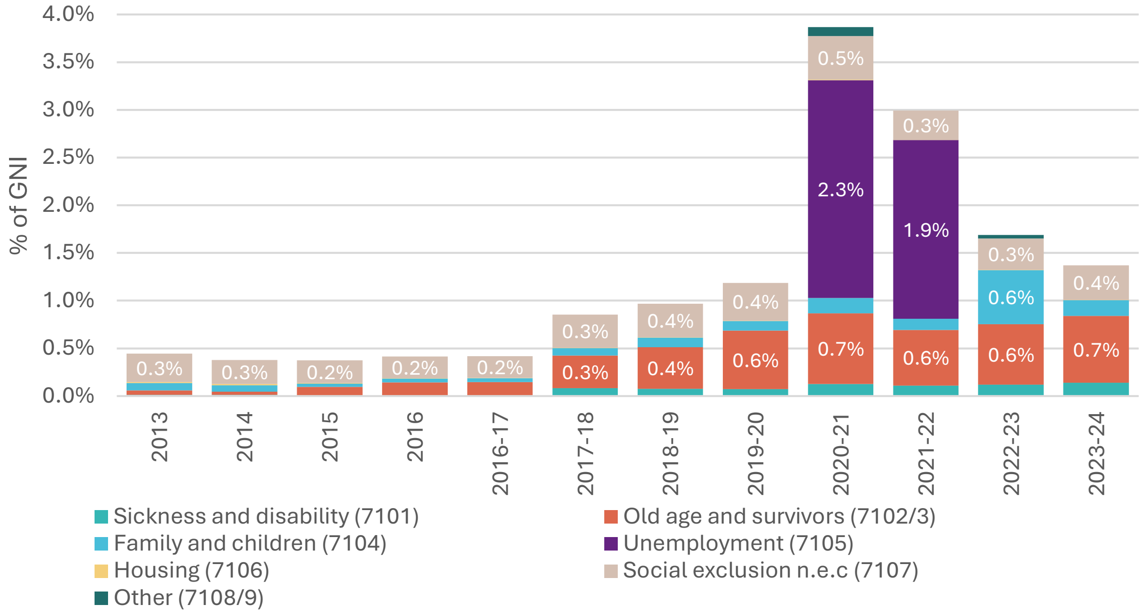
Meanwhile, there was also a sharp increase in withdrawals from the Fiji National Provident Fund. During the COVID-19 pandemic, partial benefit withdrawals (including those linked to the pandemic) rose from an average of FJD54.4 million from 2013 to 2019, to FJD117.5 million in 2020 and FJD144.9 million in the 2021 fiscal year. This is behind the spike in provident fund withdrawals in these years shown in Figure 2.14. This follows a similar peak in 2016, when the Fiji National Provident Fund provided support in response to tropical cyclone Winston. The role of this support needs to be understood in the context that provident funds primarily cover workers in formal employment. However, it is worth noting that the coverage of the scheme is relatively high in Fiji, with an estimated 69% of the labour force actively contributing to the fund (ILO, 2021).

Figure 2.14: Fiji – Social benefit expenditure (economic classification) by type, percentage of gross national income, plus provident fund withdrawals, 2013–2024



Note: Data on provident fund withdrawals is not available for the 2023–24 fiscal year.

Figure 2.15: Fiji – Social assistance expenditure (economic classification) by function, percentage of gross national income, 2013–2024



Note: In 2016, Fiji changed its fiscal year from a calendar year to a fiscal year spanning 1 August – 31 July.

Provident funds were also an important feature of the response to the COVID-19 pandemic. The components of this response varied considerably (Table 2.1). The most notable aspects in the expenditure data were provisions for members to withdraw a portion of their savings early. As described in Box 2.7, the scale of these withdrawals in Fiji were greater than those under social assistance. However, support also took other forms. This included a moratorium on employers and workers' contributions to provident funds, affecting the level of contribution revenue.

Similarly, many funds allowed temporary deferrals of interest and loan repayments, available under some schemes. Fiji, Kiribati and Tonga also made one-off payments to pensioners. Finally, provident funds interacted in the wider public finance context either by making loans to government or purchasing government bonds.

Table 2.1: Provident fund measures to respond to the COVID-19 crisis

Fund	One-off payments to pensioners	Temporary moratorium on workers contributions in certain sectors	Existing provision on unemployment with waiting period for early withdrawals	Loan assistance (temporary deferral of interest and/or repayments on existing loans)	COVID-19 provision to withdraw early	Moratorium on contributions for employers in financial difficulty	Loans to government/ purchase of government bonds
Samoa National Provident Fund							
Fiji National Provident Fund							
PNG Nasfund							
Kiribati Provident Fund							
Solomon Islands National Provident Fund							
Vanuatu National Provident Fund							
Tonga National Retirement Benefits Fund (NRBF)							
Tonga Retirement Fund Board (RFB)							

Source**:** DFAT (2022)

Another notable aspect of the response to the COVID-19 pandemic were programs implemented by non-government organisations. International non-government organisations across the region increasingly deliver cash and voucher assistance (CVA), particularly as part of their humanitarian response. A mapping by the Pacific Regional Cash Working Group (a network of UN, private sector, public sector and non-government stakeholders engaged in this area) found that, as of 2022, five different agencies were delivering a total of USD5 million to 56,000 households across six countries in the region (Pacific Regional Cash Working Group, 2022). Two of the most significant such programs launched in response to the COVID-19 pandemic were in Vanuatu and Fiji. In Vanuatu, a consortium including Oxfam Australia, Sempo (a fin-tech startup) and 18 other organisations implemented a cash and voucher assistance program reaching 35,000 participants, injecting over USD4.3 million into the national economy (Liougas *et al.*, 2023, p. 202). In Fiji, Save the

Children implemented a cash and voucher assistance program reaching 39,000 households impacted by the COVID-19 crisis (Save the Children, 2022).

While these programs can complement government social assistance schemes and feed into system development, they are relatively small in scale. For example, the USD5 million disbursed through these programs across the region in 2022 is small when compared to the USD369 million disbursed through government social assistance systems across the region in the 2022 fiscal year. Most of the 2022 cash and voucher assistance value was disbursed through programs in Fiji (USD4 million) but this was a fraction of the USD140 million disbursed through the government in the same fiscal year (2022) as part of the major COVID-19 pandemic response but also the USD78 million disbursed in more normal times in the 2024 fiscal year. The cash and voucher assistance programs implemented by non-government organisations play a key role in countries such as Vanuatu where no government-implemented social assistance schemes are in place. In this context, they provide proof of concept in terms of program design with the aim that government will replicate and scale out such programs. The contribution of such schemes to building social protection systems nevertheless depends on collaboration with government actors and designing systems that national governments can feasibly adopt.

3 Financing sources for social protection

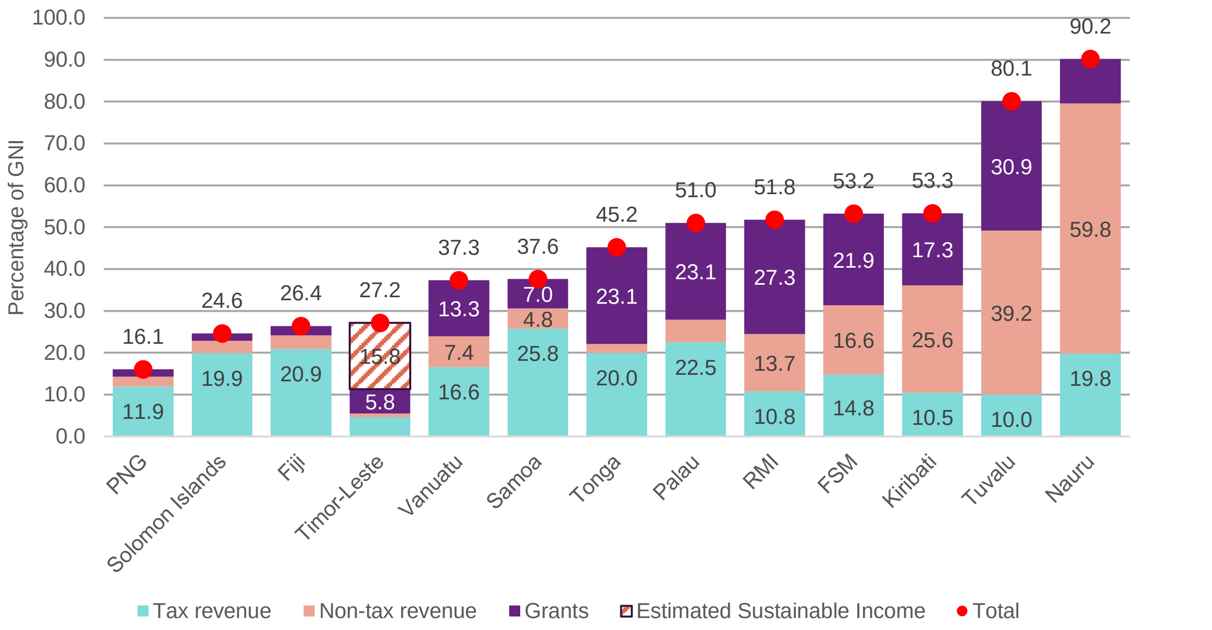
Most social assistance expenditure is financed as part of national budgets and thus draws on a range of financing sources. These expenditure allocations are agreed annually as a part of national budget formulation processes and in some cases incorporated into medium-term expenditure frameworks. In this respect, the source of social protection financing depends on the composition of government revenue and the extent to which governments need to borrow to finance recurrent expenditures.

The scale and composition of government revenue varies across the region. Data from the International Monetary Fund (IMF) (Figure 3.1) shows that government revenue ranged from 16% of GNI in Papua New Guinea to nearly 90% of GNI in Nauru in 2023. While the composition of revenues across countries differs, some notable trends emerge:

- First is the importance of **grants**, reflecting that the Pacific is the most aid-dependent region in the world (Dayant, 2019). These grants constitute a large share of government revenues in Federated States of Micronesia, Palau, Republic of Marshall islands, Tonga and Tuvalu but even where the grants are smaller by this measure, they may still form a large share of government expenditure, as in Samoa, Timor-Leste and Tonga.
- Second, many countries have significant **non-tax revenue** sources. Notable examples are: fishing licences in Kiribati, Tuvalu and the Republic of the Marshall Islands; the regional immigration processing centre in Nauru; oil revenue in Timor-Leste; and economic citizenship programs in Vanuatu.
- Third, **tax revenue** is low in many countries, for example, falling below 15 per cent of GDP in various countries, which is often discussed as a minimum below which countries will struggle to achieve sustainable development (Gaspar *et al*., 2016).
- Fourth, **sovereign wealth funds** are an important source of revenue in many countries. The most notable case is Timor-Leste where withdrawals from the Petroleum Fund (labelled as ‘estimated sustainable income’ in Figure 3.1) form a key source of revenue to finance the government budget.[20] A central fiscal policy discussion in Timor-Leste is how to stop their dependence on the fund which is projected to be depleted by the 2030s (IMF, 2023). Other countries with sovereign wealth funds tend to use them to manage short-term shocks (including fluctuations in other revenue sources) and to finance development spending.

[20] In practice, actual withdrawals from the Petroleum Fund have often exceeded the estimated sustainable income.

Figure 3.1: Government revenue by type, percentage of gross national income, 2023*



Source: IMF Article IV reports

Note: ***Data is for the 2023 fiscal year in most cases, with the exception of Papua New Guinea (2022) and Samoa (2021) due to the availability of disaggregated data.

The role of overseas development (ODA) in financing social protection depends on how it is structured. On the one hand, countries may receive general budget support (through loans or grants) where support is **non-earmarked**. This allows countries to allocate these revenues relatively freely to a range of different expenditures although such support may involve conditionalities. Such support may finance both recurrent and development expenditures. On the other hand, grants or loans may be **earmarked** to specific projects, potentially including social protection. Where this support flows through government, it is typically included under the development budget. In practice, the distinction between earmarked and non-earmarked ODA is blurred (Box 3.1) but this section attempts to make the best use of available data to interpret this dynamic. It should also be noted that earmarked ODA may also flow through non-government actors, such as non-government organisations.

Box 3.1: Earmarked or non-earmarked overseas development assistance?

The distinction between earmarked and non-earmarked ODA is useful in relation to public finances but it raises both technical and conceptual challenges. At a technical level, the extent to which ODA disbursements are earmarked is on a spectrum and this is not always adequately captured under the Organisation for Economic Co-operation and Development development assistance committee (OECD DAC) data. For example, the nature of disbursements under 'general budget supported-related aid' may include varying conditionalities around expenditures.

Another complication relates to the classification of World Bank development policy operations that are a major channel for ODA in the Pacific and globally. These operations are a form of general budget support with grants and loans disbursed on completion of 'prior actions' (such as developing and approving legislation, policies and strategies). Only a few Pacific countries have social assistance or social protection policy frameworks in place – Fiji, Papua New Guinea, Samoa and Tonga. While these have not been directly included as prior actions under the development policy operations, the existing adaptive social protection strategy in Fiji and upcoming adaptive social protection policy in Vanuatu have been incorporated in development policy operations. The OECD DAC data captures these flows under the thematic areas covered (for example, social protection), rather than under 'general budget supported-related aid'.

Another conceptual consideration is that even strictly earmarked project funding can free up resources to be allocated for recurrent expenditure. For example, if the construction of a hospital is financed by ODA grants rather than domestic revenue, this frees up resources for recurrent expenditure on salaries for doctors and nurses. The way such dynamics play out in practice varies significantly by country and over time.

The OECD DAC data do not allow a nuanced understanding of these dynamics, especially when surveying across multiple countries. The data in this section should therefore be interpreted with these issues in mind.

