Technical Assistance - Research Collaboration

FISCAL MANAGEMENT OF SOCIAL PROTECTION SYSTEMS IN SELECTED ASEAN+3 ECONOMIES

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This report provides an analysis of the fiscal management of social protection systems across selected ASEAN+3 economies. It examines the institutional arrangements and existing public financial management (PFM) frameworks relevant to social protection systems in the region. It also features country-specific chapters detailing unique frameworks and approaches.

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Abbreviations

2TBA	Two-Tier Budget Approach
4Ps	Pantawid Pamilyang Pilipino Program
AAM	Automatic Adjustment Mechanism
ABM	Automatic Balancing Mechanism
ADB	Asian Development Bank
AFR	Annual Fiscal Report
AICS	Assistance to Individuals in Crisis Situations
APBN	Anggaran Pendapatan dan Belanja Negara (National Budget)
APR	Administrative Project Review
ASABRI	Asuransi Angkatan Bersenjata Republik Indonesia (Armed Forces Insurance)
BLT	Bantuan Langsung Tunai (Direct Cash Assistance)
BOA	Board of Audit
BPF	Budget Priorities Framework
BPJS	Badan Penyelenggara Jaminan Sosial
BPR	Bantuan Prihatin Rakyat
BSH	Bantuan Sara Hidup
BSP	Bangko Sentral ng Pilipinas
CA	Child Allowance
CAF	Central Adjustment Fund
CBMS	Community-Based Monitoring System
CCT	Conditional Cash Transfer
CDC	Community Development Council
CFS	Government Finance Statistics
CGS	Central Government Subsidies
CHED	Commission on Higher Education
ComCare	Community Care Endowment Fund
CPF	Central Provident Fund
CRA	Child-Rearing Allowance
CSMBS	Civil Servants Medical Services Scheme
DBCC	Development Budget Coordinating Council
DBM	Department of Budget and Management
DepEd	Department of Education
DHSUD	Department of Human Settlements and Urban Development
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOLE	Department of Labor and Employment
DOSM	Department of Statistics Malaysia
DSCs	Debt Service Charges
DSWD	Department of Social Welfare and Development
EHI	Employees' Health Insurance
EI	Employment Insurance
EIS	Employment Insurance System
EITC	Earned Income Tax Credit
EPF	Employees Provident Fund
EPI	Employees' Pension Insurance
ESSPROS	European System of Integrated Social Protection Statistics
FAPs	Foreign-Assisted Projects
FEs	Forward Estimates
GAA	General Appropriations Act
GFSM	Government Finance Statistics Manual
GIC	Government of Investment Corporation
GSIS	Government Service Insurance System
GST	Goods and Services Tax
HOC	House of Councillors
HOPE	Home Ownership Plus Education
HOR	House of Representatives
HRDF	Human Resource Development Fund
IACI	Industrial Accident Compensation Insurance
IAU	Internal Audit Unit
ICC	Investment Coordination Committee
ICU	Implementation and Coordination Unit
IFIs	Independent Fiscal Institutions
ILO	International Labour Organization
IMF	International Monetary Fund
JHT	Jaminan Hari Tua (Old-Age Insurance)
JKK	Jaminan Kecelakaan Kerja (Work Accident Insurance)
JKM	Department of Social Welfare (Malaysia)
JKM	Jaminan Kematian (Indonesia)
JKN	Jaminan Kesehatan Nasional (National Health Insurance)
JKP	Jaminan Kehilangan Pekerjaan (Job Loss Insurance)
JP	Jaminan Pensiun (Pension Insurance)
JPA	Jabatan Perkhidmatan Awam (Public Service Department)
JSS	Jobs Support Scheme
KBS	Ministry of Youth and Sports

KEM-PPKF	Kerangka Ekonomi Makro dan Pokok-Pokok Kebijakan Fiskal
KPWKM	Ministry of Women, Family, and Community Development
KUR	Kredit Usaha Rakyat (People's Business Credit)
LAKSANA	Unit for the Implementation and Coordination of National Agencies on the Economic Stimulus Package
LAT	Local Allocation Tax
LGUs	Local Government Units
LIFE	Lifelong Income for Elderly
LPFP	Long-Term Fiscal Projections
LTC	Long-Term Care
LTCI	Long-Term Care Insurance
MAS	Monetary Authority of Singapore
MCI	Ministry of Communications and Information
MCSE	Medical Care System for the Elderly in the Latter Stage of Life
MGII	Malaysian Government Investment Issues
MGS	Malaysian Government Securities
MHLW	Ministry of Health, Labour, and Welfare
MIC	Ministry of Internal Affairs and Communications
MOEF	Ministry of Economy and Finance
MOHE	Ministry of Higher Education
MOHR	Ministry of Human Resources
MRF	Ministry Results Framework
MSF	Ministry of Social and Family Development
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NBM	National Budget Memorandum
NBO	National Budget Office
NDPC	National Development Planning Committee
NEDA	National Economic and Development Authority
NEDA-SDC	NEDA Social Development Committee
NESDC	National Economic and Social Development Council
NGO	Non-Governmental Organization
NHI	National Health Insurance
NHSO	National Health Security Office
NII	Net investment income
NIR	Net investment return
NIRC	Net investment return contribution
NPI	National Pension Insurance
NPS	National Pension Scheme
NTA	National Tax Allotment
NTC	National Treasury Contributions
NTS	National Treasury Subsidies
OBB	Outcome-Based Budgeting
OECD	Organisation for Economic Co-operation and Development
OFWs	Overseas Filipino Workers
PA	Public Assistance
PADU	National Utility Database
PBI JKN	Penerima Bantuan Iuran Jaminan Kesehatan Nasional (National Health Insurance Contribution Assistance Recipient)
PCB	Program Convergence Budgeting
PCFC	People's Credit and Finance Corporation
PDCA	Plan-Do-Check-Action (Management Cycle)
PDP	Philippine Development Plan
PEN	Pemulihan Ekonomi Nasional (National Economic Recovery Program)
PENJANA	Pelan Jana Semula Ekonomi Negara (National Economic Recovery Plan)
PFI	Private Finance Initiative
PFM	Public Financial Management
PhilHealth	Philippine Health Insurance Corporation
PIP	Program Indonesia Pintar (Smart Indonesia Program)
PIP	Public Investment Program (Philippines)
PKH	Program Keluarga Harapan (Family Hope Program)
PMP	Program Management Period (for LTCI)
PRE	Economic Stimulus Package
PRIHATIN	Prihatin Rakyat Economic Stimulus Package
PSPP	Philippine Social Protection Plan
QRF	Quick Response Fund
RAPBN	Rencana Anggaran Pendapatan dan Belanja Negara (Draft State Budget)
RDC	Regional Development Council
RKP	Rencana Kerja Pemerintah (Government Work Plan)
RPJMN	Rencana Pembangunan Jangka Menengah Nasional (National Medium-Term Development Plan)
RSDC	Regional Social Development Committee
SAP	Social Amelioration Program
SCRA	Special Child-Rearing Allowance
SDC	Social Development Committee

SDCAs	Service Delivery Capacity Assessments
SDC-SCSP	Social Development Committee Subcommittee on Social Protection
SDGs	Sustainable Development Goals
SEA	School Expense Assistance
SESS	Self-Employed Social Security Scheme
SFD	Standard Fiscal Demand
SFR	Standard Fiscal Revenue
SKSSR	Housewives Social Security Scheme
SOCSO	Social Security Organization
SOCX	Social Expenditure Database
SPK	Government Housing Sukuk
SSF	Social Security Fund
SSS	Social Security System
STR	Sumbangan Tunai Rahmah
SWF	Social Welfare Foundation
TNP2K	Tim Nasional Percepatan Penanggulangan Kemiskinan (National Team for the Acceleration of Poverty Reduction)
TUPAD	Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers
UMi	Ultra Mikro Financing (Ultra Micro Financing)
UMIC	Upper Middle-Income Country
VAWC	Violence Against Women and Children
WHO	World Health Organization
WIS	Workfare Income Supplement

Executive Summary

1. This report examines the fiscal management of social protection systems in ASEAN-5, China, Japan, and Korea. Amid growing demand for robust social protection driven by rapid demographic shifts, the recent pandemic experience as well as the continuing risk of economic volatility have further intensified this need. For future policy reforms, this research offers practical examples of fiscal management institutions related to social protection, drawn from diverse country practices. The first chapter provides an overview of social protection systems in the ASEAN+3 region. It explores the diversity in working definitions, legislative and regulatory frameworks, policy coordination mechanisms, program designs, as well as the coverage and adequacy of these systems. The second chapter provides a regional view of the key aspects of public financial management (PFM) frameworks that are critical to social protection, particularly in terms of how medium and long-term fiscal perspectives are integrated into decision-making processes for social protection programs, ensuring its overall fiscal sustainability. The remainder of the report provides detailed country-level analyses of existing PFM frameworks and their role in the fiscal management of social protection systems. These analyses explore country-specific developments in social protection systems and assess fiscal management mechanisms, including budgeting processes for social protection programs, review systems for introducing or modifying programs, assessments of medium- and long-term fiscal resource needs, and frameworks for regularly reassessing long-term resource requirements to maintain the sustainability of social protection systems.

2. Social protection systems in the ASEAN+3 region vary widely in their working definitions, legislative and regulatory frameworks, policy coordination mechanisms, program designs, and coverage. Each country approaches social protection differently, shaped by its socio-economic context and policy institutions. For example, while some countries, such as Korea and Indonesia, have formalized social protection definitions explicitly in legislation, others, like Singapore and Thailand, embed the key principles within broader policy frameworks or constitutional provisions rather than explicit statutory definition. These differences reflect the region's complex and diverse institutional and legal frameworks. The diversity extends to governance structures, where some countries have established centralized coordinating bodies to streamline social protection policies and ensure alignment with national development plans. Korea's Social Security Committee operates under formal legislation, providing an institutionalized framework that enhances authority and accountability. In contrast, Malaysia's Social Protection Council (MySPC), established through cabinet-level decisions, offers flexibility in addressing evolving socio-economic priorities. The methods by which these bodies are established—whether through legislation or executive directives—significantly influence their authority, effectiveness, and sustainability.

3. The COVID-19 pandemic exposed significant gaps in access to and coverage within existing social protection systems, particularly in terms of their capacity for scalability. The pandemic crisis compelled many ASEAN+3 countries to expand social protection support to unprecedented levels, either by introducing temporary measures or scaling up existing programs. These rapid and large-scale expansions placed immense pressure on social protection systems, many of which were unprepared for the sudden surge in demand. Vulnerable groups, including informal workers, gig economy participants, and migrant workers, often lacked adequate access to safety nets due to gaps in existing frameworks. Efforts to extend support to these populations have been hindered by underdeveloped PFM frameworks and weak institutional capacity and coordination. These limitations significantly constrained governments' ability to scale up the delivery of timely and effective assistance to those most in need. This experience underscores the critical importance of a robust governance framework and efficient fiscal management as the foundation for an effective and scalable social protection system.