Figure 3.2: General budget-support related aid as a percentage of total oveseas development assistance, 2022

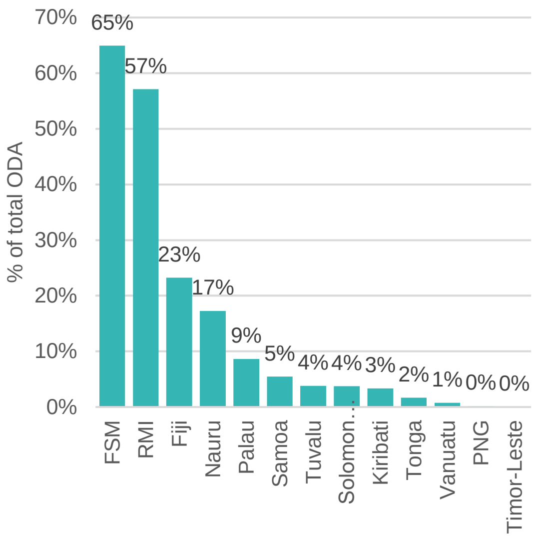
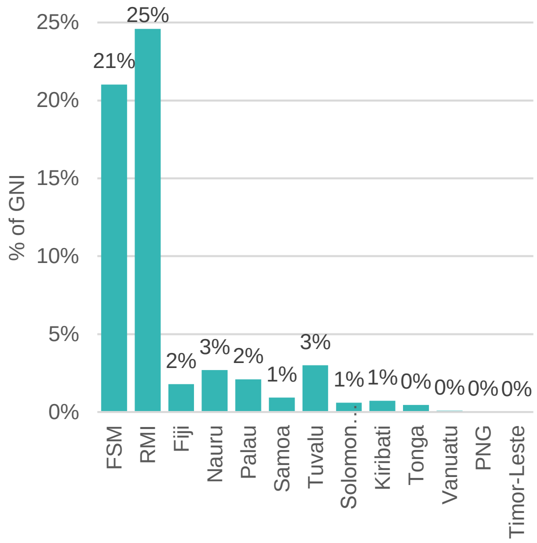


Figure 3.3: General budget-support related aid as a percentage of gross national income, 2022



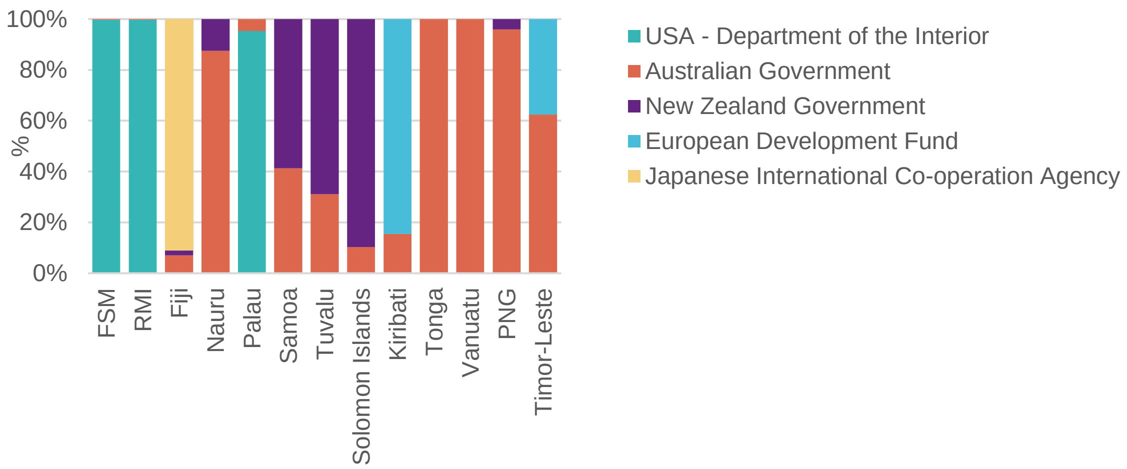
The contribution of general budget support to financing social protection appears to be relatively limited in most countries in the region. Figure 3.2 shows that general budget support[21] constitutes less than 5% of ODA in most countries. Most of this ODA is disbursed via earmarked funding, either through government or non-government actors. The clear exceptions are Federated States of Micronesia and Republic of Marshall islands that receive significant ODA disbursements (over 50% of ODA in each country respectively) mainly through grants under the Compacts of Free Association agreement with the USA.

A similar picture emerges when comparing general budget support to GNI which ranges between 1% and 3% of GNI in most countries. These sums are significant and make a contribution to government revenues. However, generally they are a small component of wider government revenue and are unlikely to influence decisions around spending on social protection.

Sources of budget support vary by country (Figure 3.4). In 2022, the Australian and New Zealand governments were an important source of general budget support across various countries, with the USA central in Pacific Compact countries. The European Development Fund and Japan International Cooperation Agency (JICA) were also players in a smaller number of countries. Another notable dynamic is that general budget support is often short-term, for example, helping countries manage deficits linked to different kinds of shocks, rather than a long-term and predictable flow of funding.

[21] This relates to the category defined as 'general budget support-related aid (51010)', defined as 'unearmarked contributions to the government budget; support for the implementation of macroeconomic reforms (structural adjustment programs, poverty reduction strategies); general program assistance (when not allocatable by sector).'

Figure 3.4: General budget-support related aid by agency, 2022



Note: Tonga data excludes a significant IMF concessional loan disbursed in 2022.[22]

Overseas development assistance focusing on social protection has increased in both absolute and relative terms since 2020. Figure 3.5 shows disbursements for social protection to recipient countries in the Pacific (and Timor-Leste)[23] in US dollars from 2010 to 2022. Drawing on OECD DAC data, this includes both a narrow and a broader definition of social protection (see Annex 2). Prior to 2020, annual ODA related to social protection remained below USD25 million according to the narrow definition and below USD30 million using the broad definition. However, with significant increases in 2020 and 2021 this rose to nearly USD90 million in 2021 by the narrow definition and USD100 million by the broader definition. Disbursements on social protection also rose from less than 1% to more than 2.5% of ODA.

A similar picture emerges when assessing levels of ODA for social protection relative to the GNI of each country. Figure 3.6 shows significant increases in ODA for social protection (narrow definition) in 2020 and 2021 with many countries receiving disbursements of between 0.5% and 3.0% of GNI. This compares to generally modest allocations in the period 2010–2019 (rarely in excess of 0.3% of GNI).

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[22] The loan was disbursed in response to the Hunga Tonga–Hunga Ha'apai (HTHH) volcanic eruption and the first local outbreak of COVID-19 at the start of 2022 (IMF, 2022).

[23] This refers to the countries included in the scope of this report.

Figure 3.5: Overseas development assistance for social protection (narrow and broad definitions), US dollars (millions) and percentage of total overseas development assistance, 2010–2022

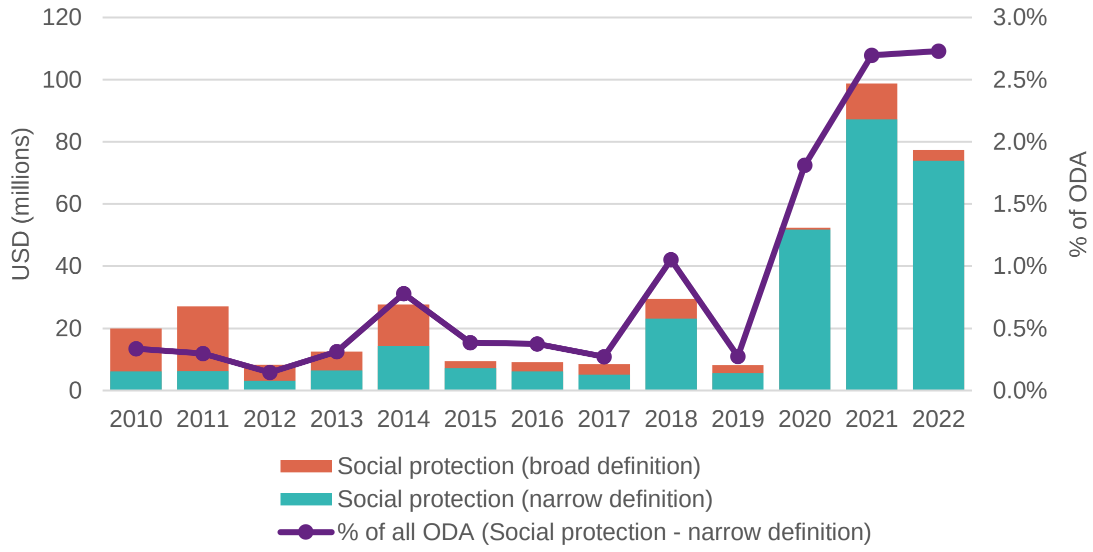
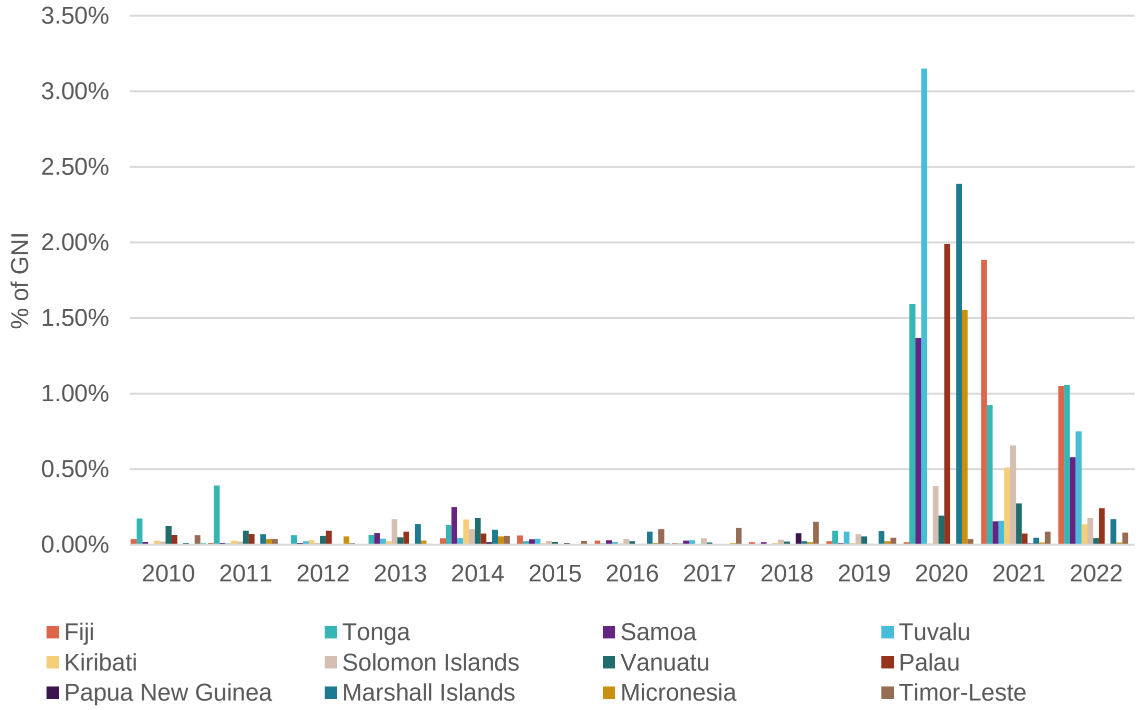


Figure 3.6: Overseas development assistance for social protection (narrow definition) by country as a percentage of gross national income, 2010–2022

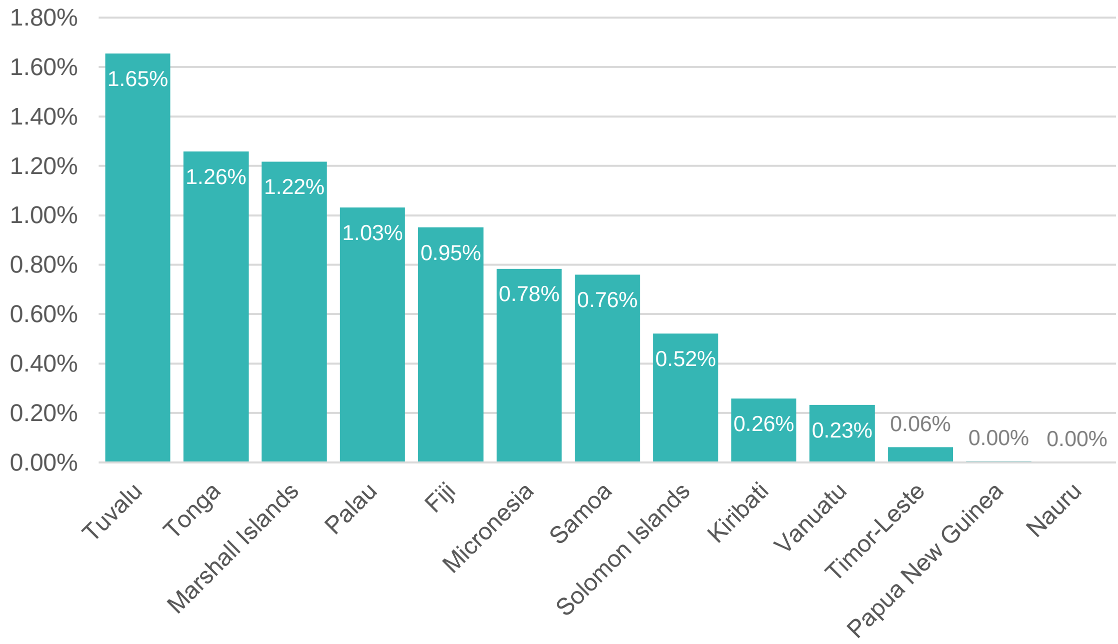


Source: Authors' calculations based on OECD DAC data.

Increased overseas development assistance for social protection after 2020 was mainly provided in response to the COVID-19 crisis. This was mostly in the form of major economic response packages from both bilateral donors and development banks. Continued expenditure in 2022 implies comparatively high ODA for social protection after the pandemic but in practice this still relates to the pandemic. Of the USD70 million in ODA for social protection in 2022, more than half (USD37.6 million) was via a World Bank loan disbursement in Fiji to retroactively finance the unemployment benefits paid between mid-2021 and early 2022 to those who lost their jobs or livelihoods due to the pandemic (World Bank, 2022a). Pandemic-related disbursements also made up much of the remaining sum across the region. Nevertheless, non-pandemic related ODA disbursed on social protection is still important and includes support from bilateral donors, such as USD6.6 million from the Australian Government under the Timor-Leste human development program to help finance the rollout of *Bolsa da Mae – Jersaun Foun* as well as other support to child and family benefits (described in section 2.2).

In many countries, ODA on social protection was significant during the COVID-19 crisis. Figure 3.7 gives one indication of this by showing the combined ODA on social protection in both 2020 and 2021 relative to the GNI for this period. Republic of Marshall islands, Tuvalu and Tonga had the highest levels of ODA, in excess of 1% of GNI. Fiji, Federated States of Micronesia, Palau, Samoa and Solomon Islands also received substantial investments (between 0.5% and 1% of GDP) but in Kiribati, Nauru, Papua New Guinea, Timor-Leste and Vanuatu they were minimal.

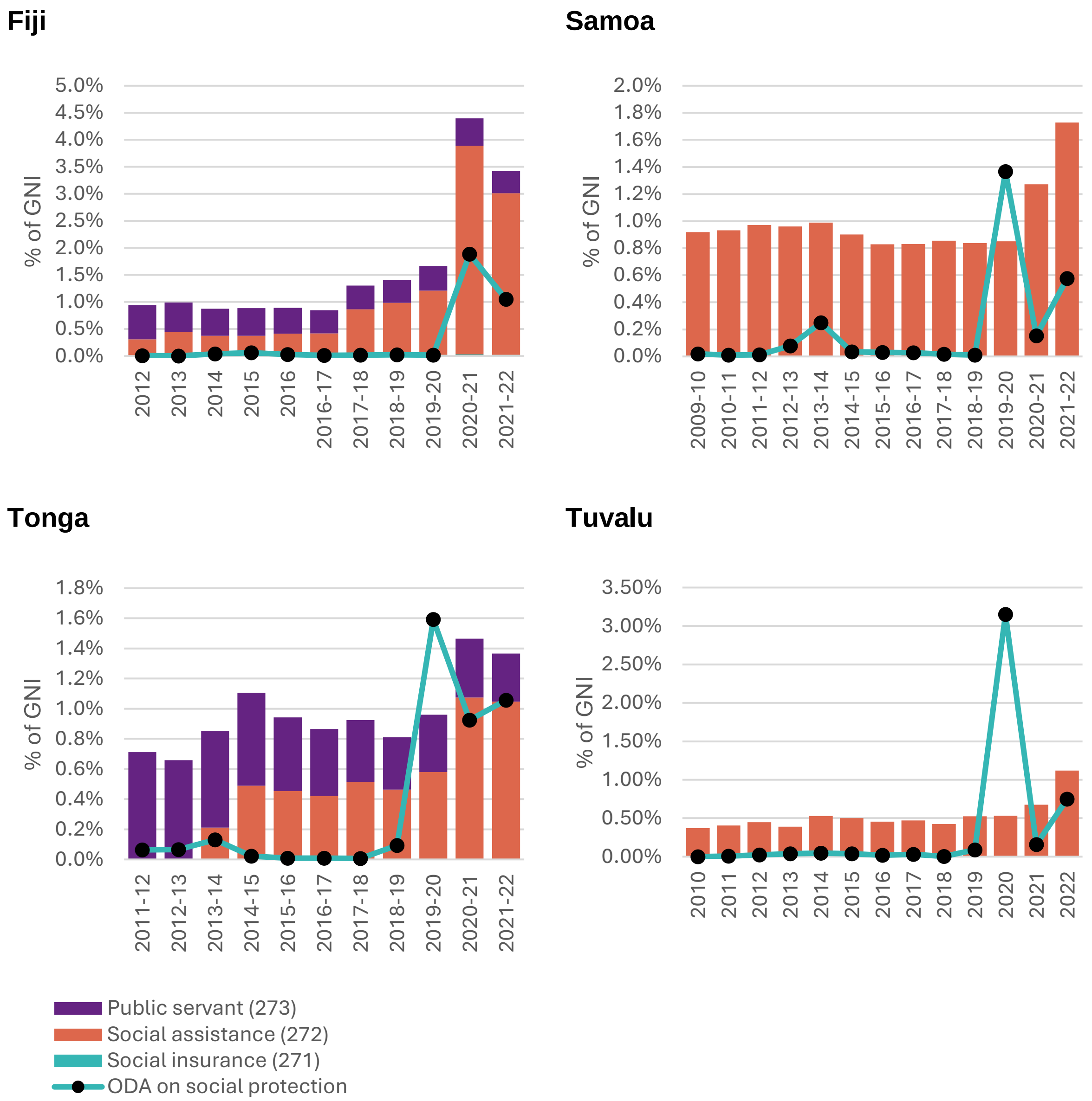
Figure 3.7: Social protection overseas development assistance (narrow definition) in 2020–21 as a share of gross national income in the 2020 and 2021 fiscal years



Source: Authors' calculations based on OECD DAC data

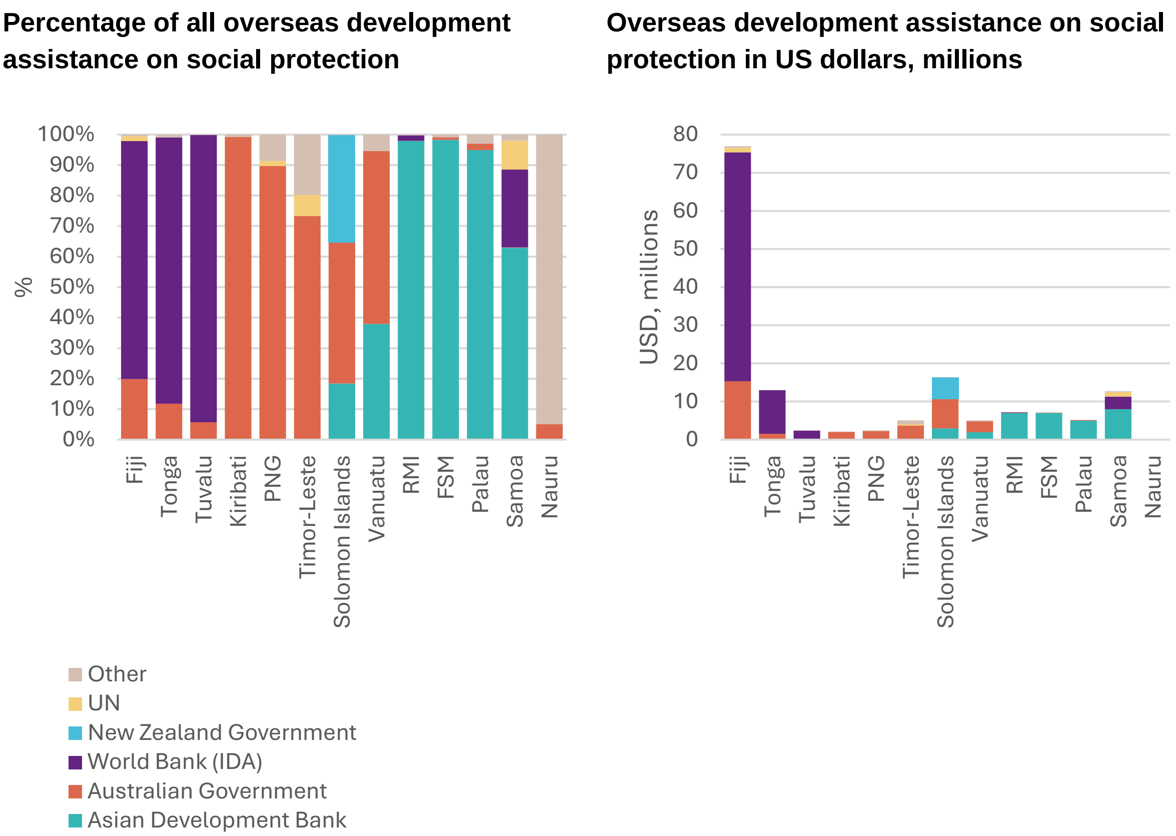
While ODA for social protection was significant in relation to total social protection expenditure, this support was also fungible in many cases. Figure 3.8 shows ODA on social protection compared to social protection expenditure for four countries that received substantial ODA on social protection and for which up-to-date social protection data is available. In all four countries, ODA was significant relative to national social protection expenditure and exceeded it in some cases.

Figure 3.8: Social protection overseas development assistance (narrow definition) compared to social protection expenditure (by type) in Fiji, Samoa, Tonga and Tuvalu, percentage of gross national income, 2010–2022



The idea that donor disbursements for social protection exceeded national social protection expenditure is puzzling but there are two explanations for this. First, in many cases the disbursements were labelled as being related to social protection when they actually formed part of wider budget support. This was the case with World Bank development policy operations mechanisms used to provide grant or loan financing during the COVID-19 crisis linked to priorities. Such disbursements included 'prior actions' linked to social protection but government could use the disbursements to finance different policy areas (see Box 3.1). Second, the disbursements were often made (or at least recorded in the data) in a single budget year whereas funds may have been spread across multiple budget years. Relatedly, the donor and recipient budget calendars do not perfectly overlap. Nevertheless, for these four countries ODA linked to social protection was substantial relative to national expenditures, particularly in relation to social assistance.

Figure 3.9: Overseas development assistance on social protection (narrow definition) by agency, 2020–21



The role of different kinds of donors varied from country to country. Figure 3.9 shows the volume of ODA disbursements on social protection by donor agency, both as a share of total ODA on social protection and in US dollars. The **Australian Government (DFAT)** was the single largest donor in Kiribati, Papua New Guinea, Solomon Islands, Timor-Leste and Vanuatu, and also made sizeable contributions in Fiji, Tonga and Tuvalu. **World Bank international development assistance (IDA)** formed over 80% of disbursements in Fiji, Tonga and Tuvalu. The **Asian Development Bank** was prominent in Pacific Compact countries (Republic of Marshall islands, Federated States of Micronesia and Palau) while also contributing in Samoa, Solomon Islands and Vanuatu. The **New Zealand government (MFAT)** made a sizeable contribution in Solomon Islands. Reviewing the ODA disbursements on social protection in US dollars (Figure 3.9 second panel) gives another perspective, showing that disbursements to Fiji dwarfed other disbursements in the region mainly through a mixture of World Bank development policy operations and disbursements from the Australian Government.

4 Ensuring benefits are adequate in the context of inflation

The benefit amount provided by social assistance schemes is one of the key determining factors of the scale of expenditure and this issue has emerged in the context of recent inflationary pressures. Benefit adequacy is one of two main factors in the cost of social assistance schemes, alongside coverage. However, coverage has generally received greater attention in analyses across the region.[24] Governments routinely adjust benefit levels which affects current costs as well as costs into the future. This issue is increasingly coming to the fore with the inflationary pressures felt across the globe. An insight into the relative adequacy of benefits from the social assistance schemes in place is valuable as well as how far recipients are protected from this inflation.

4.1 Social assistance benefits in international comparison

The adequacy of social assistance benefits varies significantly across the region. Measuring benefit adequacy is complex both conceptually and methodologically, and requires national-level analysis.[25] Nevertheless, a useful benchmark for international comparison is to measure benefit levels relative to GNI per capita. This indicates the size of the benefit relative to the level of economic development of a given country and also relative to average incomes. Figure 4.1 shows the levels of non-contributory disability benefits and old age pensions in the Pacific and Timor-Leste compared to selected low and middle income countries with similar high-coverage benefits.[26] The chart shows the minimum and maximum benefit available. Internationally, the average minimum level for disability and old age social assistance cash benefits is around 15% of GNI per capita (ESCAP & ILO, 2020). For both disability and old age benefits, most Pacific countries fall below this average (as little as 5% of GNI per capita for Tonga's disability benefit). Such benefits make a small contribution to the incomes of recipients, with many relying on other sources of income, such as family support and employment. Benefits are higher in other countries, such as Cook Islands, Kiribati and Timor-Leste. At 44% of GNI per capita, Kiribati's old age pension is one of the highest in the world, although the indicator is distorted by the country's idiosyncratic economic conditions. Such benefits are more likely to allow recipients to live independently or fully cover their consumption needs although this needs to be verified through country-level analysis.

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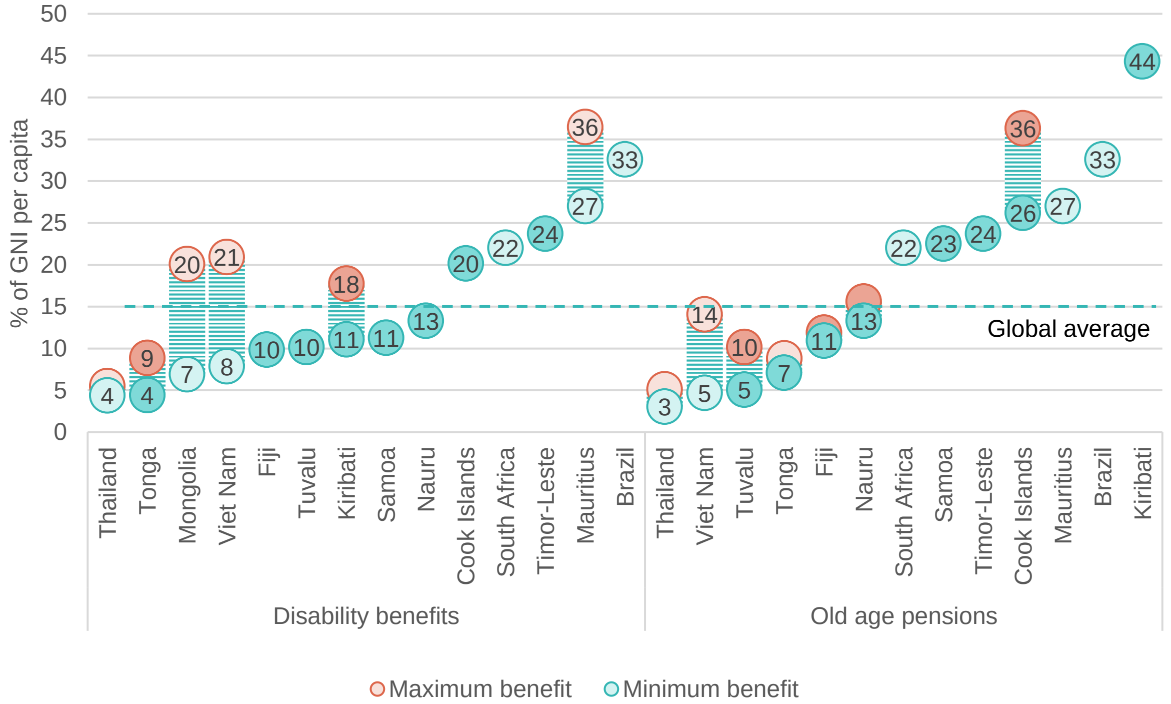
[24] For example, initiatives including the ILO World social protection database, the ADB Social Protection Indicator and the World Bank ASPIRE database all include inicators on coverage but not on adequacy.