4. During the budgeting process, most ASEAN+3 economies generally treat social protection programs as ordinary budgetary programs despite their inherent rigidity. Social protection programs often become statutory mandates, requiring government to guarantee continuous funding, sometimes pre-specified amounts outside of budgeting process. In addition, political resistance to reducing or scaling back benefits reinforces this rigidity, as these programs are widely regarded as essential entitlements by clearly identified beneficiaries. This lack of flexibility significantly hampers governments' ability to reallocate resources to address emerging fiscal challenges. While social protection programs are vital for economic security and welfare of vulnerable groups, their rigid structure makes them challenging to adjust within the constraints of annual budget cycles. To address these challenges, certain countries in the region have implemented mechanisms to balance rigidity while ensuring sustained implementation. In the Philippines, for example, funding for PhilHealth coverage of Pantawid Pamilyang Pilipino Program (4Ps) beneficiaries and senior citizens is sourced from sin taxes, creating a dedicated and sustainable financing model. Singapore adopts a block budgeting system that allows line ministries to submit five-year budget proposals to the Ministry of Finance (MOF). This approach allows line ministries to plan in advance and flexibly manage their resources within an allocated budget over a specified period, minimizing reliance on rigid line-by-line controls. Ministries are incentivized to prioritize spending within the allocated block of funds, fostering efficient expenditure management. Certain social protection programs are also funded by dedicated endowments and trust funds, or special transfers for one-off programs. These mechanisms, integrated into the budget process, secure medium-term resource sufficiency for key social programs without depending on yearly allocations.

5. Few countries in the ASEAN+3 region systematically factor in medium to long-term fiscal considerations when introducing or modifying social protection programs. Most ASEAN+3 economies prioritize addressing immediate social needs, often without adequately assessing the long-term fiscal implications of these initiatives. While the development of new programs typically involves coordination between line ministries and fiscal authorities and is subject to parliamentary review, such discussions seldom include comprehensive evaluations of medium- or long-term fiscal financing plans. Instead, programs are frequently funded through temporary revenue surpluses or short-term fiscal space, leaving them highly vulnerable to economic downturns or shifts in fiscal priorities. This short-sighted approach exposes countries to significant fiscal risks, particularly as financial pressures from aging populations, rising health care demands, and other structural changes intensify. Without proper long-term assessments, the resilience and effectiveness of social protection systems can be severely undermined, especially in the face of economic shocks or demographic transitions. Korea offers a notable exception by embedding fiscal sustainability into the design of its social protection programs. The National Finance Act requires feasibility studies for new social protection initiatives exceeding KRW50 billion, ensuring that long-term fiscal sustainability is a central consideration before implementation. This forward-looking approach helps prevent overcommitment and aligns policy goals with available resources, serving as a model for the region.

6. Building robust PFM frameworks is crucial for balancing fiscal sustainability with the continued development of social protection systems. Effective PFM systems enable governments to manage growing long-term commitments within their financing capacities while maintaining the flexibility needed for other policy priorities, such as addressing economic downturns. Among various essential PFM elements, Medium-Term Fiscal Frameworks (MTFFs) and long-term fiscal projections are particularly important for the sustainable development of social protection systems. MTFFs provide a structured approach to aligning multiyear resource planning with policy objectives, allowing governments to allocate resources predictably and sustainably to priority programs, such as pensions and healthcare. Long-term fiscal projections assess the resource needs of government commitments and available financing resources over time, enabling governments to implement proactive measures that ensure long-term sustainability. The financial viability of social protection systems is often a central focus of these efforts, incorporating fiscal impact assessments of long-term factors, such as demographic shifts, economic trends, and evolving social needs. Mechanism such as the automatic adjustment mechanisms (AAMs) further enhance the effectiveness of PFM frameworks. For instance, Japan's macroeconomic slide for pension benefits exemplifies how fiscal reforms can be depoliticized by tying policy adjustments to objective demographic and economic indicators. These mechanisms not only minimize the need for contentious legislative debates but also ensure intergenerational equity and the long-term sustainability of social protection systems. By embedding such mechanisms, governments can create a dynamic balance between maintaining fiscal discipline and addressing the inevitable pressures of aging populations and rising health care demands.

7. Flexibility mechanisms anchored in robust PFM frameworks enable governments to respond swiftly and effectively to crises while safeguarding fiscal sustainability. Robust PFM frameworks not only enhance the predictability of fiscal management but also support government flexibility in addressing unexpected economic developments. For example, pre-established mechanisms such as contingency funds, supplementary budgets, and virements enable governments to reallocate resources swiftly without compromising fiscal discipline during unforeseen economic shocks. During the COVID-19 pandemic, ASEAN+3 economies employed various PFM tools to rapidly allocate sufficient fiscal resources to contain economic fallouts. Supplementary budgets played a major role in mobilizing sizeable resources for stimulus packages, while contingency funds and virement rules facilitated quick and accountable policy responses, However, some countries, such as Malaysia and Thailand, resorted also to non-budgetary measures like extrabudgetary funds, to address unprecedented social and economic challenges. These actions underscored the importance of well-established flexibility mechanisms within PFM frameworks in enabling rapid and targeted responses. Such mechanisms are also vital for safeguarding transparency and accountability while ensuring the efficient use of public resources. Robust tracking, monitoring, and reporting systems, such as the Philippines' Quarterly Budget and Financial Accountability Reports, are also essential for transparency and accountability. These tools help identify inefficiencies, prevent resource mismanagement, and align spending with program objectives. By integrating these tools and mechanisms into their PFM frameworks, governments can effectively balance the dual challenges of long-term fiscal sustainability and short-term adaptability, ensuring the expansion of social protection systems without undermining fiscal health.

I. Social Protection Systems in Selected ASEAN+3 Countries[1]

1. Introduction

1. There is a widespread recognition that social protection acts as a critical tool to address life cycle risk and covariate shocks while advancing global development goals. Globally, many countries have been investing in building more resilient social protection frameworks to safeguard their population from life cycle risks and broader shocks. The growing prominence of social protection in recent decades stems from an increased awareness of the challenges posed by demographic shifts, economic inequality, and the expanding informal labor market. Social protection systems have proven effective in mitigating adverse effects and supporting recovery (Heo, et al., 2022), further driving their importance. Beyond addressing life cycle challenges, social protection programs have also been increasingly used to provide humanitarian assistance in response to the rising frequency and severity of covariate shocks,[2] such as droughts and other natural disasters. Moreover, social protection is essential for achieving the United Nations' Sustainable Development Goals (SDGs), particularly those focused on poverty reduction, decent work, inequality, and social inclusion.

2. The COVID-19 pandemic exposed significant gaps in access to and coverage within existing social protection systems, particularly in terms of their capacity for scalability. Many countries in the ASEAN+3 region had to expand social protection support to unprecedented levels in response to the pandemic crisis, through either introducing temporary measures or scaling up existing programs. These large and fast expansions placed immense pressure on existing social protection systems, many of which were unprepared for the sharp increase in demand that emerged. In addition, certain vulnerable groups, such as informal workers, gig economy participants, and migrant workers, found themselves without sufficient access to safety nets due to the limitations of the existing frameworks. Efforts to expand coverage to these populations were hindered by inadequate fiscal resources and structural challenges such as outdated administrative processes, insufficient infrastructure, weak

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[2] A common distinction in the categorization of shocks is between covariate shocks, which affect a large proportion of the population simultaneously, and idiosyncratic shocks, which affect individuals, often through life cycle events such as a job loss, illness or death (e.g. Holzmann and Jorgensen, 2000).

institutional frameworks and a lack of coordination among programs, which limited governments' ability to deliver timely assistance to those in need.

3. A robust governance framework is a precondition for an effective and scalable social protection system, especially in today's increasingly complex environment. While much of the debate around social protection tends to focus on financial sustainability, impact assessments, and the refining of targeting mechanisms, governance often receives much lesser attention, according to the UN Research Institute for Social Development (UNRISD, 2016). This is in part because governance tends to be complex, requires long-term solutions, lacks immediate political rewards, and is always perceived as secondary to more urgent issues such as financing and financial sustainability. Without effective governance, however, social protection systems are unlikely to meet their goals or be scalable in a sustainable manner. This is more so as social protection becomes increasingly intricate due to demographic changes, economic challenges, and the growth of informal labor markets, hence requiring well-coordinated, transparent, and adaptable governance. Effective governance also enables stakeholder participation, supports efficient financial management, and provides the legal and regulatory foundations necessary to enforce compliance and protect entitlements.

4. The growing complexity of social protection systems presents new challenges. Several emerging trends have increased the complexity of social protection systems worldwide, putting pressure on governance structures that were designed for earlier, more centralized, insurance-based models. One significant shift is the growing involvement of private and non-state actors in delivering benefits and services, particularly in low and middle-income countries, where programs managed outside traditional social security institutions have multiplied, creating a more fragmented institutional landscape, according to the UN Department of Economic and Social Affairs (UNDESA, 2021a). Many newer initiatives lack legislative grounding, leading to ad hoc governance structures that are susceptible to political changes and economic fluctuations. Another key development is the rise of the social risk management approach, which has led to a surge in social safety net programs that are focused on addressing poverty and vulnerabilities but often disconnected from traditional life cycle and labor market risks. Finally, many newer programs, especially in developing countries, are now funded through state budgets rather than contributions (UNDESA, 2021a). These shifts alter the nature of entitlements, challenges and overall fiscal sustainability.

5. This chapter aims to provide an overview of the social protection systems from the perspective of high-level governance, exploring issues related to the diversity of working definitions, legislative and regulatory frameworks, policy coordination mechanisms, key program designs, coverage and adequacy in the ASEAN+3 region. [3] [4] By analyzing existing frameworks and coordination structures, the current analytical note seeks to identify challenges and country practices to strengthen policy coherence and promote equitable access to social protection across diverse population groups. The ultimate aim is to facilitate a better understanding of how governance structures contribute to the resilience and sustainability of social protection systems in the face of evolving socioeconomic challenges within the region.