[25] Alternative benchmarks to the GNI per capita indicator used here are poverty lines, household consumption and wages (including minimum wages). However, data for these benchmarks are generally scarce and they confront greater issues of comparability. For example, the definition of national poverty lines and minimum wages varies considerably from country to country.

[26] The selected countries all have schemes that are either non-means-tested or have a means test with a relatively high threshold.

Figure 4.1: Levels of disability and old age benefits in Pacific Island countries, Timor-Leste and selected other countries, percentage of gross national income per capita



Source: UNICEF (forthcoming); ESCAP and ILO (2020)

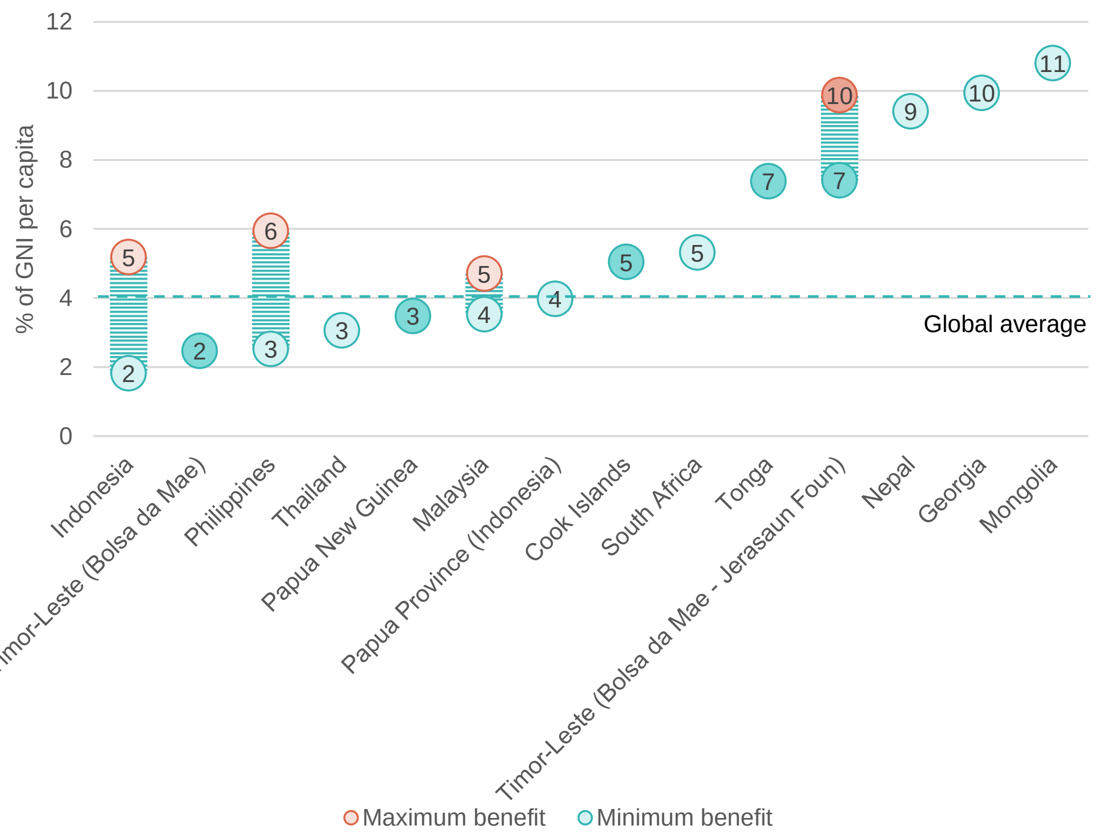
Disability benefits in the region tend to be lower than old age benefits. This is the case in most countries with both benefits in place – Cook Islands, Fiji, Kiribati, Nauru, Samoa, Tonga – with the exception of Timor-Leste and Tuvalu.[27] The rationale for this configuration is unclear but may relate to political economy factors and path dependency rather than explicit design. There is a strong case for aligning disability benefits with old age benefits. Both seek to address a similar set of issues (including barriers to employment and higher disability-related costs) and these costs are not necessarily higher in old age. Many children and working age adults with disabilities face similar – if not higher – costs as older people with disabilities. Some countries in the region have gone some way to address these different levels of need by having a range of benefit levels for both types of scheme (usually according to the severity of disability and/or age). This range is indicated by the minimum and maximum benefits in Figure 4.1. In some cases people can claim both old age and disability benefits which follows international good practice. Nevertheless, the way the benefits from the schemes interact still results in higher potential benefits for older people with disabilities than for younger people with disabilities.

Levels of benefits for children and families are generally similar to those found globally. Child and family benefits are usually lower than old age and disability benefits, with the global average at around 4% of GNI per capita (ESCAP & ILO, 2020). This is because these benefits are seen as a supplement to household income and relate to the costs of

[27] In Timor-Leste the benefit level is the same while in Tuvalu the old age benefit is equal to the disability benefit above the age of 70 but half the value for older people aged 60–69.

raising children while disability and old age benefits are to support individuals to live independently. Figure 4.2 shows the levels of child and family benefits in the region and in comparison with selected countries from the region and the globe. These include both child benefits and conditional cash transfers. The *Bolsa da Mae* and new child benefits in Papua New Guinea fall below benefit levels in other countries. Meanwhile, levels are higher in the Cook Islands, Tonga and in Timor-Leste through the now discontinued *Bolsa da Mae Jerasun Foun* although not as high as those in Georgia and Mongolia.

Figure 4.2: Levels of child and family benefits in Pacific Island countries, Timor-Leste and selected other countries, percentage of gross national income per capita

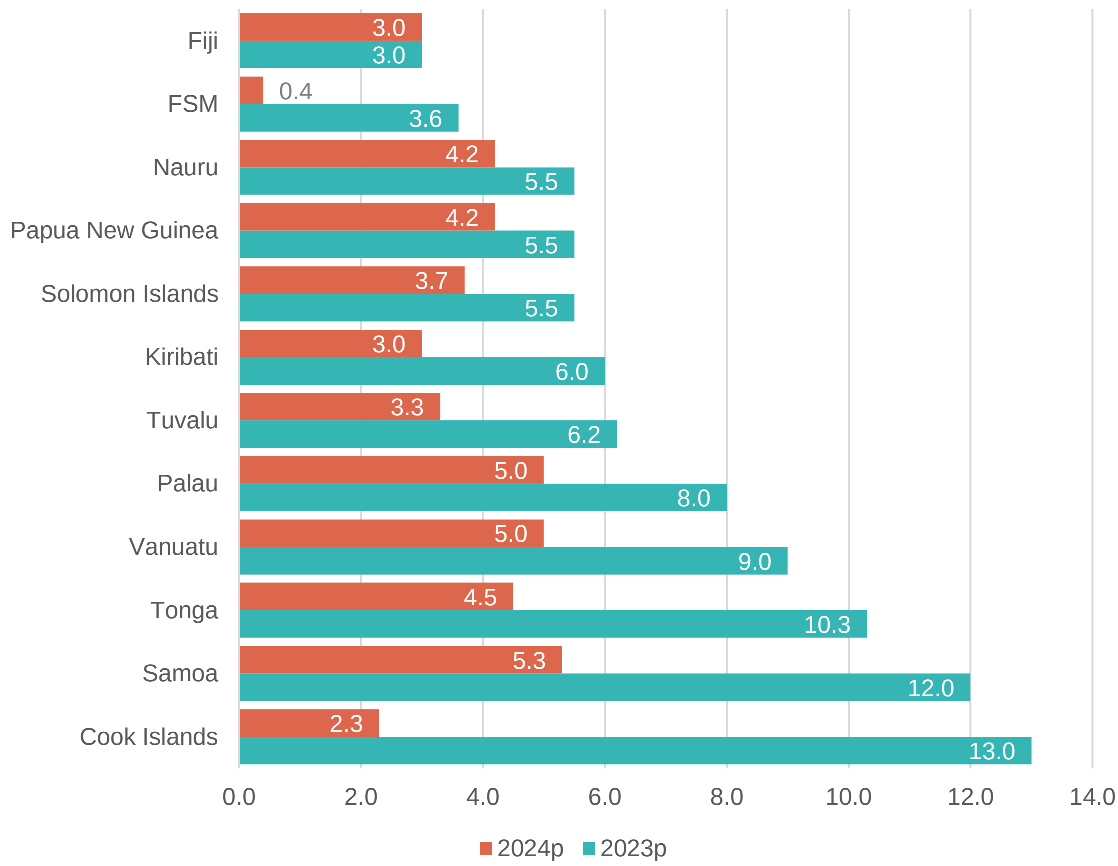


Source: ESCAP (2022)

4.2 Benefit adequacy in the context of price inflation

The global spike in prices that began in 2021 affected countries in the region to different degrees. Figure 4.3 shows levels of projected inflation in 2023 and 2024 based on ADB data. While some countries experienced double digit inflation in 2023 (Cook Islands, Tonga and Samoa), in others inflation was relatively modest (such as in Fiji and Federated States of Micronesia). While inflationary pressures are generally subsiding across the region, the picture also varies. Countries including Palau, Samoa and Vanuatu are anticipating price inflation of over 5% in 2024 and many other countries are not far behind.

Figure 4.3: Change in consumer price index, percentage, annual average



Source: ADB (2023)

Countries in the region do not systematically index social assistance benefits to inflation or any other indicators. In many countries across the world (particularly OECD member countries but also some low and middle income countries) legislation defines how benefit levels should be adjusted annually based on indicators such as price inflation, wages or economic growth. These indexation rules ensure that benefits keep pace with prices and/or increases in average incomes and wages in the economy. This survey found no example of any country in the region that takes such an approach. This does not mean that benefits are not increased over time and, in some cases, these changes have been frequent. Nevertheless, changes are made on an ad hoc basis and typically several years pass between benefit increases. The figures in this section show how the real and nominal values of social benefits have changed over time for several social protection benefits.

In the absence of formal indexation, the real purchasing power of social assistance benefits has fallen over time in many countries. One of the clearest examples of this is in **Timor-Leste** (Figure 4.4) in relation to the social pension benefit for older people and people with disabilities. Between their introduction in 2008 and 2022, the benefit level remained the same (USD30), resulting in the real value falling by 40%. A significant increase in the benefit level in 2023 (to USD50) has provided a welcome boost although its purchasing power is still 6% below its original value in 2008. Tonga (Figure 4.5) has increased the minimum available benefit for the old age pension (Social Welfare Scheme) more regularly but it has struggled to keep pace with price inflation – being 17% below its original value by 2023. Benefit levels for the disability benefit (Disability Welfare Scheme) followed a similar tarjectory.

Figure 4.4: Timor-Leste – Evolution of benefit levels for the social pension for elderly people and people with disabilities

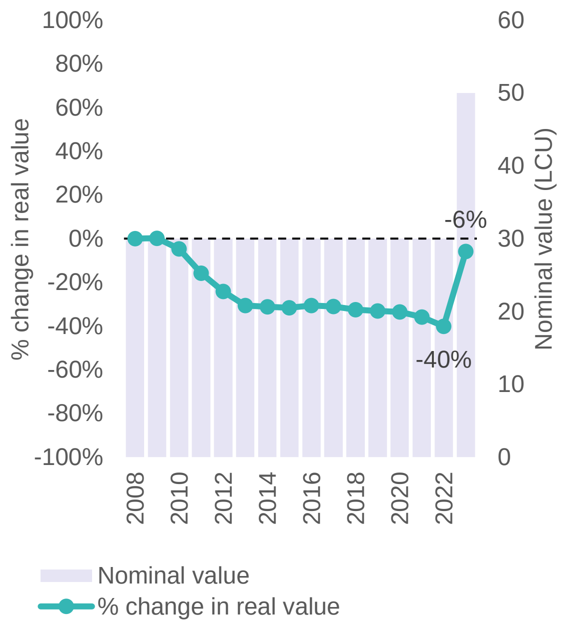
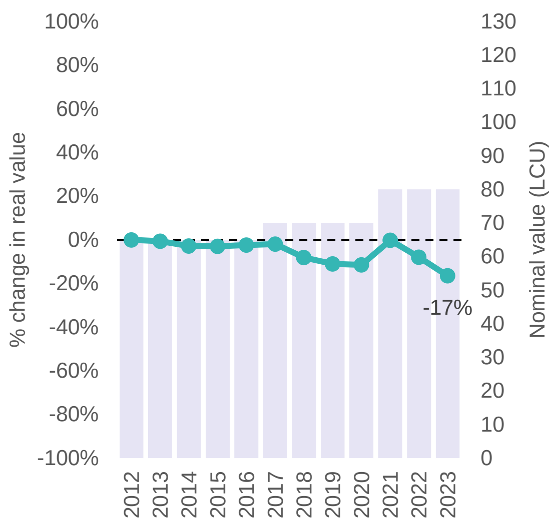


Figure 4.5: Tonga – Evolution of benefit levels for the Social Welfare Scheme minimum benefit (2012–2023)



In some cases, ad hoc adjustments have increased benefit adequacy over time. The clearest examples of this are Kiribati and Nauru. For the first decade and a half of **Kiribati**'s old age pension scheme (Senior Citizen's Benefit), ad hoc adjustments resulted in a modest increase in its real value (22%). However, an increase of the benefit from AUD60 to AUD200 per month in 2020 means that the real value in 2023 is nearly 3.5 times (240 per cent higher) the value when it was introduced. As noted earlier (Figure 4.1**)**, this has helped make it one of the highest old age non-contributory benefits in the world relative to GNI per capita. Similarly, in **Nauru**, multiple ad hoc increases to the old age and disability benefits mean that the levels are more than three times (205% higher) their original value.[28] **Tuvalu** (Figure 4.8) has also modestly increased the benefit level for people aged 70 and over with a 29% increase in the real value from 2008 to 2023.