2. Social Protection Definitions in ASEAN+3 and International Organizations

6. A national definition serves as the foundation for creating coherent governance frameworks and establishing a reference point to evaluate future social protection growth and development. The understanding of social protection varies across global scholarship and no universally agreed definition exists. However, there is broad agreement on the core instruments that make up social protection – including social insurance, social assistance, be it tax-financed or contributory, and to some extent, labor market intervention. [5] The way each country develops and defines social protection is typically shaped by its historical, political, economic, and social context, leading to different views on what should or should not be included. This process often begins by addressing societal needs such as poverty, vulnerability and inequality, or specific life cycle risks such as unemployment, illness and aging. Such considerations in turn determine what social protection will come to comprise, for example, the types of contingencies covered, the specific target groups, the program design and the level of benefits offered. Given that countries are at different stages of economic development and follow unique developmental paths, the definition of social protection, in terms of scope, institutional mechanism and statutory status, is varied and tailored to each country's specific context.

[3] Coordination in social protection can be broadly divided into three levels: high-level, as in policy coordination; mid-level, meaning operational coordination; and street level, involving service-delivery coordination. The current analytical note limits the discussion of this paper to high-level coordination as this is the most relevant to fiscal management. High-level governance refers to definitions, policies, tools and structures that determine how a social protection system should work and the way its different components should fit together. Using the Cunill-Grau, Repetto, and Bronzo (2016) taxonomy, it is at this stage that policymakers should determine whether to pursue collaboration, convergence, consolidation or integration.

[4] This chapter does not intend to contribute to any conceptual debate on general social protection issues, such as universal versus targeted approaches, conditional versus unconditional or food versus cash transfers. These issues will be discussed only to the extent to which they influence the fiscal management of social protection programs.

[5] There is considerable debate about which labor market regulations and interventions might be considered social protection, and which are not (UN, 2021).

7. The scope of national social protection and the way it is defined are different across countries (Table 1). In Indonesia and Korea, social protection is clearly defined and anchored in legislation, providing statutory backing and clear guidelines on its scope. Other countries do not have such explicit statutory definitions and instead rely on historical precedents or international practices to shape their frameworks. For instance, Japan lacks a formal legislative definition but has developed social protection based on a classification structure that originated in the post-war era and has since evolved.[6] Similarly, China's definition is grounded in a Decision by the National Congress, established during the early 1990s as part of reform and opening up toward a socialist market economy.[7] Malaysia defines social protection through the recently established Malaysia Social Protection Council (MySPC). In contrast, Singapore and Thailand incorporate the social protection concept within broader policy frameworks rather than defining them in the laws.. For instance, Singapore's approach is underpinned by Social Compact - an implicit agreement between the government and stakeholders on nation-building and social cohesion. Thailand embeds social protection rights and state responsibilities in its Constitution, ensuring a foundational level of clarity on citizens' entitlements and state duties regarding social benefits. The varying approaches across countries reflect differing priorities in their social protection frameworks.

8. A key distinction in the definitions across ASEAN+3 countries lies in the emphasis placed on benefits. Traditionally, social protection aims to build resilience to shocks, with the most common form addressing contingencies related to life cycle and labor market risks. These contingencies include costs associated with childhood vulnerabilities, income loss due to sickness, disability over the short or long term, pregnancy, work-related accidents, unemployment, old age, or health issues, most of which can arise at any stage of life.[8] However, as economies evolve and societal needs change, many national social protection systems have expanded to include programs that address risks and shocks not directly linked to the life cycle. These newer programs aim to mitigate covariate risks like natural disasters,

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[6] The classification is developed from, but is not exactly equal to, the classification found in recommendations made by the Social Security System Council on October 16, 1950. Note that the council is now defunct and had a different capacity from the current Social Security Council.

[7] In October 1992, the 14th National Congress of the Communist Party of China was held, and it clarified the economic system reform goals of establishing a socialist market economy system. In November 1993, the Third Plenary Session of the 14th Central Committee of the Communist Party of China passed the "Decision of the Central Committee of the Communist Party of China on Several Issues Concerning the Establishment of a Socialist Market Economy System," proposing the establishment of a reasonable personal income distribution and social security system. This document clearly states that the social security system includes social insurance, social relief, social welfare, preferential treatment and resettlement, social mutual assistance, and guarantee of personal savings accumulation. Differences in the wording regarding social security have emerged since then.

[8] Corresponding to these nine common life cycle contingencies, ILO Convention 102 of 1952 set minimum standards for the establishment of what might be called "core" life cycle benefits: old-age pensions, disability benefits, survivor benefits, sickness and maternity cash benefits, unemployment benefits, employment injury benefits, family benefits and medical benefits, all of which may be contributory or tax-financed (non-contributory), means-tested or universal.

commodity price fluctuations, and public health crises, offering additional benefits such as minimum income guarantees to serve as a social safety net and prevent poverty. For example, Indonesia's definition of social protection includes safeguards against social, economic, political, and natural disasters, while the Philippine system covers hazards beyond typical life cycle risks. In the wake of the pandemic, ad hoc measures to cushion economic shocks, such as Thailand's digital wallet scheme and Malaysia's long-standing fuel subsidies, are increasingly loosely incorporated under the social protection umbrella.

9. International organizations shape their approach to social protection policies to reflect their respective mandates and priorities. At the global level, the ILO, IMF, World Bank, and OECD each has distinct approaches to social protection policies (Table 2). The ILO's approach is rights-based, emphasizing social justice and labor rights and advocating for comprehensive and universal social protection floors that guarantee basic income security and access to essential services for all individuals. The IMF prioritizes macroeconomic stability and fiscal sustainability, advocating social protection systems that are fiscally responsible and targeted toward the most vulnerable while ensuring that programs do not compromise broader economic stability. The World Bank integrates social protection within its broader agenda of poverty reduction and economic development, supporting the implementation of social safety nets, conditional cash transfers, and other programs designed to reduce vulnerability and promote inclusive growth. The OECD, by comparison, focuses on the impact of social protection on economic performance and social well-being, promoting efficient and effective social protection policies through detailed data analysis and evidence-based policy recommendations that contribute to social inclusion and economic growth across its member countries.

10. Differences in the national definitions, designs, classification systems, and reporting practices of social protection can complicate international comparisons. Each country defines social protection differently based on what is included under social protection programs, which affects social expenditure reporting. For instance, while some countries may emphasize traditional life cycle risks such as pensions, unemployment benefits, and disability insurance, others may expand their definitions to include conditional cash transfers and health care, or even food subsidies, housing and education assistance. Similarly, classification systems for benefits and target populations can differ widely, making it difficult to directly compare social protection efforts across countries. Reporting practices, including how data on beneficiaries and program effectiveness is collected and shared, can further complicate these comparisons. Varying data collection standards and reporting mechanisms can lead to incomplete or inaccurate portrayals of social protection systems, hindering efforts to assess effectiveness on a global scale. As a result, international organizations often create their own standardized frameworks for evaluating social protection policies globally (Box I.A).

Box I.A. Social Protection in Government Statistics

Social protection has become an increasingly important component of government operations in many countries. As public resource allocations to social protection continue growing, the need is also increasing for proper analyses of social protection-related public spending that require appropriate statistics.

More statistical manuals are formalizing and incorporating the concepts, leading to the separate compilation of social protection data (Table A.1). Among macroeconomic statistics manuals, some government-related statistical standards provide helpful definitions to separately identify data related to social protection.[9] In particular, the IMF's Government Finance Statistics Manual (GFSM) is the globally recognized framework for statistical reporting in the government sector.[10] The current version, updated in 2014, is well aligned with the other macroeconomic statistical manuals and guides on national accounts, the external sector, and public debt statistics. In Europe, efforts to develop a common recording framework began in the late 1970s. Rooted in the European Union Treaty, European countries have increasing emphasized the promotion of robust social protection. To monitor progress effectively within member states, the European Commission published its first statistical framework, the European System of Integrated Social Protection Statistics (ESSPROS), in 1981.[11] Another important standard is the OECD's Social Expenditure database (SOCX). Developed in the early 1990s to facilitate comparative analysis of detailed social policies, the SOCX provides a specific framework for recording social expenditures and the database of social expenditures based on this framework.

Table A.1. Statistical Definitions Across International Organizations

Institution	Term used	Definition
Eurostat ESSPROS	Social protection	All interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved.

[9] Social protection is not separately defined nor identified in the usual macroeconomic statistics manuals on national accounts, such as the [organization's] System of National Accounts (SNA) 2008 and the European System of Accounts (ESA) 2010. Instead, these manuals capture transfers to recipients through social benefits and social contributions. See Eurostat (2016) for more comparison details.

[10] The IMF first introduced the GFSM in 1986, updated it twice in 2001 and 2014, and formally added social protection for the first time in the 2001 update.

[11] Since the first ESSPROS methodology was published in 1981, a few updated versions had been published in 1996, 2008, 2011, and 2016.

IMF GFSM	Social protection	The systematic intervention intended to relieve households and individuals of the burden of a defined set of social risks.
	Social security	Social insurance schemes covering the community as a whole, or large sections of the community, and are imposed and controlled by government units.
OECD SOCX	Social protection	A measure of the extent to which countries assume responsibility for supporting the standard of living of disadvantaged or vulnerable groups.
	Social expenditures	The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular type of goods or service nor an individual contract or transfer.

Source: Eurostat (2016); IMF (2014); OECD Statistics Glossary; Adema and Fron (2019); AMRO staff compilation

Social protection aims to address diverse risks and vulnerabilities that government policies target (Table A.2). Despite some differences in specifics, a key commonality among these statistical definitions is that social protection seeks to mitigate certain risks or vulnerabilities. The GFSM provides a broad definition of social risks as "events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income." It recognizes that social risks covered by social protection can vary by country and scheme, and offers only an incomplete list of potential sources.[12] Meanwhile, the OECD's SOCX database classifies social benefits into nine policy areas, which broadly align with the list of risks or needs defined in Eurostat's ESSPROS.

Table A.2. Comparison of Risks and Needs for Social Protection

Eurostat (ESSPROS)	IMF GFSM	OECD SOCX
Defined set of risks or needs:[1)] - Sickness/health care - Disability - Old age - Survivors - Family/children - Unemployment - Housing - Social exclusion not elsewhere classified	Defined set of social risks: - Sickness - Unemployment - Retirement - Housing - Education - Family circumstances	Benefits with social purpose in nine policy areas:[2)] - Old age - Survivors - Incapacity related - Health - Family - Active labor market policies - Unemployment - Housing - Other social areas

Source: AMRO staff compilation

Note: 1) There should be neither a simultaneous reciprocal nor an individual arrangement involved. 2) programs should involve either redistribution of resources or compulsory participation.

[12] The GFSM list includes sickness, unemployment, retirement, housing, education, and family circumstances.

Social protection schemes are classified in various ways. Many institutions use classification by target risk to make cross-country policy comparisons of different aspects of social protection systems, such as coverage, benefit levels, and government spending. However, in the current analytical note classifying social protection schemes by financing method offers a more useful criterion for examining a government's fiscal management aspects. Specifically, GFSM 2014 broadly categorizes social protection schemes into two types: social assistance without contributions, and social insurance with contributions. Social insurance is further divided into social security and employment-related social insurance programs, which include both pension and non-pension schemes. The contributions and benefits of different social protection schemes are recorded differently in government statistics and the accounts of social protection providers (Table A.3).