However, even in these cases, benefit adequacy has fallen in the intervening years between ad hoc benefit increases. This is evident in the cases of Kiribati, Nauru and Tuvalu. The clearest case of this was Tuvalu (Figure 4.8) where the real value of old age and disability benefits peaked in 2019 (with a 65% increase since the scheme was introduced) but this was substantially eroded by 2023 (to 29%). The main implication of this for social assistance recipients is that, while they may receive benefit increases in the long run, they will still need to navigate the fluctuations in their purchasing power. Compared to a formal indexation system, this approach creates unpredictability for the recipients of these benefits.

Figure 4.6: Kiribati – Evolution of benefit level for the Senior Citizen's Benefit (2004–2023)

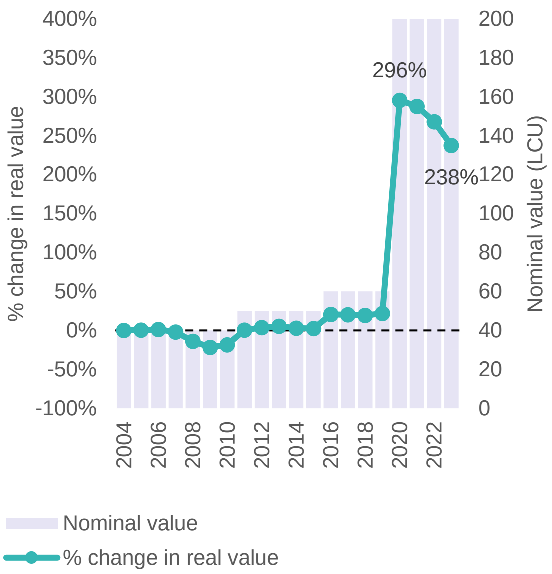
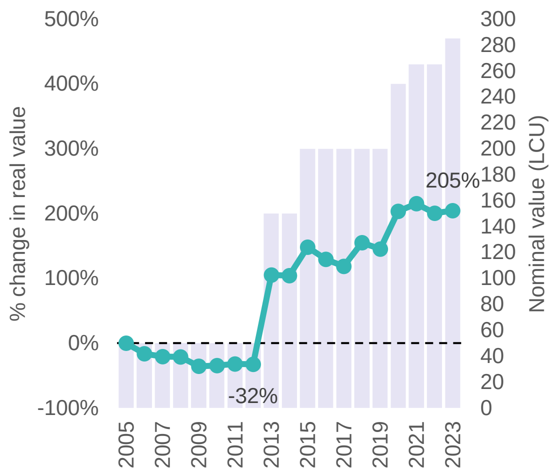


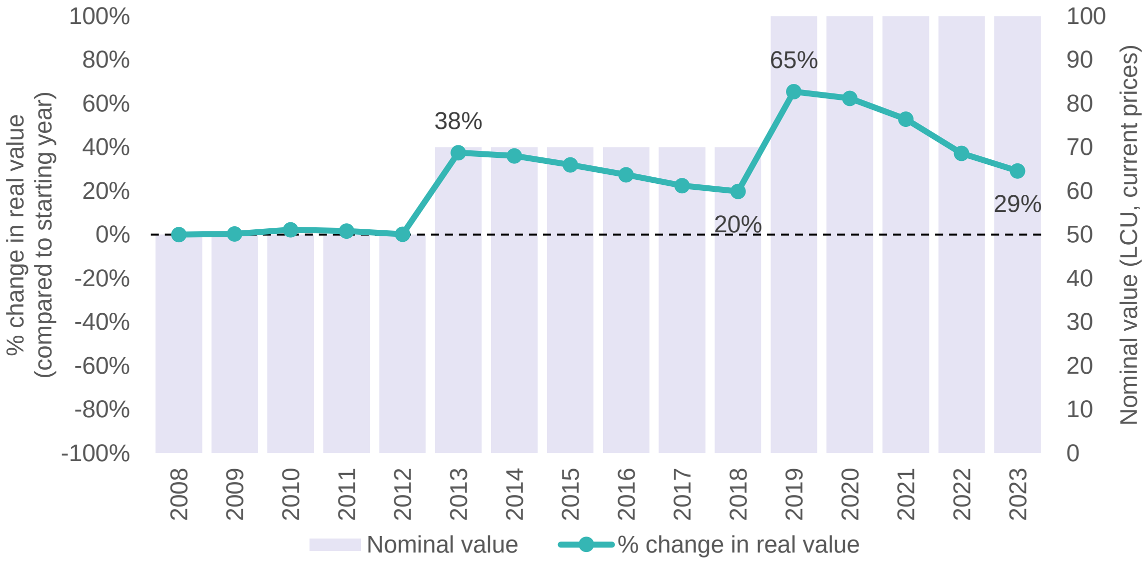
Figure 4.7: Nauru – Evolution of benefit level for the Age Pension and Disability Payment (2005–2023)



Note: The Disability Payment in Nauru was only introduced in 2008 but its benefit level has generally matched the minimum benefit available under the Age Pension. The pension was introduced in 2005 and is used as the baseline for the percentage change in real value

[28] 2005 is the year when the Age Pension was introduced. The Disability Payment was introduced in 2008 but the benefit level has generally matched the minimum benefit available under the Age Pension.

Figure 4.8: Tuvalu – Evolution of benefit level for the Senior Citizen Scheme and Disability Support Scheme



Note: The Disability Support Scheme was introduced in 2015, with a benefit level equal to the maximum benefit under the Senior Citizen Scheme (for those aged 70 and over)

Some countries increased benefit levels in response to the inflation shock of recent years, with mixed success. The most effective example of this was in Fiji. First, in the 2022–23 fiscal year the government temporarily made payments to families with children and to existing social assistance beneficiaries to mitigate the impact of high inflation (Box 4.1). Second, a variety of social assistance benefits were uprated by between 15 and 25 per cent in the budget for the 2023–24 fiscal year. As shown in Figure 4.9, both measures compensated for the drop in benefit adequacy for the social pension and family assistance scheme in recent years. The result is that for both schemes (as well as the Disability Allowance) the regular benefits reached the highest level in their history as of 2023.

Nauru is another country where benefits were increased in the 2023–24 budget to help ‘vulnerable members of the community mitigate the impact of the increasing cost of living on the island’ (Republic of Nauru, 2023, p. 34). This explains the small uptick for 2023 seen in Figure 4.7. Samoa also responded to high inflation by providing top ups of WST150 for old age pension beneficiaries and WST100 for disability benefit beneficiaries (both paid in WST50 per month instalments). However, this top up only partly compensated for the drop in benefit adequacy since 2021 (Figure 4.10).

Figure 4.9: Fiji – Evolution of benefit levels for the Social Pension and Poverty Benefit Scheme (minimum available benefits) (2013–2023)

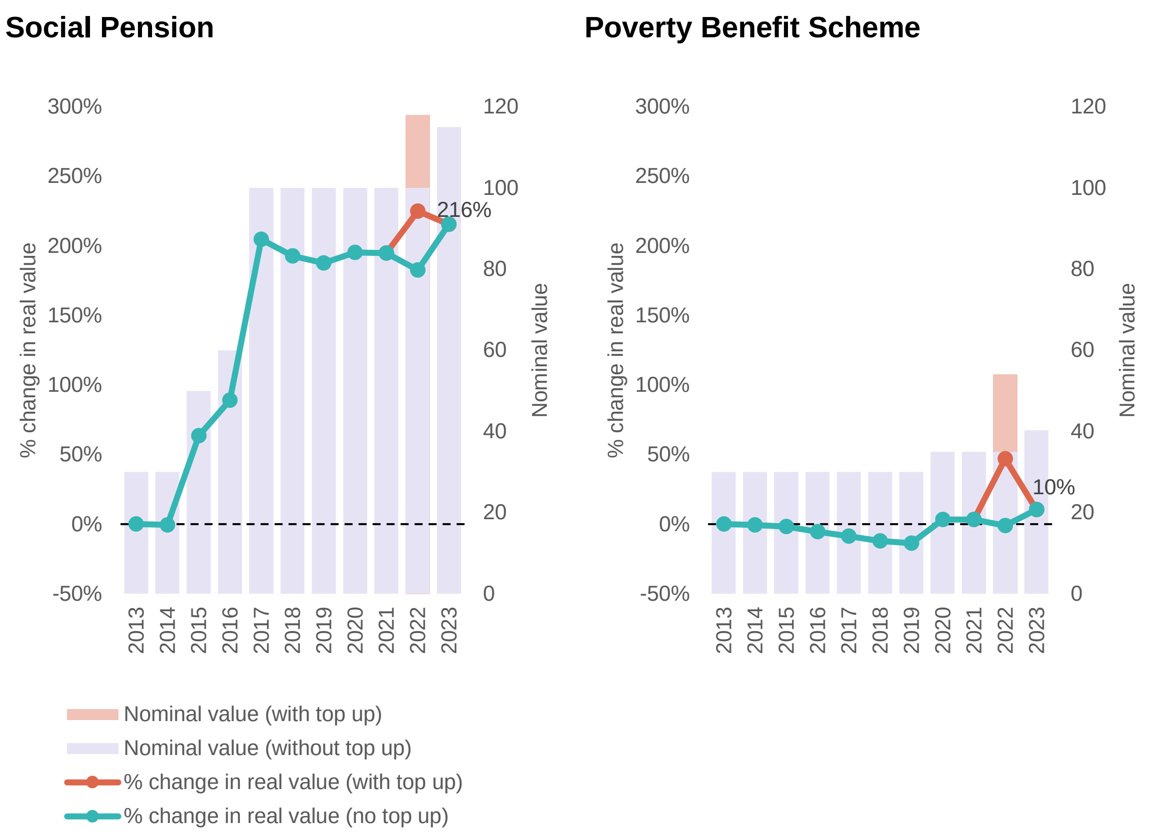
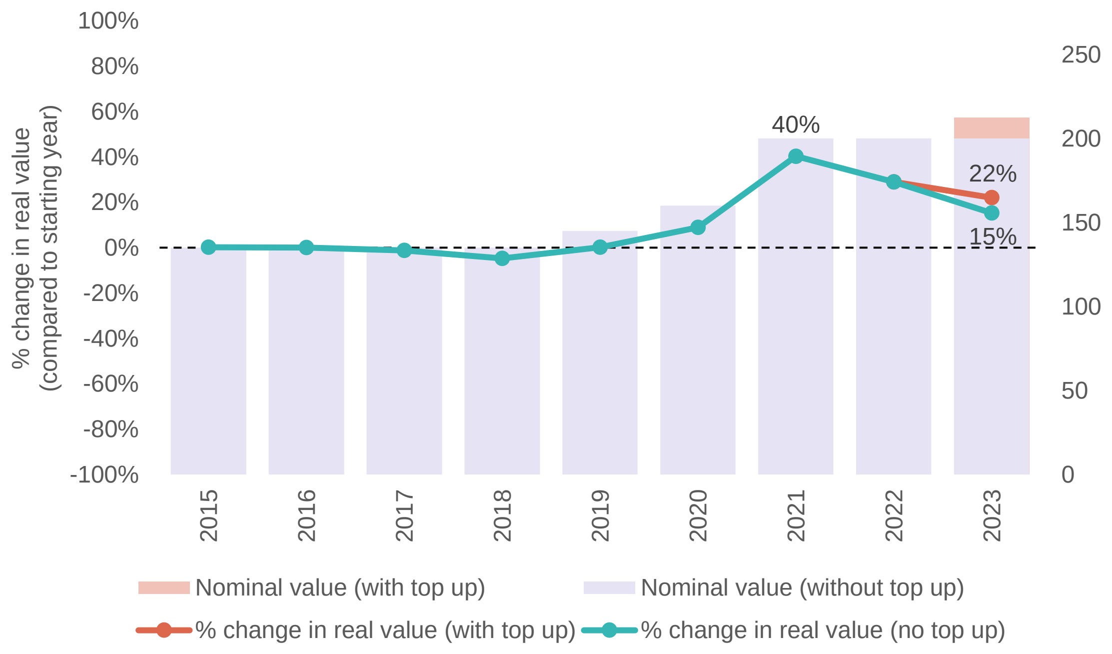


Figure 4.10: Samoa – Senior Citizens Pension



Box 4.1: Inflation mitigation measures in Fiji in the 2022–23 fiscal year

In response to high rates of inflation in 2022, Fiji launched a set of inflation mitigation measures under its 2022–2023 national budget. The main component of these measures was a one-off payment of FJD180 paid to the following groups in the second half of 2022:

- Parents of **children aged up to 18 years** with a combined annual income of less than FJD50,000 (FJD180 per child paid in FJD30 instalments over a three month period)
- Existing recipients of **social welfare benefits** (Social Pension Scheme, Poverty Benefit Scheme, Expanded Food Voucher for Rural Pregnant Mothers, Disability Allowance and Care and Protection Allowance), as well as recipients of **government pensions** (particular categories of public servants), the **AfterCare Fund** and **tertiary students**.

While the measures were budgeted to cost FJD60 million, available data suggests that the eventual cost was closer to FJD70 million (FijiONE News, 2022). This sum is significant, increasing social assistance expenditure by more than 50% over and above the budgeted expenditure on regular schemes (FJD126 million).

The inclusion of the short-term benefit for families with children is also notable given that Fiji does not have a general child benefit in place. While the scheme was means-tested, the threshold was at a high level meaning that most children were covered. Estimates indicate that the scheme covered most school aged children and nearly two thirds of children below school age.[29]

Importantly, the package appears to have compensated for increased price inflation. As indicated in Figure 4.9, the real benefit value in 2022 (including the top up) was higher than the value of benefits after they were uprated in 2023. This is especially the case for the Poverty Benefit Scheme.