Table A.3. Classification and Recordings of Social Protection Schemes in GFSM 2014

Social Protection			
Social Assistance Scheme	Social Insurance		
	Social Security Scheme	Employment-related Social Insurance Scheme	
		Non-pension Scheme	Pension Scheme
Amounts receivable None	Amounts receivable Social security contributions (revenue)	Amounts receivable Other social contributions (revenue)	Amounts receivable Incurrence of liabilities through actual and imputed contributions
Amounts payable Social assistance benefits (expense)	Amounts payable Social security benefits (expense)	Amounts payable Employment-related social benefits (expense)	Amounts payable Reduction in liabilities through pensions paid

Source: IMF (2014); AMRO staff compilation

3. Legislative and Regulatory Frameworks in ASEAN+3

11. Countries across the region rely on diverse legal frameworks to anchor their social protection systems. In some countries, individuals' rights to social protection are enshrined in the Constitution as fundamental values that the state policy must uphold. For example, Thailand's Constitution outlines the rights of its population to access social services and delineates the government's fiscal responsibilities in delivering these services. Similarly, Korea's Constitution affirms citizens' rights to a minimum standard of living and the government's responsibilities to take policy efforts. Details of these rights and responsibilities are elaborated through a framework act and related legislations, which guide the implementation of various social protection schemes. Some countries do not necessarily have dedicated legislation for social protection systems, and instead rely on a medium-term national plan or national policy documents to define policy goals and targets. For instance, Malaysia relies on a five-year Malaysia Plan to define targets to be achieved via social protection policies. A well-structured legal framework helps governments to manage and develop social protection systems more effectively by defining clear objectives of their systems and clarifying the roles and responsibilities of related agencies and individuals, thus helping to reduce inefficiencies and overlaps in policies.

12. In the region, formal legislation typically underpins national contributory schemes. Table 3 documents existing national contributory schemes in the ASEAN+3 region. In line with global trends, social insurance is legally grounded as the contributory schemes involve mandatory payments from workers, employers, and often the government. Legislations governing social insurance schemes tend to be highly detailed, delineating legal obligations and rights, unlike social assistance, which often grants greater policy discretion to the government. Social insurance laws commonly specify key elements that define both obligations and entitlements, including the target population, contribution rates for different groups, benefit levels, replacement rates, and conditions for compliance and enforcement. These laws also clarify the primary objectives of the schemes and establish the necessary governance structure, outlining the roles and mandates of relevant agencies and stakeholders. To support stability of the schemes, these objectives also include ensuring the schemes' financial sustainability, which necessitates establishing well-defined governance and administrative processes. Although contributory social insurance schemes are typically enforced by the government, their financial sustainability does not always come with an explicit government financial guarantee. In this region, however, countries such as China, Korea, Malaysia, Singapore, and Thailand explicitly state the government's legal and financial obligations to maintain the operational and financial sustainability of social insurance funds, albeit with varying details depending on scheme design.

13. Social assistance programs are generally less grounded in legislation, with implementation varying widely depending on government administrative and financial capacities. These programs are non-contributory and typically funded through general tax revenue rather than legally mandated contributions from individuals or employers. Therefore, the introduction of new social assistance programs or the expansion of existing schemes is often constrained by the availability of additional fiscal resources. In general, new or expanded programs are piloted as temporary or small-scale initiatives to address urgent needs, such as an economic crisis or poverty alleviation. This phased approach allows governments to adjust program designs – such as eligibility criteria and benefit levels – based on available funding, before formalizing programs for full implementation. Indonesia and the Philippines have statutory large-scale cash transfer programs for the poor, such as Indonesia's Program Keluarga Harapan (PKH) and the Philippines' Pantawid Pamilyang Pilipino Program (4Ps). China, Japan, Korea and Thailand also offer social pensions to the vulnerable, complemented by the respective cash transfers. Malaysia does not have statutory cash transfers, but its defined contribution (DC) pension system allows government top-ups for low-income households and individuals with minimal balances. These approaches reflect the diverse social protection strategies within the region.

4. Institutional Coordination of Social Protection in ASEAN+3

14. Institutional coordination is essential for developing a comprehensive social protection system, particularly in today's increasingly complex environment. A key challenge for governments is ensuring that social protection systems align with broader socioeconomic goals, such as national development strategies. This challenge is further complicated by increasing numbers of social protection programs, either via new programs or through the expansion of existing schemes. Moreover, the involvement of different stakeholders such as line ministries, external partners and public organizations, including local governments, in design, management and monitoring have often blurred roles and responsibilities, causing gaps and overlaps in the system. The UNDG Social Protection Toolkit (UNDG, 2016) calls for a holistic approach to implement a social protection floor using horizontal and vertical coordination. Where several ministries are involved in managing one program, a deeply entrenched silo culture, especially in countries with less developed institutions, can be a major inhibitor to coordination, limiting information sharing and the pooling of human and financial resources. Hence, horizontal coordination – collaboration across sectors, actors, and institutions – has become increasingly vital as policy innovations now require stronger integration between income transfers, services, and in-kind benefits. In addition, the delegation of certain responsibilities and activities from the central to the local level is almost indispensable to any social protection scheme, underscoring the need for vertical coordination between levels of government. In countries where local governments are given autonomy to design their own social protection programs, alignment with national development goals is often a challenge. Hence, vertical coordination by ensuring the flow of information both downwards and upwards is equally important.

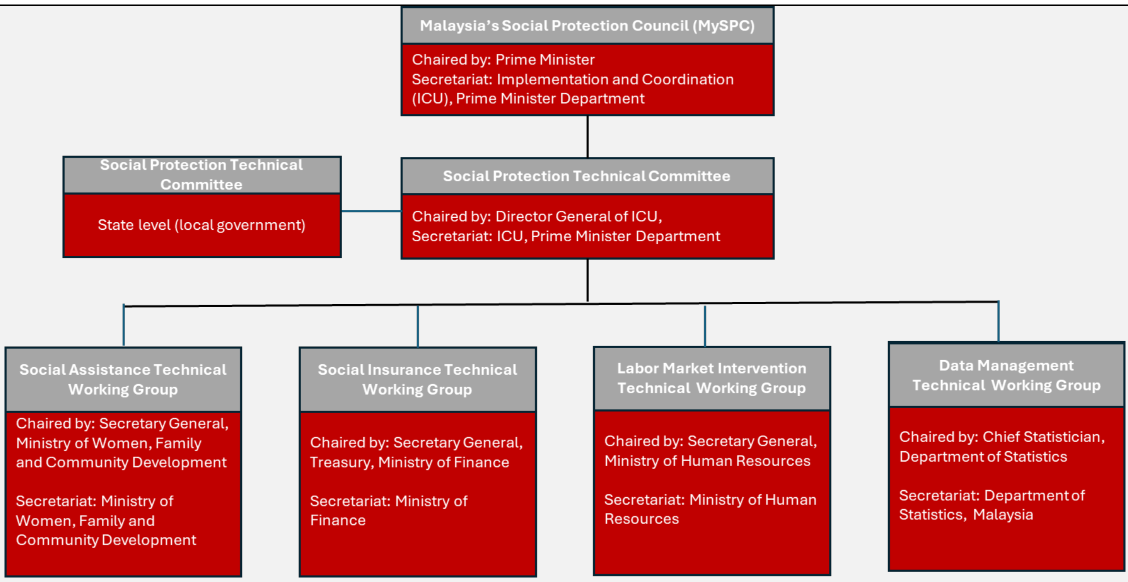
15. A national coordinating body for social protection exists in most countries in the region and plays a vital role in ensuring policy coherence (Table 5). These bodies are key to horizontal coordination, as they establish clear lines of responsibility and delineate roles among various actors and stakeholders, including government entities and the private sector. Furthermore, they streamline policy coordination by reducing overlaps, enhancing harmonization, and resolving conflicts. In countries that have set up such agencies, the focus is usually on policy coherence, aligning social protection strategies with national development goals, and programs. While the responsibilities are similar, the scope and legal foundations under which these bodies are established differ. For instance, Korea's Social Security Committee and Thailand's National Economic and Social Development Council are the only coordinating bodies in the region that are statutory entities, whereas others have been created through secondary legislation, such as Cabinet decisions. Either way, UNDESA (2021a) finds that such arrangements enable more successful coordination than those that are not legislated at all. Moreover, legislation also indicates that accountability is generally stronger when the coordinating body is required to report to a higher authority, such as an oversight committee within the executive or legislative branch. For example, in the Philippines, the National Economic and Development Authority (NEDA) oversees the Cabinet-level Social Development Committee (NEDA-SDC), so the Subcommittee on Social Protection (SDC-SCSP) is required to report to the NEDA-SDC on medium-term social protection plans and the operationalization of new social protection programs. Similarly, Malaysia's MySPC, which operates at Cabinet subcommittee level, is supported by four technical working groups responsible for implementing specific aspects of social protection strategy (Box I.B).

Box I.B. Malaysia's Social Protection Council (MySPC) Structure

MySPC (Majlis Perlindungan Sosial Malaysia) is Malaysia's central coordinating body for social protection, functioning at Cabinet subcommittee level. It is responsible for overseeing the development, implementation, and monitoring of social protection programs across multiple ministries and other government agencies. The organizational structure is designed to ensure effective coordination and of social protection policies. With the status of a Cabinet subcommittee, MySPC is ranked at the top level reporting directly to the Prime Minister, who chairs the central coordinating body. This ensures high-level policy direction and alignment with national development strategies.

MySPC is supported by four technical working groups (TWGs), which are responsible for specific aspects of social protection:

Figure B.1. Structure of MySPC



Source: Malaysia Social Protection Council Glossary (2022)

- TWG on Social Assistance and Welfare: Handles welfare programs, including cash transfers and support for vulnerable groups.

- TWG on Social Insurance and Security: Oversees social insurance schemes such as old-age pension, work injury and unemployment benefits.

- TWG on Labor Market and Employment: Focuses on job creation, skills development, and worker protection.

- TWG on Data Management: Focuses on targeting mechanisms and social databases.

The TWGs work closely with the Ministry of Women, Family and Community Development, the Ministry of Human Resources, the Social Security Organization (SOCSO), the Employees Provident Fund (EPF) and other government bodies.

This structure promotes cross-ministerial collaboration and ensures that policies are comprehensive and targeted, reducing duplication of efforts and enhancing the efficiency of social protection delivery.