Another issue is that benefit adequacy has not always evolved evenly across different types of schemes. As Figure 4.9 shows, the benefit level for Fiji's social pension has increased by more than 200% since 2013. However, the family assistance scheme has had modest increases and its value is only 10% higher than in 2013. Similarly, in Timor-Leste where the old age and disability social pension benefits increased substantially in the 2023 budget, this did not apply to the *Bolsa da Mae* program that targeted poor families.

[29] According to published figures, the scheme covered 205,214 school aged children which is equal to 98% of the population aged 6–17 (209,178). The scheme covered 66,979 children up to school age (5 or 6) which is equal to 63% of the population aged 0–5 (106,501). Population estimates for 2022 are based on projections by the UN Population Division (2022).

There is a strong case for countries in the region to explore formally indexing benefits to prices. While high levels of inflation in recent years have gained significant attention, Pacific Island countries have long been particularly exposed to price shocks. Formally indexing benefits to prices would maintain the purchasing power of benefits and protect recipients – and their wider households – from price shocks. This should not preclude more significant increases in benefits that could be made in a more ad hoc manner, keeping in mind the fiscal context.

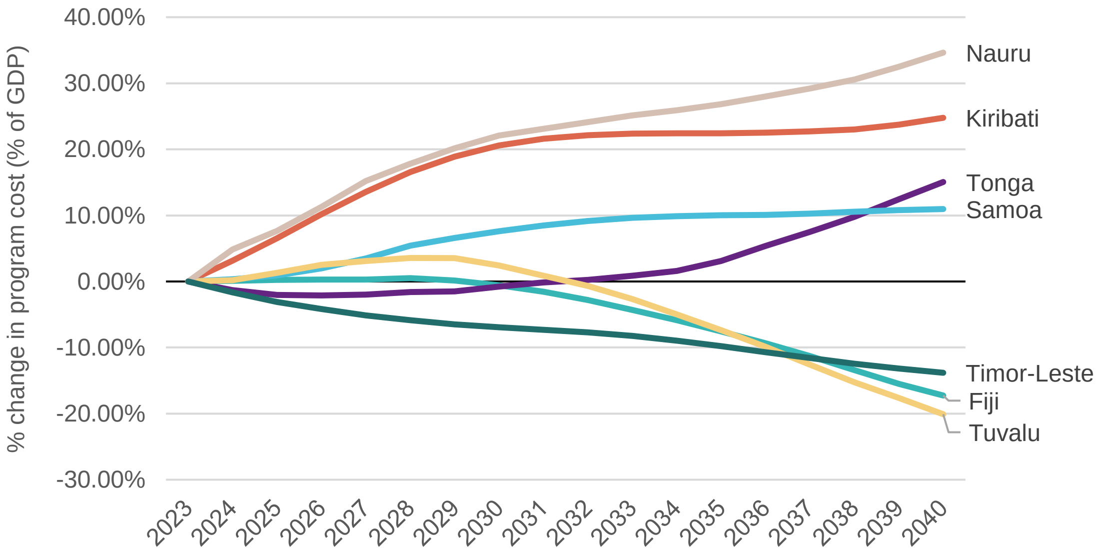
While indexing benefits to prices does not necessarily increase the fiscal cost, the fiscal context of each country needs to be considered. Where a benefit is indexed to prices, the cost of the program (relative to GNI) will be influenced by changes in the size of the recipient population and also the level of economic growth. In simple terms, in an economy where income per capita is growing, the cost of a program with an inflation indexed benefit will fall (as a percentage of GNI) where the number of recipients remains the same. This is likely to be the case for child benefits and more established schemes for people with disabilities. Nevertheless, while such a trajectory may be a reasonable assumption for most countries in the region in the medium to long term, many countries face sharp fluctuations in growth, revenue and inflation that could pose challenges for formal benefit indexation. Formalising indexation also needs to be weighed against other sector priorities. Furthermore, attention is needed for schemes where the number of recipients is set to increase which relates most directly to old age pensions, given the demographic aging in the region. Nevertheless, as discussed in Box 4.2, the trajectory of the cost of non-contributory old age pension schemes will depend on the national demographic and economic outlook and in a number of countries the costs are set to fall.

Box 4.2: The costs of inflation-indexed old age pensions

To understand how indexation to inflation affects the cost of old age pensions, a costing was undertaken for seven countries with universal or near-universal non-contributory old age pensions in place. The costing replicated the benefit structure of existing schemes in terms of coverage and benefit levels. Costs were then projected taking account of demographic changes and projected levels of economic growth. The model uses IMF GDP growth projections up to 2028 and thereafter assumes growth is equal to the projected 2024–2028 average.

The results in Figure 4.11 show that in four countries – Nauru, Kiribati, Samoa and Tonga – the cost of an inflation-indexed benefit would be between 10% and 35% higher (as a share of GDP) by 2040. This implies that the aging of the population is outpacing economic growth. However, in Fiji, Timor-Leste and Tuvalu, the costs are set to fall (as a share of GDP) by between 10% and 20%, implying that growth is outstripping population aging. While the four countries with rising costs require more carefully considered benefit adjustments, these increases are small in budgetary terms in most cases. Due to the relatively low cost of the existing programs, these increases would equate to between 0.06% and 0.36% of GDP in additional expenditure in Nauru, Samoa and Tonga. These are likely to be manageable over the 17-year period in the projection. Only in Kiribati are these costs more substantial (1.54% of GDP), linked to the higher levels of expenditure on the existing scheme.

Figure 4.11: Percentage change in cost of inflation-indexed non-contributory old age pensions, 2023–2040



Source: Authors' calculations
Note: The costing relates to non-contributory old age benefits only.

5 Adapting social protection investments to the fiscal outlook

The COVID-19 pandemic and government responses to it altered the fiscal outlook for many parts of the Pacific and Timor-Leste. While the region had long sustained fiscal deficits on a structural basis, the years leading up to the pandemic witnessed a marked improvement. Many countries across the region experienced their strongest periods of growth from 2013 to 2019 and fiscal deficits on average halved over that period with some countries even recording fiscal surpluses (after factoring in grant revenue) (World Bank, 2023b). However, the COVID-19 pandemic, related border closures and the associated economic downturn necessitated large-scale fiscal stimulus packages. The scale of these packages in the Pacific averaged 15% of GDP, putting them among the most significant globally relative to the size of their economies. The stimulus packages were covered through a variety of sources, including 'developing grants, sovereign rents, reprioritisation of spending, cash reserves, as well as domestic and external debt' (World Bank, 2023b).

The growth outlook for the Pacific and Timor-Leste is subdued in the short to medium term. While all countries across the region began to recover in 2023 and 2024, post-pandemic levels of real GDP remain below what they would have been under a counterfactual historical growth scenario. Projecting ahead to 2027, the real GDP growth rates for most countries are expected to remain below 3%. While robust economic growth can increase government revenue even if revenue remains constant relative to GDP but this outcome is unlikely for the region.

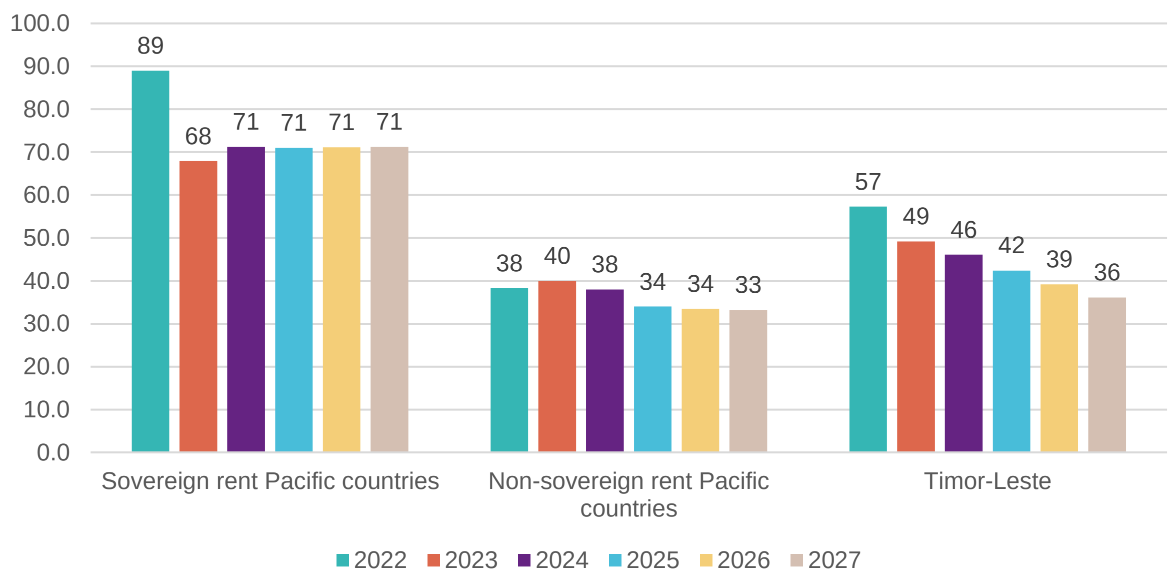
Figure 5.1: Real gross domestic product growth across the Pacific and Timor-Leste

Source: IMF Article IV reports

The countries with substantial sovereign rents are in a better fiscal position coming out of the COVID-19 pandemic than those relying primarily on tax and grants for

revenue. Sovereign rent sources vary widely across the Pacific and include fishing licence revenues (for parties to the Nauru Agreement), petroleum revenues (in the case of Timor-Leste), as well as more niche sources, such as: the economic citizens program in Vanuatu; the regional processing centre revenue in Nauru; corporate and ship registries in the Republic of Marshall Islands; and domain licensing fees in Tuvalu. These sovereign rents have expanded over the past decade resulting in windfalls in government revenue, allowing higher government expenditure than would otherwise be feasible. They have also directly financed the COVID-19 stimulus packages and helped these countries avoid excessive external debt.

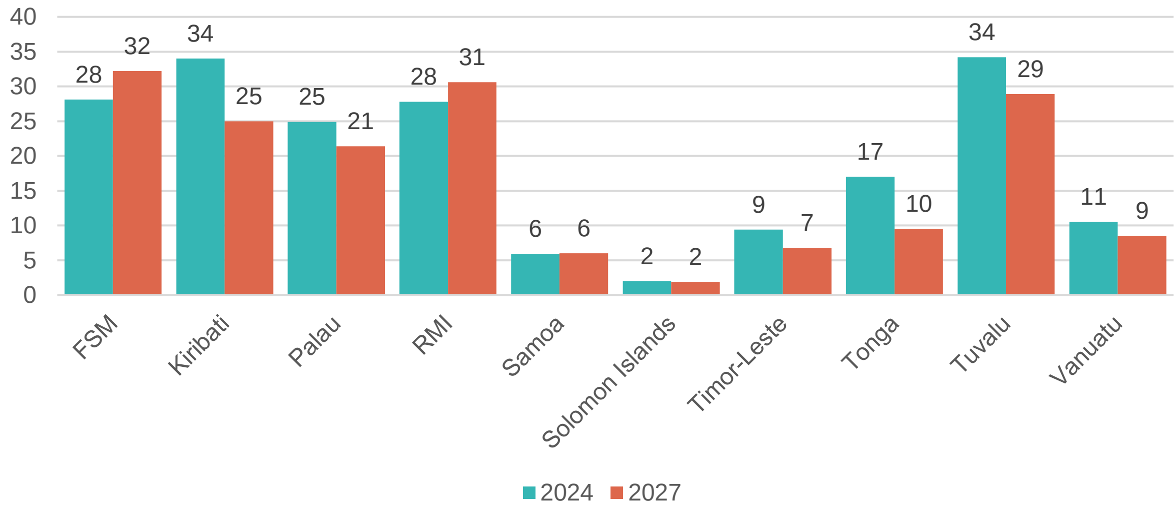
Figure 5.2: Government revenue as a percentage of gross domestic product, 2009–2028



Source: IMF Article IV reports; staff calculations

Overseas development assistance flows towards social protection expenditure in the Pacific (and to a lesser extent Timor-Leste) are not a sustainable option moving forward. Much of the social protection ODA came through budget support for stimulus packages linked to the COVID-19 pandemic (as discussed in Section 4). Multilateral development banks largely supported the other chunks of financing allocated to time-bound programs. The projected grant revenue as a share of GDP is expected to decline over the coming years for most countries across the region (Figure 5.3).

Figure 5.3: Current and projected grant revenue, as a percentage of gross domestic product



Source: IMF Article IV reports

The three main sources of development financing for social protection to the Pacific face challenges in terms of scaling up over the coming years.

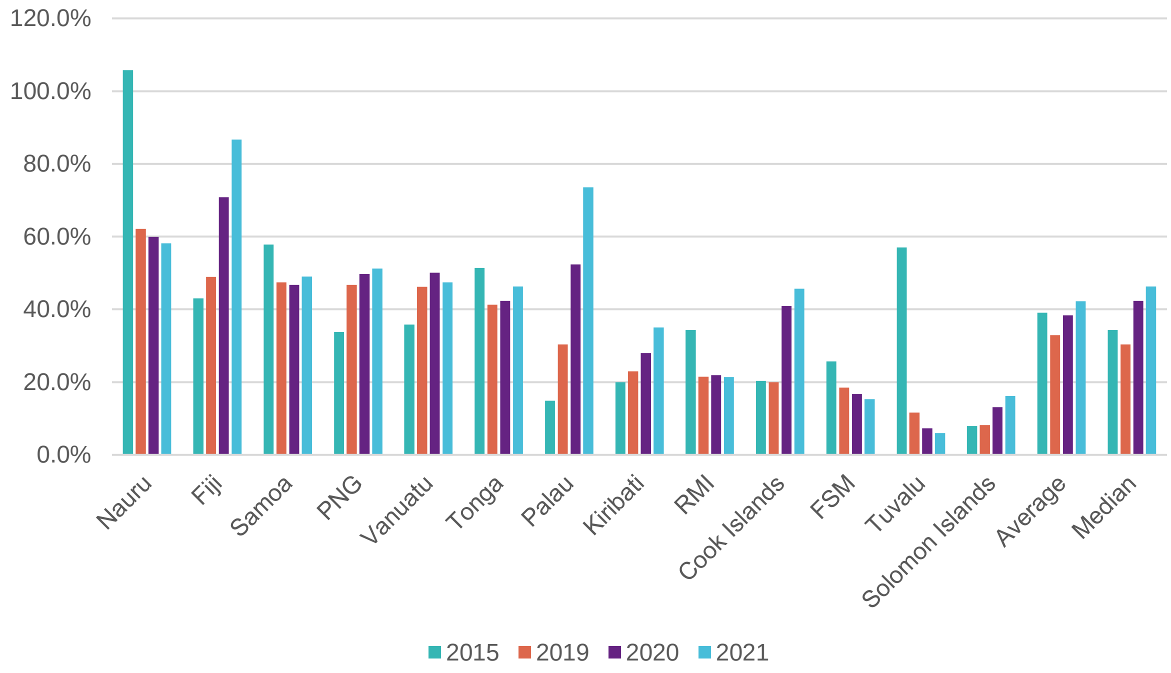
- **Australian Government** – The total ODA allocation for the Pacific region increased in 2024 but only marginally. The budget estimate for the 2023 fiscal year was AUD1.38 billion while for 2024, it is AUD1.43 billion (DFAT, 2023). Most of the AUD45 million increase is going to Papua New Guinea with other countries across the region receiving only marginal increases.