16. Countries without a dedicated coordinating body rely on alternative mechanisms within the government to enable horizontal coordination. For example, Japan does not have a central coordinating body, but uses advisory groups such as the Social Security Council, which provides policy advice directly to the Minister of Health, Labour, and Welfare (MHLW). This council ensures that ministries remain aligned in delivering comprehensive and sustainable social protection programs. Similarly, China, though lacking a central coordinating body in social protection, delegates responsibility to lower-level governments through vertical management. This approach suits China's highly decentralized administrative system, where the social protection system is largely driven by social insurance programs with relatively minimal overlap, reducing the need for a central coordinating entity. In Singapore, social protection programs are coordinated through an integrated, multiagency approach rather than a single central body. Ministries such as the Ministry of Social and Family Development, Ministry of Manpower and Ministry of Health, along with statutory boards like the Central Provident Fund Board and Housing Development Board, collaborate closely, with the national budget acting as the primary tool for ensuring alignment. Interministerial coordination ensures that social protection initiatives are efficient, comprehensive, and aligned with national development goals.

17. Local authorities in ASEAN+3 countries have varying levels of control over the design, administration, and processes of social protection programs. The legal distribution of power between national and subnational units, along with the degree of decentralization, varies across countries. Vertical coordination rules often take center stage where sector-wide coordination and monitoring structures are weaker. In China, the central government retains significant control over the design and decision-making of social protection programs, with local governments tasked with the implementation, monitoring and evaluation of core programs such as old-age pensions and social assistance (Box I.C). This centralized approach, while allowing for policy uniformity, often faces challenges in ensuring clear lines of reporting and financial accountability, leading to inefficiencies in program delivery (UNDESA, 2021c). In contrast, Indonesia grants local governments significant autonomy to design and implement social protection programs that address specific local needs. While Indonesia's model allows for a quick response to local issues, it can hinder policy coherence between national and local levels, especially when clarity of operations and coordination is lacking. In addition, every country often has complex rules regarding the degree to which subnational units can deviate from national-level policy. Legislation often assigns specific functions without specifying the standards to be satisfied, in which case local governments are free to choose their level of relevant services and benefits. For example, in Japan, wealthier local governments can, in some cases, provide higher benefits that exceed the national standards, such as additional services and benefits called "Uwanose" (topping up). These systems are known to create hidden welfare setups if the subnational schemes are not well aligned with national programs in terms of financing, eligibility across the board, levels of benefits and incentive structures, posing significant challenges for national assessment and international comparisons.

18. As social protection programs expand from pilot initiatives to national-level systems, enhancing vertical coordination becomes increasingly critical. Vertical coordination – linking national-level policy formulation with local-level implementation – is an essential component of effective social protection systems. Without strong coordination between central and local governments, social protection programs risk fragmentation, leading to inefficiencies, overlaps, or gaps in service delivery. For example, local governments must have clear guidelines on their roles in program administration, financing, and reporting to ensure that national social protection policies are well adapted to fit local economic and social conditions. Moreover, vertical coordination enables social protection systems to be flexible in responding to regional needs while maintaining overall policy coherence. This coordination becomes even more crucial during a crisis, such as the COVID-19 pandemic, where local governments are often responsible for the rapid implementation of centrally devised emergency measures. In such instances, strong vertical coordination allows for timely action, ensures resource alignment, and supports effective monitoring and evaluation across different governance levels. Ultimately, addressing these governance challenges is key to expanding coverage, improving service delivery, and ensuring the sustainability and resilience of social protection systems in the face of future crises.

Box I.C. Institutional Arrangements of Social Protection System in China

The social protection administrative system in China is characterized by a salient feature, the two-dimensional public administration system known as a "tiao-kuai" relationship. Vertical lines of functional agencies (tiao) reach down from ministries of the central government through a five-tier state structure, while horizontal threads of territorially based government units (kuai) coordinate within the localities they govern. For instance, the Yunnan Provincial Human Resource and Social Security Department reports its work to at least two immediate supervisory bodies. The first is the Ministry of Human Resources and Social Security in the same functional system but at an upper level of the territorial hierarchy; the second is the Yunnan Provincial Government, which is at the same administrative level but oversees Yunnan Human Resource and Social Security as one of its functional offices. At present, the Ministry of Human Resources and Social Security and the Ministry of Civil Affairs are responsible for social insurance and social assistance programs, respectively.

A defining feature of China's social protection system is its decentralized administration, which could result in delivery variations across the country. In China, local governments are largely responsible for delivering public services and managing social protection expenditure. The State Council and relevant line ministries at central level are responsible only for establishing nationwide policies and regulations and providing guidelines and opinions on a program's implementation. Provincial governments have to formulate their own implementation guidelines based on principles laid down in the national documents and their local conditions, then convey the guidelines subordinate units at municipal, county, and district levels to perform the public services. For social insurance programs, the central government sets the national contributory rate, but local governments have the discretion to impose additional, benefit amount and compliance requirements based on local conditions. For social assistance programs, each local government sets its respective local living standards based on local conditions, and the calculation method differs across cities and counties.

The central government is the sole authority in introducing new social protection programs. Despite China's decentralized administrative system, new social protection programs can be introduced only by the central government, while local governments have limited flexibility to formulate their own schemes. Any new social protection programs are guided by socioeconomic targets set in the National Five-Year Plan. Before a new program is rolled out nationwide, it is usually piloted in selected cities in a proposed form based on local population needs and the local government's finances. Then, the said program is assessed based on practicality, timing of implementation, operational mechanism and financing feasibility before its framework is finalized. This has been a convention in the past, and such pilot exercises have benefited the coordination and consultative process between the ministries responsible across different levels of government. The pilot program is also used as an avenue to resolve any policy design differences due to different needs arising from the country's large population, geographical size and unbalanced regional economic development. The final administrative stage involves presenting the policy framework to the State Council at central level for review and consideration. Thereafter, a legislative bill will be put forth to the National People's Congress and its Standing Committee for approval.

5. Design and Coverage of Social Protection in ASEAN+3

19. The ASEAN+3 region offers a broad range of statutory programs designed to protect populations from various risks. Table 6 shows that member countries of the current study have implemented at least one statutory program covering five of the six key risk areas: old age, invalidity, and survivors; health and long-term care benefits; sickness and maternity; occupational injuries and diseases; and unemployment benefits. However, the design and coverage of these programs vary considerably across the region. Japan, Korea, the Philippines, and Thailand have statutory programs in place for most life cycle contingencies. On unemployment risk, Singapore stands out as an exception, being the only country in the region without a statutory unemployment benefits program. Instead, Singapore focuses on job training and employment facilitation, reflecting its policy strategy to discourage long-term dependency on state welfare. That said, it has recently made a policy shift by introducing the SkillsFuture Jobseeker Support scheme, a time-bound unemployment assistance program offering financial aid to individuals who are involuntarily jobless and actively searching for jobs. While most countries have some form of statutory family and household benefits, China and Malaysia make use of non-legally mandated cash transfers to support low-income groups.

20. The design of social insurance schemes varies significantly across countries, particularly in scheme structure and financing methods. The social insurance systems in China, Japan, Korea, and the Philippines primarily rely on defined benefits (DBs) to grant old-age pensions, unemployment insurance, and health coverage (Table 7). They pre-determine the benefits based on formulas that account for earnings and years of contribution. These countries also share the similarity of incorporating non-contributory social pensions to support low-income households with insufficient retirement savings for those without access to formal pension schemes or those without sufficient income in old age. On the other hand, Indonesia, Malaysia, and Singapore adopt provident fund systems, though with varying specifics. For instance, Indonesia combines a DC provident fund with a DB social insurance scheme to deliver old-age pensions[13] while using social insurance on other contingencies. Singapore operates a predominantly DC system through the CPF, which integrates old-age pension and health coverage and relies heavily on individual and employer contributions. Similarly, Malaysia's EPF covers pensions via a DC system, but the country also provides DB social insurance for work injury and unemployment risks. Notably, Malaysia is conspicuously lacking in a social insurance program to finance its health care system, instead relying on full tax financing from the state budget, which has imposed significant fiscal burdens. Thailand, meanwhile, mostly leans on social insurance to tackle major contingencies except for health care, which is supported by a combination of tax and social insurance financing.

21. Social assistance programs in the ASEAN+3 region adopt widely differing approaches to social pensions, cash transfers, and health care support. The region displays significant variations in the design and targeting of key social assistance programs across countries. Social pensions, also known as Tier 0 non-contributory pensions, are present in countries with a high aging population, such as China, Japan, South Korea, and. These pensions are backed by legislation, which mandate benefit amounts to provide basic income support to elderly individuals who either do not receive contributory pension benefits

[13] Indonesia's Jaminan Pensiun (JP) is a DB scheme which disburses monthly pensions to retirees based on a formula that considers their salaries and years of contribution. In contrast, Jaminan Hari Tua (JHT) is a DC scheme in which workers accumulate savings over their career and receive a lump-sum payout based on the total contributions made by both the employer and employee plus any accrued interest.

or have insufficient income. The Philippines is the only non-aging country in the region with a statutory social pension scheme, specifically targeting indigent senior citizens. In terms of cash transfers, all countries in the region have schemes in place to provide a social safety net for low-income households. Most of these programs are means-tested unconditional cash transfers, except for Indonesia's PKH and the Philippines' 4Ps, which are conditional cash transfer (CCT) programs. These CCTs aim not only to alleviate poverty but also to encourage behaviors that promote long-term welfare, such as improving education and health outcomes. Additionally, China, Indonesia, Japan, Korea, and Singapore[14] take an integrated view of social assistance programs together with social health insurance systems to support vulnerable groups that are unable to afford medical costs, even with existing subsidies and insurance coverage. These programs provide financial assistance, payment exemptions, or additional subsidies. In contrast, Malaysia operates a fully tax-financed universal health care system, while Thailand provides vulnerable groups with subsidized access to a tax-financed health care system.

22. Gaps exist between legal and effective coverage. In Japan and Korea, legal coverage is extensive, entitling most citizens to benefits under various social protection schemes. Despite this broad legal coverage, significant gaps in effective coverage persist, particularly in recent years, due to shifts in the labor market and the divide between rural and urban populations. Even high-income countries face these challenges, though to a lesser extent compared with middle-income countries. For example, Korea's National Pension Service (NPS) legally covers a wide segment of the population[15]. However, the effective coverage rate of self-employed individuals, although increasing, remains at 80.7% in 2024. Similarly, middle-income countries are striving to close the gap between legal and effective coverage. Malaysia and the Philippines have made efforts to extend social insurance and social assistance programs to include workers in the growing gig economy. However, these initiatives are often hindered by limited institutional capacity, including weak targeting and delivery mechanisms, and fiscal capacity constraints.

23. High-income countries typically exhibit higher social protection coverage rates, reflecting global patterns. These countries benefit from stronger fiscal capacity and well-

[14] Singapore's MediFund serves as a safety net for low-income individuals who have exhausted Medisave, a compulsory medical savings scheme under the Central Provident Fund (CPF); and other means of payment, including personal savings. As an endowment fund administered by the government, MediFund provides financial assistance on a case-by-case basis to ensure that no Singaporean is denied essential medical care due to an inability to pay.

[15] All employees and employers, including self-employees, are covered by the NPS unless they are covered by special occupational schemes – civil servants, private school employees, military personnel, and employees of the special post office. Non-workers and non-workplace-related individuals can voluntarily acquire insured status.

developed institutional frameworks, which allow them to implement and sustain comprehensive social protection systems. With aging populations and declining birth rates, these countries prioritize universal access to health care, old-age pensions, family and household benefits, and unemployment benefits as key elements of their welfare state models. This policy emphasis is reflected in higher effective coverage rates across six key social protection targets: children, mothers with newborn babies, disabilities, unemployment, work injury, and older persons (Figures 1, 2). However, some variations exist, as coverage levels vary based on program design and policy focus. For instance, China and Thailand outperform Singapore in elderly pension coverage. Unlike traditional DB pensions, Singapore's CPF is a DC system in which retirement benefits depend on individual and employer contributions. This system results in lower payouts for individuals with irregular employment, low wages, or insufficient contributions. Additional support is provided to these groups to help build up their retirement savings and support their basic retirement needs, through schemes such as the Silver Support Scheme, Workfare Income Supplement scheme, and the Matched Retirement Savings Scheme. Similarly, Indonesia and Malaysia, which also operate DC systems for old-age pensions, show low coverage compared with other middle-income countries. Notably, China, the Philippines, and Thailand have more extensive social protection coverage than other middle-income countries, with active programs across all key functions.

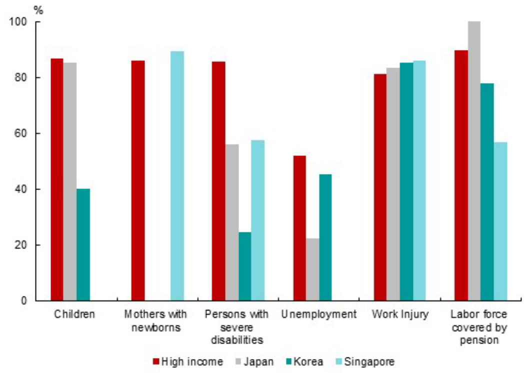
24. Effective social protection coverage hinges on the country's economic structure and the design of social protection programs. Japan and Singapore lead with 100 percent vulnerable persons covered by social assistance cash benefits, surpassing the average rate of 62.8 percent for high-income countries (Figure 3). In contrast, Malaysia has the lowest coverage rate in the region, at 2.1 percent. This can partly be attributed to Malaysia's non-contributory, tax-financed universal health care system and blanket fuel subsidies. Commitment to these benefits imposes large fiscal burdens and limits fiscal resources that can be used to expand other social assistance programs. China (33.2 percent) and Thailand (54.3 percent) show progress but still fall behind the high-income average. Notably, Korea has a relatively low coverage rate of 48.9 percent of social assistance despite being a high-income country. In terms of labor force coverage, a low pension coverage rate is associated with a high self-employment rate (Figure 4), in which workers lack access to formal pension schemes. Many workers, particularly in low and middle-income countries with a large informal sector, have irregular or low incomes, making it difficult for them to participate in social insurance schemes. Workers' lack of awareness, as well as fragmented complex systems, also reduce coverage. Additionally, a government's weak institutional capacity and fiscal constraints will limit its ability to implement and enforce mandatory pension schemes, particularly for vulnerable and non-salaried workers.

6. Conclusion

25. The progress of social protection systems in the ASEAN+3 region highlights both the advances and ongoing challenges in addressing life cycle risks and broader economic shocks. ASEAN+3 economies have expanded their social protection frameworks significantly to address various socioeconomic challenges arising throughout their economic development. However, the COVID-19 pandemic exposed significant gaps in coverage and scalability, highlighting limitations and vulnerabilities within these systems. A key priority for improving social protection in ASEAN+3 is enhancing governance and coordination mechanisms, which will enable more effective vertical and horizontal coordination across government levels and agencies. Without a robust governance framework, social protection systems risk fragmentation and inefficiency, undermining their ability to meet long-term objectives. Moreover, sound fiscal management is essential for ensuring the sustainability of these programs as the complexity of social protection continues to grow. Fiscal coordination between social policy bodies and fiscal authorities will be critical in maintaining financial discipline while ensuring that programs remain scalable and responsive to future crises.

Appendix I.1. Selected Figures

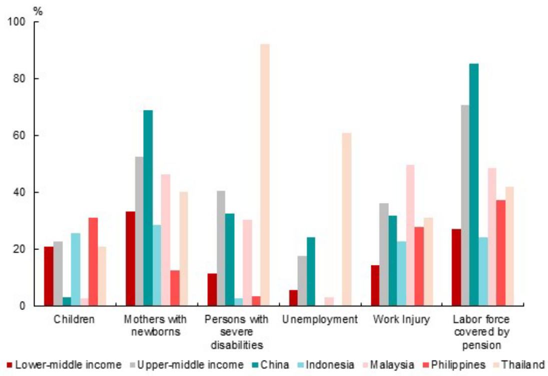
Figure 1. Coverage of Social Protection Benefits in High-income Countries by Program



Source: World Social Protection Database, ILO

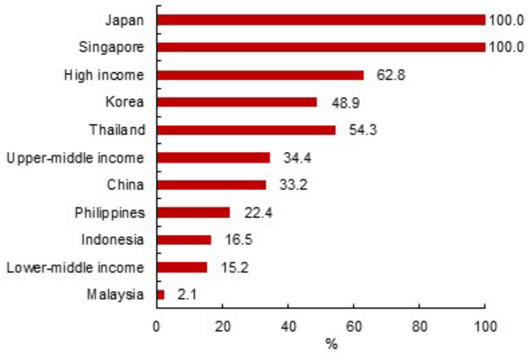
Note: Data on children in Singapore and on mothers with newborns in Japan and Korea is unavailable.

Figure 2. Coverage of Social Protection Benefits in Developing Countries by Program



Source: World Social Protection Database, ILO

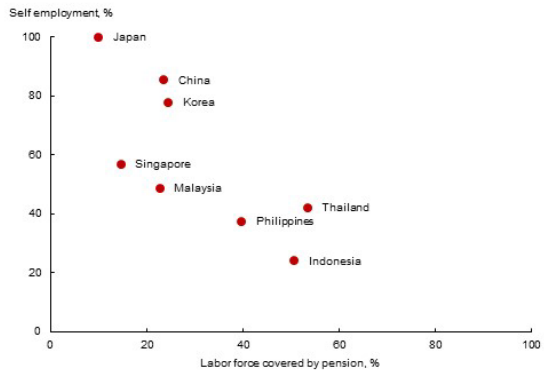
Figure 3. Vulnerable Persons Covered by Social Assistance



Source: World Social Protection Database, ILO

Note: The proportion of vulnerable persons covered by benefits is the ratio of social assistance cash benefit recipients to the total number of vulnerable persons. The latter is calculated by subtracting from the total population of all people of working age who are contributing to a social insurance scheme or receiving contributory benefits, plus all persons above retirement age who are receiving contributory benefits. Data is based on 2020 or the latest available year.

Figure 4. Coverage of Pensions and Self-employment



Source: World Social Protection Database, ILO and (Elgin, Kose, Ohnsorge, & Yu, 2021)

Note: The labor force covered by pensions is the ratio of workers protected by pension schemes (active contributors) to the total labor force. Self-employment is a percentage of total employment. Both indicators are based on 2020 or the latest available year.

Appendix I.2. Selected Tables

Table 1. Selected Countries' Official Definition of Social Protection

Country	Definition of Social Protection	Reference Document	Statutory
China	The social security system includes social insurance, social relief, social welfare, preferential treatment and resettlement, social mutual assistance, and personal savings accumulation guarantee.	Decision of the Central Committee of the Communist Party of China on Several Issues Concerning the Establishment of a Socialist Market Economy System (1993)	No
Indonesia	Social protection is intended to prevent and handle risks from shocks and social vulnerabilities of individuals, families, groups and communities so that minimum basic needs can provide for their survival. It is aimed at individuals, families, groups and communities in an unstable situation that suddenly occurs due to a social or economic crisis, politics, disasters and natural phenomena.	Law 11/2009 on Social Welfare; Government Regulation 39/2012 on the Implementation of Social Welfare	Yes
Japan	The social security system is a safety net that supports the "peace of mind" and "stability" of the people. It consists of social insurance, social welfare, public assistance, and health care and public health, and supports the lives of all people throughout their lifetime, from children to those raising children and the elderly.	Classification follows recommendations by Social Security System Council (1950)	No
Korea	The social protection system encompasses social insurance, public aid and social welfare that ensure both income and essential services necessary to shield all citizens from societal challenges such as childbirth, childcare, unemployment, aging, disability, illness, poverty, and death, with the overarching goal of enhancing quality of life.	Framework Act on Social Security (2013)	Yes
Malaysia	Social protection refers to the safeguards provided to citizens through a series of fundamental actions to prepare for various economic, social, and environmental risks, ensuring their well-being throughout their life cycle.	Malaysia Social Protection Council (MySPC)	No
Philippines	A set of policies and programs is in place to reduce poverty, inequality and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihoods and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks.	Social Development Committee (SDC) Resolution 1, series of 2007	No
Singapore	No country-specific definition, but social protection is rooted in the concept of a social compact, which is the glue that holds society together, with shared understanding between individuals, communities and the government regarding their roles and responsibilities. The social compact focuses on six pillars – education, housing, health care, retirement, employment and social and community support.	Forward Singapore, Building Our Shared Future, October 2023	No
Thailand	No country-specific definition, but the scope of social protection is governed by the Constitution and key individual legislations.	Constitution	No

Source: International Social Security Association (ISSA) and AMRO staff compilation

Note: "Statutory definition" refers to a definition established by legislation, sub-laws or cabinet resolution.