- **World Bank** – The World Bank has stepped up support to Papua New Guinea and the Pacific over the past decade and commitments now total USD3 billion and include several projects either partly or entirely focused on social protection (Fiji, Federated States of Micronesia, Republic of Marshall Islands, Papua New Guinea and Tonga). Increasing International Development Association (IDA) replenishments have made this expansion possible. The World Bank IDA20 window (covering the 2023 – 2025 fiscal years) raised USD93 billion, a 13% increase on the previous replenishment. The World Bank has launched its replenishment push for the IDA21 cycle (2026 – 2028 fiscal years). However, IDA21 is unlikely to exceed previous replenishments considering the economic headwinds caused by slow growth for a third consecutive year, the prolonged war in Ukraine and conflict in the Middle East (Madan Keller *et al.*, 2024).

- **Asian Development Bank –** The Asian Development Bank faced similar pressures with its Asian Development Fund (ADF)14 replenishment that was launched in May 2024. It is competing with new funds introduced, such as the loss and damage fund, launched in 2023 to compensate countries for climate-related shocks. The upcoming Japanese general election may also create uncertainty about the scale of pledge from its largest donor (Madan Keller *et al.*, 2024).

While debt dynamics have improved in certain countries, challenges remain across many parts of the Pacific and Timor-Leste. During the pandemic, public debt to GDP ratios increased across many Pacific countries (Figure 63). Fiji and Palau are extreme examples where public debt more than doubled over the period from 2015 through to the middle of the pandemic in 2021. The escalating debt load prompted the Pacific Island Forum secretariat to organise a regional debt conference in 2022 to discuss debt sustainability challenges in the region. Other countries – Federated States of Micronesia, Kiribati, Tuvalu and Republic of Marshall Islands – avoided accumulating excessive debt either because their economies contracted less or because they received significant grants to finance their stimulus packages. In other countries, novel developments saw debt decline significantly, for example, Nauru reached a settlement on a long-standing external debt of a state-owned enterprise over that period (World Bank, 2023a).

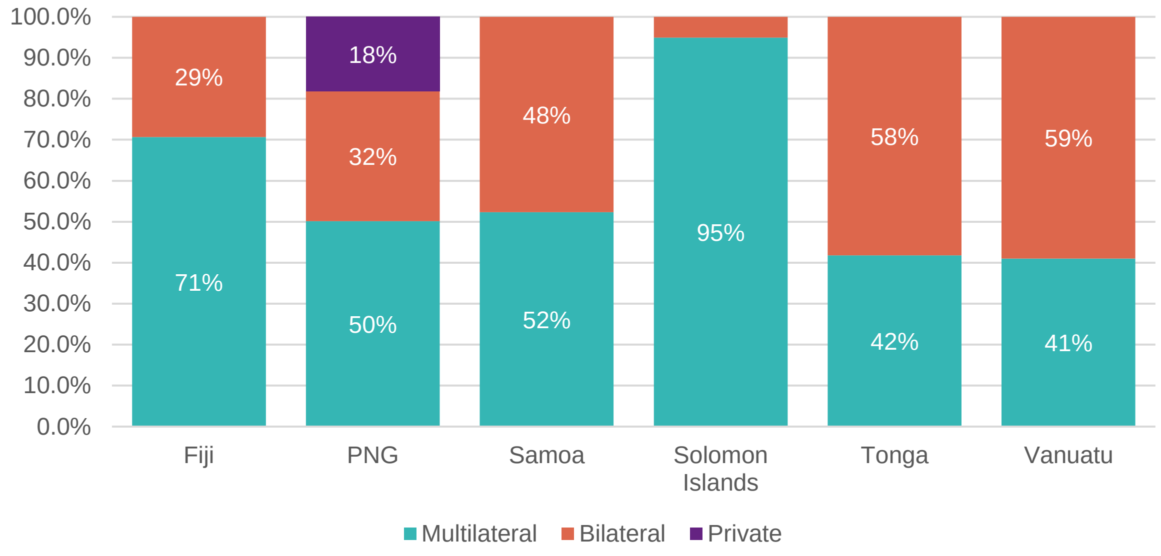
Figure 5.4: Public debt as a percentage of gross domestic product, 2015–2021



Source: ESCAP (2022)

The sustainable level of public debt is constrained by whether the government can service that debt. Real interest rate and growth rate scenarios in the Pacific suggest that sustaining even low debt levels may be challenging (ESCAP, 2022). This is particularly the case for countries that have accumulated excessive bilateral debt, often on less concessional terms than multilateral debt, as in Tonga (Box 5.1) and Vanuatu.

Figure 5.5: External debt by type of creditor, 2020



Source: ESCAP (2022)

Box 5.1: Tonga’s excessive debt service payments could crowd out social protection expenditure

Tonga may be among the countries least able to finance future social protection expenditure due to the structure of its debt which will strain public finances in the years ahead. Tonga is assessed as suffering from a high level of debt distress, with debt-to-GDP ratios projected to surge up to 70% over the coming decade. Its single largest creditor is the Export–Import Bank of China that accounts for 57% of Tonga’s total debt stock. This is a legacy of a substantial loan in 2008 to rebuild Nuku’alofa following the riots.

The loan was controversial from the outset, given that it pushed Tonga’s debt to beyond a sustainable level at the time (Duke, 2024). Since the grace period has been extended several times, it is now facing a crunch on debt reservicing payments (Figures 5.6 and 5.7). Since 2022, its debt servicing payments (mostly to China) have outstripped social protection expenditure. While the debt servicing payments don’t preclude the possibility of additional social expenditure entirely, they make it challenging. The government’s ability to expand coverage under its existing social protection schemes will be limited without additional grants or some level of debt restructuring.

Figure 5.6: Tonga’s debt service payments by creditor, 1990–2029

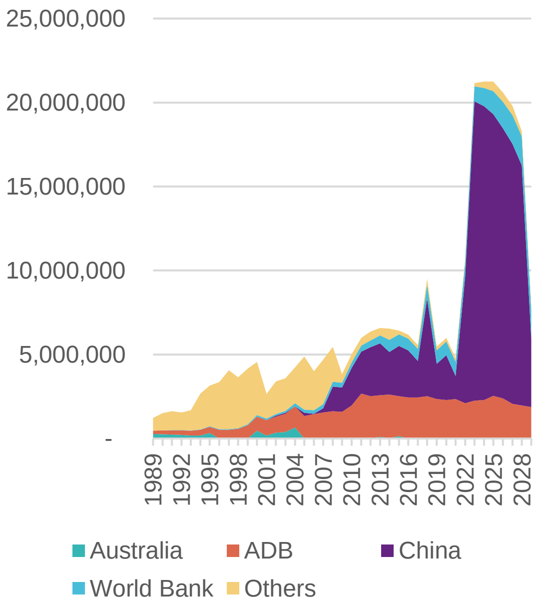
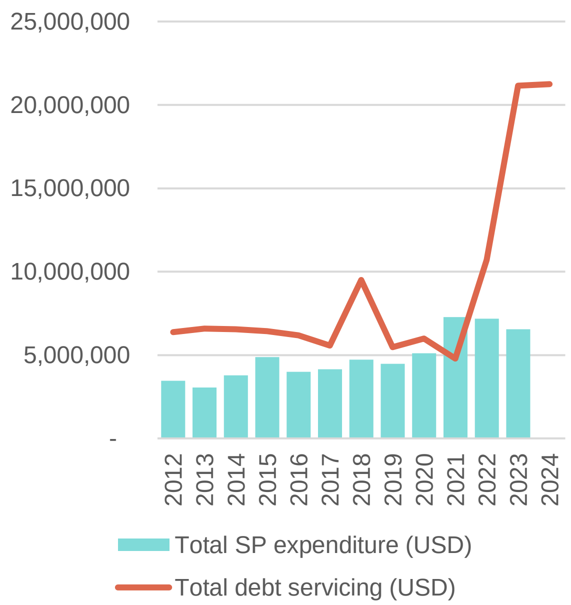


Figure 5.7: Tonga’s debt service payments relative to social protection expenditure, USD, 2003–2024

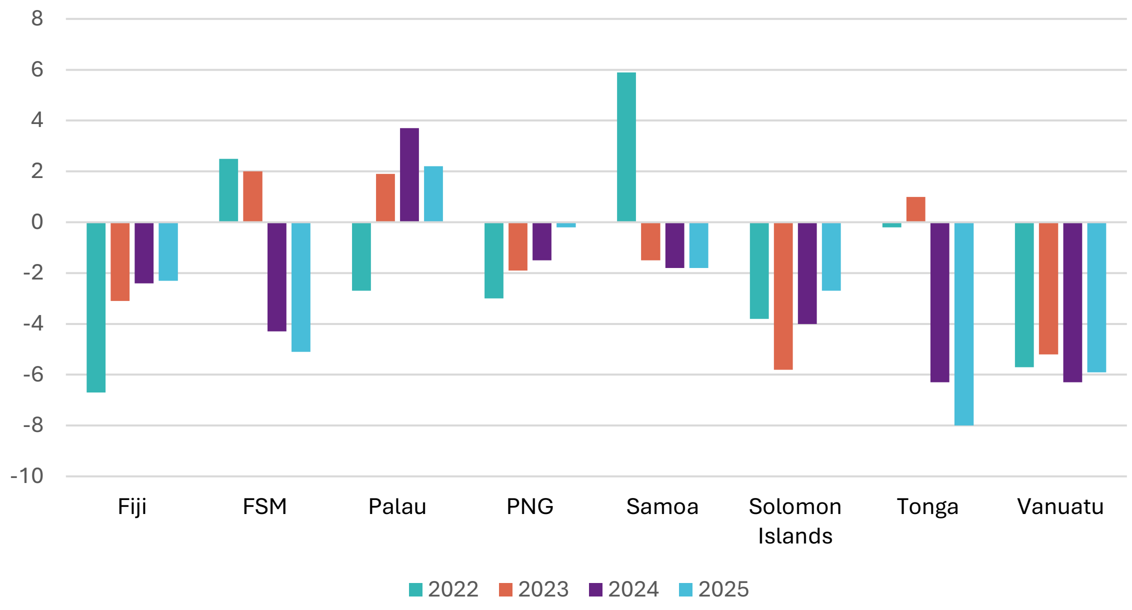


Source: Duke (2024)

Note: Complete data on social protection expenditure is not available for FY 2023-24 anf FY 2024-25

The primary balance is projected to improve for many countries across the region although deficits are forecast in the immediate term. Approximately half the countries covered in this report initiated fiscal consolidation in 2023 (World Bank, 2024). These efforts have improved the fiscal outlook for certain countries, including Fiji and Solomon Islands (despite still being projected to run deficits). Vanuatu and Palau are the only countries with long-term fiscal surpluses projected.

Figure 5.8: Primary balance as a percentage of gross domestic product, 2020–2025



Source: IMF Article IV reports

Despite the challenging fiscal outlook for certain countries in the region, it is critical that countries are able to find a means to finance social protection expenditure. Failing to support poor and vulnerable communities across the region during this period could be detrimental in the long term, both in terms of the lost opportunity to accumulate human capital but also as a means of spurring growth. Expanding benefits and coverage of social protection programs helps ease the savings and credit constraints that prevent households from investing in human capital (Mathers & Slater, 2014). Transfers provided through such programs can also generate multiplier effects that increase spending, consumption and ultimately production (Mathers & Slater, 2014). Countercyclical surges in social protection expenditure can help provide a soft landing during projected economic downturns.

Given the challenging fiscal outlook in the short-term (with most countries expecting ongoing fiscal deficits), how can Pacific countries and Timor-Leste finance additional social protection expenditure? These countries have multiple options at their disposal.

Table 5.1: Options for financing additional social protection expenditure, by country

	Sovereign rents	Mobilising domestic revenue	Reallocating existing expenditure	Overseas development assistance (grants)	External debt
Fiji	Red	Turquoise	Turquoise	Orange	Red
FSM	Turquoise	Turquoise	Turquoise	Turquoise	Turquoise
Kiribati	Turquoise	Turquoise	Turquoise	Red	Turquoise
Nauru	Orange	Turquoise	Turquoise	Orange	Red
Palau	Red	Turquoise	Turquoise	Red	Red
PNG	Orange	Turquoise	Turquoise	Orange	Red
RMI	Turquoise	Turquoise	Turquoise	Turquoise	Turquoise
Samoa	Red	Turquoise	Turquoise	Orange	Red
Solomon Islands	Red	Turquoise	Turquoise	Orange	Turquoise
Timor-Leste	Turquoise	Turquoise	Turquoise	Red	Red
Tonga	Red	Turquoise	Turquoise	Red	Red
Tuvalu	Turquoise	Red	Turquoise	Red	Turquoise
Vanuatu	Orange	Turquoise	Turquoise	Red	Red
Coding	**Turquoise** – Sustainable sovereign rents **Orange** – Declining or small-scale sovereign rents **Red** – No major sources for sovereign rents	**Turquoise** – Tax gaps exist **Red** – No current tax gap, suggesting minimal scope for mobilising domestic revenue	**Turquoise** – Viable option	**Turquoise** - Grant revenue expected to increase **Orange** - Grant revenue currently stagnant **Red** – Grant revenue (as a percentage of GDP) projected to decline	**Turquoise** – Public debt (as a percentage of GDP below regional averages)/ low shares of bilateral debt **Red** – Public debt (as a percentage of GDP) above regional averages/ high shares of bilateral debt

- **Sovereign rents** – Certain Pacific countries may have the scope to allocate a higher share of their sovereign rents to social protection expenditure. This includes countries where sovereign rents permit higher levels of expenditure but social assistance expenditure still falls below global and regional averages (Federated States of Micronesia, Republic of Marshall Islands and Tuvalu). In other countries with substantial sovereign rents, such as Kiribati and Nauru, social assistance expenditure is already above these averages and they have limited scope to allocate additional expenditure from sovereign rents.