Table 2. Social Protection Policies of International Organizations

Institution	Policy Document	Key Elements of Policy
Asian Development Bank	Social Protection Strategy (ADB, 2001)	Social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption or loss of income.
International Labour Organization	World Social Protection Report: Universal Social Protection to Achieve the Sustainable Development Goals (ILO, 2017)	Social protection, or social security, is a human right and is defined as the set of policies and programs designed to reduce and prevent poverty and vulnerability throughout the life cycle. Social protection includes benefits for children and families, maternity, unemployment, employment injury, sickness, old age, disability, survivors, as well as health protection.
International Monetary Fund	A Strategy for IMF Engagement on Social Spending (IMF, 2019)	In addition to social protection spending, social spending is defined to comprise education and health spending. Social protection is defined to comprise social insurance and social assistance programs. The appropriate definition of basic education and health spending is country specific. Mitigating the adverse effects of adjustment on vulnerable groups and improving spending adequacy can usually be addressed by including quantitative conditionality – social spending floors. Such floors should prioritize vulnerable groups, and where relevant, consider structural measures to strengthen social safety nets and improve the quality and efficiency of social spending and outcomes.
Organisation for Economic Co-operation and Development	Towards Universal Social Protection: Lessons from the Universal Health Coverage Initiative (OECD, 2019)	Social expenditure includes public and private benefits with a social purpose grouped along the following policy areas: old age, survivors, incapacity-related benefits, health, family, active labor market programs, unemployment, housing and other social policy areas. The OECD study takes a flexible approach and embraces country-specific definitions of social protection to guide the work, and alternatively relies on the ILO's definition, which defines social protection as the guarantees that should ensure at a minimum that, over the life cycle, all in need have access to essential health care and basic income security.
World Bank	The World Bank's Social Protection and Labor Strategy 2012-2022 (World Bank, 2012)	Social protection and labor systems, policies, and programs help individuals and societies manage risk and volatility and protect them from poverty and destitution through instruments that improve resilience, equity, and opportunity. Adopts a life cycle approach. The Social Protection and Labor (SPL) strategy has three goals: resilience through insuring against drops in well-being from a range of shocks; equity through protecting against destitution and promoting equality of opportunity; and opportunity through promoting human capital in children and adults.

Source: Engström and Vegar (2021), AMRO staff compilation

Table 3. Legal Framework for Social Insurance Schemes

Country	Legislation	Statutory Program	Government's Fiscal Commitment
China	Social Insurance Law of the People's Republic of China (2011)	Basic Pension Insurance (social insurance), Basic Medical Insurance, Work Injury Insurance, Unemployment Insurance, Maternity Insurance	The government contributes primarily to medical insurance and pensions, especially for rural and non-employed urban residents, through subsidies from both central and local government budgets.
Indonesia	- Law 40/2004 on the National Social Security System - Law 24/2011 on the Social Security Organizing Agency (BPJS) - Government Regulation 44/2015 on Accident Insurance and Life Insurance Programs - Government Regulation 37/2021 on Implementation of Unemployment Insurance (JKP) Program	Pension Security (social insurance), Mandatory Life Insurance (social insurance), National Health Insurance, Employment Injury Security, Unemployment Insurance, Old-age Insurance	The government contributes as an employer in certain sectors but does not generally provide direct subsidies to most programs except for specific populations under National Health Insurance, such as poor and vulnerable groups). The state budget partially funds health insurance for beneficiaries under the Health Insurance Contribution Assistance program.
Japan	- National Pension Law (1959) - Employees' Pension Insurance Act (1944) - Health Insurance Act (1922) - Employment Insurance Act (1974) - Long-Term Care Insurance Act (1997)	National Pension (NP), Employees' Pension Insurance (EPI), Health Insurance, Long-term Care Insurance, Work Injury Insurance, Employment Insurance	The government contributes to National Pension and Health Insurance programs by providing subsidies. It pays one-third of the National Pension's basic pension costs.
Korea	- National Pension Act (1988) - National Health Insurance Act (1999) - Employment Insurance Act (1993) - Industrial Accident Compensation Insurance Act (1963)	National Pension Scheme (NPS), National Health Insurance (NHI), Employment Insurance, Industrial Accident Compensation Insurance	The government contributes to the National Pension Scheme and National Health Insurance. It covers a portion of health insurance's administrative costs and funds health insurance for low-income households.
Malaysia	- Employees' Social Security Act (1969) - Employees Provident Fund Act (1991)	Invalidity Pension Scheme, Employees Provident Fund (EPF), Elderly Assistance Scheme, Employment Insurance System (EIS)	The government contributes indirectly by subsidizing public health care services and providing matching payments for specific voluntary provident fund contributions, such as those for domestic workers. It does not contribute directly to the EPF but acts as an employer of public-sector employees.
Philippines	- Republic Act 8282 (Social Security Law, 1997) - Republic Act 8291 (GSIS Act, 1997) - Republic Act 7875 (National Health Insurance Act, 1995)	Social Security System (SSS), Government Service Insurance System (GSIS), PhilHealth, Pag-IBIG Fund	The government subsidizes health insurance for indigent populations under the PhilHealth program and contributes to pensions for government employees.

Country	Legislation	Statutory Program	Government's Fiscal Commitment
Singapore	Central Provident Fund Act (1955)	Central Provident Fund (CPF)	The Government ensures minimum guaranteed returns on the different components of CPF savings. Additionally, the Government also provides direct contributions to members' CPF through regular and one-off government top-ups (e.g. Majulah Package, Assurance Package, Workfare Income Supplement scheme.
Thailand	- Social Security Act (1990) - Workmen's Compensation Act (1974) - National Health Security Act (2002)	Social Security System, Workmen's Compensation Fund, National Health Insurance, Old-age Pension	The government contributes to the Social Security Fund, particularly for health insurance, unemployment benefits, and maternity benefits. It also subsidizes voluntary contributions for informal-sector workers under the National Savings Fund.

Source: ISSA; AMRO staff compilation

Table 4. Major Social Assistance Programs in Selected ASEAN+3 Economies

Country	Key Social Assistance Program	Targeting	Type	Statutory
China	Rural and non- salaried urban residents	Pension-tested	Social pension	Yes
	Dibao (Minimum Living Standard Guarantee)	Means-tested	Unconditional cash transfer	No
	Medical Assistance	Means-tested	In-kind transfer	Yes
Indonesia	Program Keluarga Harapan (PKH)	Means-tested	Conditional cash transfer	Yes
	Program Sembako	Means-tested	In-kind transfer[1)]	Yes
	National Health Insurance	Universal	In-kind transfer	Yes
Japan	Public Assistance (Seikatsu Hogo)	Means-tested	cash and in-kind transfer	Yes
Korea	Basic Pension	Means-tested	Social pension	Yes
	Medical Aid	Means-tested	In-kind transfer	Yes
	Basic Living Support Payment	Means-tested	Unconditional cash transfer	Yes
Malaysia	Bantuan Tunai Rahmah	Means-tested	Unconditional cash transfer	No
Philippines	Social Pension for Indigent Senior Citizens	Means-tested	Social pension	Yes
	Pantawid Pamilyang Pilipino Program (4Ps)	Means-tested	Conditional cash transfer	Yes
Singapore	Silver Support Scheme	Means-tested	Unconditional cash transfer	Yes
	MediFund	Means-tested	In-kind transfer	Yes
	MediShield Life	Means-tested	In-kind transfer	Yes
	Comcare Short-to-Medium-Term Assistance and Long Term Assistance	Means-tested	Unconditional cash transfer	Yes
	Workfare Income Supplement Scheme	Means-tested	cash and contribution transfer	Yes
Thailand	Old Age Allowance	Universal[2)]	Unconditional cash transfer and social pension	Yes

Source: ISSA; AMRO staff compilation

Note: This table outlines only key social assistance programs in each country. Conditional cash transfer here refers to programs that transfer cash, generally to poor households, on the condition that those households make pre specified investments in the human capital of their children based on World Bank's definition. 1) In-kind transfer until 2023. After 2023, the type changed to cash transfer. 2) Thailand's Old Age Allowance (OAA) provides a basic pension for all Thai citizens aged 60 years or older except retired civil servants, who have their own government pension schemes.

Table 5. Existence of Central Coordinating Body of Social Protection

Country	Coordinating Body	Legal Basis	Lead Agency/ Secretariat	Responsibilities
Indonesia	Coordinating Ministry for Human Development and Cultural Affairs	Presidential Decree 165/2014 on arrangement of duties and functions of the work cabinet	Ministry of Social Affair	Carry out government affairs in the social sector to assist the President in administering state government
Korea	Social Security Committee	Social Security Act (2013)	Prime Minister's Office	Improves coordination and integration of social protection policies across government agencies and ensures that the country's social protection system is cohesive and effective
Malaysia	Social Protection Council (MySPC)	Cabinet decision	Implementation and Coordination Unit (ICU), Prime Minister Department	Coordinates and ensures social policy coherence, and strengthens social protection systems based on Cabinet decisions
Philippines	Social Development Committee Subcommittee on Social Protection (SDC-SCSP)	Cabinet Committee Resolution 2, series of 2009 "Approving the Creation of Sub-Committee on Social Protection"	Department of Social Welfare and Development (DSWD)	Develops medium-term Social Protection Plan (SPP), provides operationalization guidelines and ensures necessary institutional arrangements to implement SPP are in place
Thailand	National Economic and Social Development Council (NESDC)	National Economic and Social Development Council Act of 2018	National Economic and Social Development Board (NESDB)	Monitors and evaluates implementation of national development plans and effectiveness of policies in achieving socioeconomic objectives, ensuring they align with long-term national goals

Source: AMRO staff compilation

Note: China, Japan and Singapore are not included in this table due to the absence of a central coordinating body.