- **Mobilising domestic revenue (tax revenue**) – Most countries across the region have the scope to mobilise additional domestic revenue. Pacific Island countries have the potential to collect 'an additional 3% of tax revenue to GDP in the short to medium term' (IMF, 2022). This could be achieved by *inter alia:* implementing value added taxes, adjusting personal income taxes and removing existing tax exemptions for foreign and domestic investors (IMF, 2022). With the exception of Tuvalu, most countries have a tax gap suggesting that tax to GDP ratios could improve if taxation was reformed (World Bank, 2023b). Additional efforts to mobilise domestic revenue could free up fiscal space for additional social protection expenditure across this set of countries.

- **Reallocating existing expenditure** – Another option would be to reallocate expenditure from other sectors within the existing fiscal envelope. This is an option for all countries but has proved challenging in the past due to political economy constraints. Moreover, given the high costs of public service delivery in the Pacific and the general underfunding in other sectors (health, education, energy, infrastructure) the scope to reallocate expenditure towards social protection may be limited.

- **Overseas development assistance (grants) –** Only a few countries in the region expect grant revenue as a share of GDP to increase, including Federated States of Micronesia and Republic of Marshall Islands. For the remaining countries, while the overall shares of ODA are unlikely to increase through bilateral and multilateral assistance, certain Pacific countries can assign a higher share of their existing allocations to social protection. This includes Fiji, Nauru, Papua New Guinea, Samoa and Solomon Islands. Finally, some countries – including Kiribati, Palau, Timor-Leste, Tonga, Tuvalu and Vanuatu – expect grant revenue to decline which limits the scope for increasing ODA to social protection expenditure.

- **Increasing external debt (borrowing) –** A final option is for countries to borrow funds either bilaterally or on international capital markets to finance social protection expenditure. However, given the existing public debt to GDP ratios, some countries have limited scope to pursue this option. Once government debt reaches 'around 90% to a 100% of GDP, it can begin to have a detrimental effect on long-term economic growth' (Checherita and Rother, 2010). For countries with public debt to GDP ratios below regional averages, such as Federated States of Micronesia, Kiribati, Republic of Marshall Islands, Solomon Island and Tuvalu, increasing external debt may be a viable option.

6 Conclusions and recommendations

Pacific countries are increasingly investing larger shares of national income in social protection, recognising the role it can play in both good times and bad. Over the last decade, many countries have considerably increased their levels of social assistance expenditure, typically linked to expanding non-means-tested old age and disability benefits. Introducing disability benefits has been a notable trend in countries across the region in recent years and many countries are experimenting with expanding child and family benefits. Social protection systems also provided a core channel to support individuals and households in response to the COVID-19 crisis and countries with existing social protection systems could mobilise more effective responses.

Despite this progress, gaps persist in social protection expenditure and coverage across the region. Papua New Guinea, Solomon Islands and Vanuatu have virtually no expenditure on social protection according to the definition used here. Gaps in the scope of social protection are also evident with child and family benefits less developed and benefits for working age people largely absent. Also, in some countries, the levels of benefits through social assistance schemes are low by international standards. Finally, while most countries have substantial contributory schemes in place – either following a provident fund or social insurance approach – various factors limit their scope, coverage and adequacy.

A key challenge for many countries is to continue strengthening their social protection systems within a difficult macrofiscal context. Social protection systems contribute to economic development and manage shocks such as those created by the COVID-19 pandemic and the natural disasters that frequently affect the region. However, as economies continue to recover from the COVID-19 crisis, many face challenging fiscal contexts in meeting spending priorities and managing debt while levels of revenue often remain modest. Making the case that social protection is an investment and not just a cost is critical in the challenging fiscal environment that many countries across the region are facing.

Recommendations

- **Incorporate social protection more proactively into national development planning and budgeting**. While investment in social assistance has grown in recent years, in many cases this was a direct response to specific needs or shocks or driven by political dynamics. The scale and quality of investment in social protection will be enhanced if governments have a strategic understanding of its potential and a clear vision of how to achieve this in the short, medium and long term.

- **Explore the full suite of financing options available to improve the scope, coverage and adequacy of social assistance.** Experience shows that incremental improvements can be made in ways that are fiscally sustainable. Only a few countries in the region have a macro-fiscal outlook that prevents higher expenditure on social protection in the immediate term. The remainder can use one or a combination of the following feasible options: using existing sovereign rents, mobilising domestic resources, reallocating existing expenditure, ODA flows and taking on additional external debt.

- **Development partners should continue to support the process of strengthening social protection across the region.** This can involve three main channels: first, short-term financial support in response to shocks; second, general budget support to enable countries to invest in social protection; and third, technical support to enhance the design and implementation of social protection systems. Providing concessional financing can also reduce the risk of countries in the region accumulating excessive bilateral debt.

- **Explore formal indexation of benefits to protect recipients from inflationary price shocks.** Our analysis shows that without indexing, the real value of social protection benefits is eroded due to inflation. Formally indexing benefits to prices helps protect individuals and families from these price shocks. Critically, indexation will not necessarily entail an increase in expenditures as a proportion of national budgets or of the size of the economy.

- **Explore options to increase the level and nature of protection provided by contributory schemes.** First, countries can reduce their reliance on lump-sum benefits, for example, by providing options for periodic pension payments that may eventually become mandatory for some share of retirement saving. Second, countries can extend the scope of benefits addressing life cycle risks such as maternity and unemployment – potentially relying on pooled social insurance mechanisms. Third, countries can consider limiting the scale of early withdrawals that may undermine retirement saving, particularly in the context of covariate shocks.

- **Build the evidence base on the impacts of social protection across the region.** The growth in social assistance expenditure across the region is having an impact on the individuals and families receiving these benefits and on the wider economy too. However, research on the nature of these impacts is sparse. Investing in more research can promote better understanding of the existing role of social protection systems and how they can be enhanced in the future.

- **Strengthen reporting on social protection expenditures according to established government financial statistics frameworks.** This report illustrates how analysing social protection expenditure using economic and functional (COFOG) classifications provides a consistent way of comparing across countries and across time. Strengthening the capacity of those in both the public finance space (including finance ministries) and the social protection space to report according to these classifications will enhance the quality and consistency of analyses of social protection financing.

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Annex 1: Classification of social protection expenditure

The classification of social protection expenditure in this paper is based on the economic classification (Expense) and the functional classification (Classification of the Functions of Government – COFOG) of expenditure as described in the International Monetary Fund's *Government finance statistics manual 2014* (GFSM).[30] In essence, the analysis seeks to cross-tabulate all expenditures that fall under the classification of social benefits (27) under the economic classification, with those that fall under the function of social protection (710) of COFOG. Given that these two classifications do not directly align, it is possible that the classification used here will not incorporate expenditures that may be included with other attempts at classification. The analysis seeks to incorporate central government expenditure, including social security funds but does not include schemes financed at a sub-national level.

The analysis also draws on classifications described in the European system of integrated social protection statistics (ESSPROS) which underpin the structure of COFOG but provide more detailed guidance on how to manage borderline cases (Eurostat, 2019).

Full information on how schemes have been classified is accessible in the consolidated database that accompanies this report.

In presenting the analysis of expenditure, some minor adjustments have been made either by changing the labelling of categories, aggregating categories or removing some that are less relevant for the analysis. These modifications include the following.

Under the economic classification:

- **Social security benefits** (271) are labelled as **social insurance benefits**. This is because social security is often interpreted to relate to social protection as a whole. The relabelling is appropriate given that the GFSM uses the terms 'social security' and 'social insurance' interchangeably.
- **Employment-related social benefits** (293) are labelled as **public servant benefits**. This is because to those unfamiliar with the economic classification of expense, employment-related benefits may be understood as those relating to any form of employment (which could include all social insurance/security).

Under COFOG, some categories have been adjusted or removed:

- **Old age (7102)** and **survivors (7103)** are aggregated into one category: 'Old age and survivors'

[30] The IMF compiles data on social protection expenditure according to established government finance statistical classifications which are hosted on its online portal for Government Finance Statistics (IMF, 2024b). However, the data that is readily available does not include many countries, is often incomplete (for example with limited disaggregation) and often with seeming errors in terms of classification.

- **Research and development (R&D) on social protection (7108)** and **social protection not elsewhere classified (n.e.c) (7109)** are aggregated into a single category: 'Other'. In practice, data on R&D social protection is scarce.
- The label for **social exclusion not elsewhere classified (n.e.c.)**[31] **(7107),** has been simplified to **social exclusion**

The result is a simplified set of categories:

- Sickness and disability
- Old age and survivors
- Family and children
- Unemployment
- Housing
- Social exclusion
- Other

Within the framework set out by the GFSM, various benefits fall outside the scope of social protection (under COFOG) and social benefits (under the economic classification). In relation to COFOG, key items are listed in Annex Table 1. These items usually also fall outside the scope of social benefits (27) as they are considered services provided by government, rather than transfers to individuals or households.

Annex Table 1: Expenditures falling outside the scope of social protection under the Classification of Functions of Government

	COFOG
Health care	Health (707)
Scholarships	Education (709)
School feeding	Education (709)[32]
Labour market programmes	General labour affairs (70412)[33]

Payments made in response to emergencies have an ambiguous relationship to social protection, being excluded from social benefits (27)[34] but included under social protection not elsewhere classified (7109). These are included in the definition of social protection in this

[31] Not elsewhere classified

[32] Specifically, subsidiary services to education (7096). According to ESSPROS, means-tested school meal programs may be included under social protection (where universal schemes are not). However, these are excluded in all cases for consistency.

[33] Unless attached to payment of a specific benefit, such as vocational training provided to recipients of unemployment or other social protection benefits.

[34] Instead classified under 'transfers not elsewhere classified (282)'

analysis, falling under ‘other’ in relation to the functional classification (see previous description).

The classification also excludes subsidies (either paid on products or production) which do not fall under social benefits (27) under the economic classification but under subsidies (25).

Annex 2: Definition of overseas development assistance on social protection

In order to understand trends in overseas development assistance (ODA), our analysis includes both a narrow and broad definition of social protection. The kinds of expenditure included in the analysis are outlined in Annex Table 2. The narrow definition includes ODA under the purpose code 'social protection (16010)' which maps closely onto the classification of social protection used to analyse government expenditure. However, there are types of ODA classified under other purposes that can conceivably be considered as social protection. Annex Table 2 outlines the additional codes we consider as part of this broader definition of social protection.

Annex Table 2: Narrow and broad definitions of social protection based on creditor reporting system purpose codes

CRS CODE *(sub-code)*	**DESCRIPTION**	**Clarifications / Additional notes on coverage**
Narrow definition		
16010	Social protection	Social protection or social security strategies, legislation and administration; institution capacity building and advice; social security and other social schemes; support programs, cash benefits, pensions and special programs for older persons, orphans, persons with disabilities, children, mothers with newborns, those living in poverty, without jobs and other vulnerable groups; social dimensions of structural adjustment
16011	Social protection and welfare services policy, planning and administration	Administration of overall social protection policies, plans, programs and budgets including legislation, standards and statistics on social protection
16012	Social security (excluding pensions)	Social protection schemes in the form of cash or in-kind benefits to people unable to work due to sickness or injury
16013	General pensions	Social protection schemes in the form of cash or in-kind benefits, including pensions, against the risks linked to old age
16014	Civil service pensions	Pension schemes for government personnel

16015	Social services (including youth development and women & children)	Social protection schemes in the form of cash or in-kind benefits to households with dependent children, including parental leave benefits
Broad definition		
15240	Reintegration and small arms and light weapons control	Reintegration of demobilised military personnel into the economy; conversion of production facilities from military to civilian outputs; technical co-operation to control, prevent and/or reduce the proliferation of small arms and light weapons (SALW) – see para. 80 of the Directives for definition of SALW activities covered [Other than in the context of an international peacekeeping operation (15230) or child soldiers (15261)].
15261	Child soldiers (prevention and demobilisation)	Technical co-operation provided to government – and assistance to civil society organisations – to support and apply legislation designed to prevent the recruitment of child soldiers and to demobilise, disarm, reintegrate, repatriate and resettle child soldiers.
16064	Social mitigation of HIV/AIDS	Special programs to address the consequences of HIV/AIDS, e.g. social, legal and economic assistance to people living with HIV/AIDS including food security and employment; support to vulnerable groups and children orphaned by HIV/AIDS; human rights of HIV/AIDS affected people.
43072	Household food security programs	Short or longer term household food security programs and activities that improve the access of households to nutritionally adequate diets (excluding any cash transfers within broader social welfare programs that do not have a specific food security, food acquisition or nutrition focus which should be reported under code 16010).
52010	Food assistance	Supply of edible human food under national or international programs including transport costs, cash payments made for food supplies; project food assistance aid and food assistance aid for market sales when benefitting sector not specified. Excludes food security policy and administrative management (43071), household food security programs (43072) and emergency food assistance aid (72040). Report as multilateral: i) food assistance aid by EU financed out of its budget and allocated pro rata to EU member countries; and ii) core contributions to the World Food Programme.