Table 6. Existence and Financing of Statutory Programs across Life Cycle Contingencies

Country	Existence of Statutory Programs					
	Old age, invalidity and survivors	Health and long-term care benefits	Sickness and maternity	Accidents at work and occupational Disease	Unemployment	Family and Household benefits
China	SI/SA	SI/PF	SI	SI/EL	SI	*
Indonesia	PF/SI	SI	EL	SI	SP	SA
Japan	SI/SA	SI	SI	SI	SI	SA/EL
Korea	SI/SA	SI/SA	SI	SI	SI	SA
Malaysia	PF/SA/SI	*T	EL/PF	SI	SI	*
Philippines	SI/SA	SI	SI	SI	SP	SA
Singapore	PF/SA	T/PF/SA	EL	EL	*	SA
Thailand	PF/SA/SI	T/SI	SI	EL	SI	SI

Source: ISSA

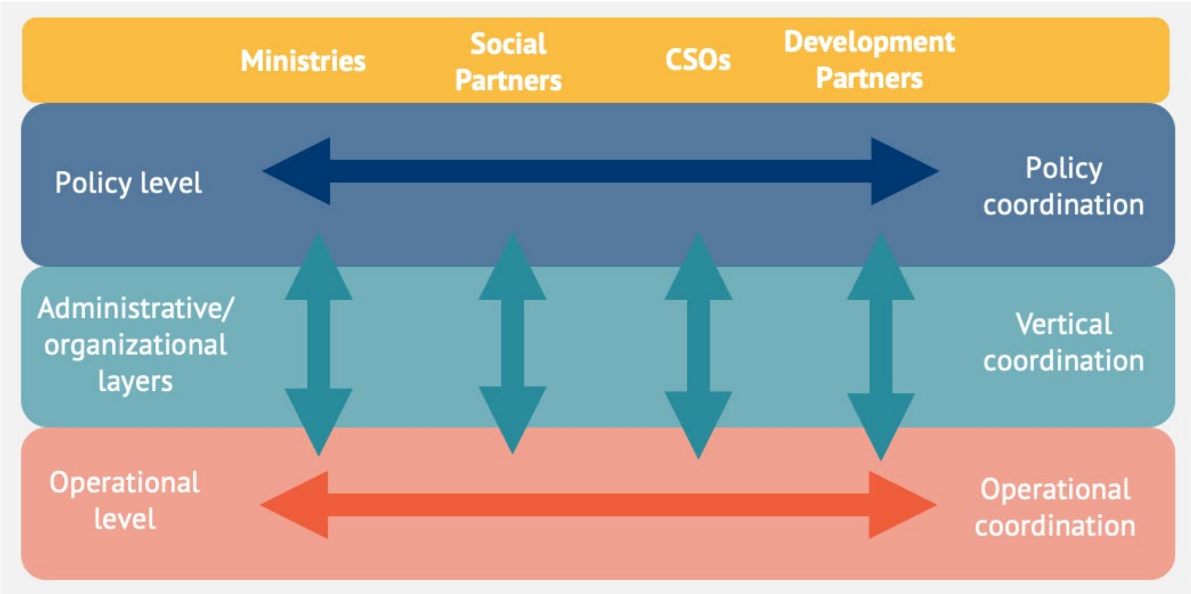
Note: Data is up to 2022 and excludes civil service pensions. SI: social insurance, SA: social assistancE, SP: severance pay, EL: employer's liability, PF: provident fund, T: tax-financed and anchored in legislation, *T: tax-financed but not anchored in legislation, *: ad hoc programs are in place but are not anchored in legislation

Table 7. Social Insurance: Designs and Financing Types

Country	Statutory Program	Type of Financing
China	Basic Pension Insurance (social insurance), Basic Medical Insurance, Work Injury Insurance, Unemployment Insurance, Maternity Insurance	- DB for pensions, unemployment, and work injury and medical insurance
Indonesia	Pension Security (social insurance), Mandatory Life Insurance (social insurance), Provident Fund, National Health Insurance, Employment Injury Security, Unemployment Insurance, Old-age Insurance	- DB for pensions and work injury - DC for provident fund
Japan	National Pension (NP), Employees' Pension Insurance (EPI), Health Insurance, Long-term Care Insurance, Work Injury Insurance, Employment Insurance	- DB for pensions, work injury, unemployment and health insurance
Korea	National Pension Scheme (NPS), National Health Insurance (NHI), Employment Insurance, Industrial Accident Compensation Insurance	- DB for pensions, work injury, unemployment and health insurance
Malaysia	Invalidity Pension Scheme, Employees Provident Fund (EPF), Elderly Assistance Scheme, Employment Insurance System (EIS)	- DC for EPF - DB for invalidity pension - Tax-financed health sector
Philippines	Social Security System (SSS), Government Service Insurance System (GSIS), PhilHealth, Pag-IBIG Fund	- DB for pensions, work injury, unemployment and health insurance
Singapore	Central Provident Fund (CPF), MediShield Life, CareShield Life	- DC for CPF
Thailand	Social Security System, Workmen's Compensation Fund, National Health Insurance, Old-age Pension	- DB for pensions and work injury - Mix of DB and DC for health insurance

Source: ISSA; AMRO staff compilation

Appendix I.3. Coordination of National Social Protection Programs



Source: Adapted from United Nations Development Group (UNDG) and ILO (2016), Figure 3.

Note: CSO refers to civil society organization.

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II. Fiscal Management of Social Protection in Selected ASEAN+3 Countries[1]

1. Introduction

1. Governments' rapid responses in applying anti-pandemic measures have confirmed the critical role of public financial management (PFM)[2] in the operation of an effective social protection system. Even before the pandemic, many countries, particularly in the developing world, were grappling with rising debt levels, sluggish economic growth, and increasing social protection commitments driven by demographic shifts, labor market changes, and covariate shocks. Containment measures warranted by the COVID-19 pandemic forced governments to scale up fiscal support at an unprecedented pace using both existing and newly introduced schemes. However, this rapid expansion placed significant strain on PFM systems as fiscal authorities faced multiple challenges: to reassess fiscal policy needs and identify additional financial resources amid shrinking fiscal space; to ensure sufficient liquidity to disburse funds to service delivery units promptly; and to track, account for, and report on the resources allocated for emergency response efforts, according to the World Health Organization (WHO, 2022). Countries with less robust PFM frameworks struggled to adapt, lacking the necessary institutional arrangements to manage the surge in emergency subsidies effectively. Their existing systems were not designed for the rapid expansion required during the pandemic, exposing vulnerabilities in their ability to respond quickly and efficiently to large-scale social and economic shocks (Saxena and Stone, 2021). This outcome highlighted the need for more resilient and responsive PFM systems capable of managing both routine social protection needs and emergency responses.

2. The need to strengthen the PFM framework extends beyond the pandemic and is crucial in developing social protection in the post-pandemic era. As the globe emerged from the pandemic, many countries initially planned a gradual withdrawal of temporary and emergency support measures introduced during the crisis. However, many of these measures have been retained or slightly modified to address post-pandemic inflationary pressure, decisions which were considered as responding to growing international calls for more comprehensive social protection systems. This shift in policy is especially important for developing economies in pursuing the

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[2] PFM in the narrowest sense refers to how governments manage the budget in its established phases – formulation, approval, and execution. The focus of the term has also broadened from the narrowly defined budget to all aspects of managing public resources, including resource mobilization and debt management, with a progressive extension to medium to long-term implications and risks to public finances arising from today's policy decisions (Cangiano, et al., 2013). PFM is seen as having the following objectives: to maintain a sustainable financial position, to allocate resources effectively, and to provide goods and services efficiently.

United Nations' Sustainable Development Goals (SDGs), where stronger social protection can boost human capital development, reduce poverty, and eventually contribute to long-term economic growth. However, weak PFM systems may impede the effective and sustainable expansion of social protection in several ways. First, weak medium-term fiscal planning, including overly optimistic revenue projections and inadequate cost assessments, often leads to underfunding of new social protection programs, which in turn impairs strategic resource allocation and diminishes the effectiveness of fiscal policy. Second, the lack of robust transparency and accountability mechanisms increases the risk of inefficiencies, such as resource leakages, misallocation of funds, and corruption. Third, inflexible fiscal management tends to constrain a government's ability to adequately respond to unexpected fluctuations in social assistance needs, such as during a sharp economic downturn or natural disaster, when support is most required. Finally, the lack of proper assessment on fiscal sustainability can lead to the government overcommitting to various policy areas, posing significant fiscal sustainability risks.

3. The nature of social protection presents a unique challenge to fiscal management. Social protection is often viewed as a fundamental human right as it assures basic economic security and dignity, making it politically and socially difficult for governments to scale down benefits without encountering significant public resistance. In addition, legal frameworks provide essential guarantees, such as mandating continuous funding and ensuring that beneficiaries have access to the services they need. However, social protection also constrains a government's fiscal flexibility because it is harder to adjust spending in social protection programs compared with other sectors, where expenditure can be changed more easily. Social protection programs often become long-term obligations that are difficult to scale back once implemented. This is especially true for countries facing demographic changes, which increases demand for pensions and health care, driving the need for expanded safety nets. The rising cost of maintaining and expanding a social protection system can thus limit a government's ability to invest in other priorities, posing significant challenges to long-term fiscal sustainability.

4. Building a responsive and sustainable social protection system requires a well-functioning PFM framework. During emergencies such as the pandemic, the ability of governments to respond rapidly to rising social protection needs depends heavily on their PFM systems. Key components include contingency planning, budget flexibility, and efficient fund allocation mechanisms. PFM frameworks must enable governments to quickly reallocate resources through tools such as virements, supplementary budgets, and emergency spending provisions. They should also encompass flexibility to allow for adjustments. Moreover, a robust PFM system supports medium and long-term fiscal planning, which enables governments to plan social protection expenditures over multiple years. This is crucial for ensuring that growing commitments from social protection can be financed sustainably given their long-term nature. A strong PFM system also features effective mechanisms for tracking, monitoring, and reporting on the management of public funds, ensuring that governments can respond to challenges such as demographic shifts, economic shocks, or external crises.

5. This section examines key elements of PFM related to the social protection systems of ASEAN-5 countries, China, Japan, and Korea. Recognizing that PFM systems are broad and multifaceted, the current chapter focuses on aspects most relevant to resource allocation and fiscal sustainability, which are crucial as a social protection system expands. As these countries face growing long-term fiscal obligations arising from rising social protection needs, this chapter documents how each country's PFM framework addresses the challenges of increasing public resource requirements to meet the committed obligations. Particular attention is given to how medium and long-term fiscal perspectives are integrated into decision-making processes for social protection programs, ensuring overall fiscal sustainability.

2. Public Financial Management in Social Protection

6. The role of PFM in ensuring the rapid response and sustainability of social protection systems has been underrepresented in policy discussions despite its importance. This oversight can be largely attributed to two primary factors. First, past discussions, particularly among international organizations, have focused predominantly on creating fiscal space to meet rising social protection needs – through increased revenue generation or borrowing – rather than on how PFM systems can support the development of social protection systems (Ortiz, et al., 2017). Second, fiscal space, PFM and social protection are often treated as distinct disciplines, with experts in each field working in silos. Those focused on fiscal space prioritize revenue generation and explore financing options to meet rising social protection spending needs (Ortiz, et al., 2019); PFM experts concentrate on improving expenditure efficiency and reforms (Allen, et al., 2013); while social protection specialists adopt a rights-based approach, calling for universal social coverage and building a social protection floor. While governments' adoption of the UN's 2030 Agenda for Sustainable Development and the SDGs have spurred some interest in aligning national budgets through improved fiscal management, the discussion is mostly confined to the health sector (Barry and Gupta, 2021).

7. The sudden increases in social protection spending have put PFM systems to the test. To cope with budget shortfalls and meet urgent spending needs, countries are equipped with various emergency measures within their PFM frameworks, such as contingency appropriations, emergency spending provisions, expenditure reprioritization through budget reallocation and virements, as well as supplementary budgets (Box II.A).[3] However, the pandemic revealed limitations of these frameworks, as many were not prepared for the scale and speed of fiscal interventions required. In many countries, procedures on how to activate large-scale emergency funding were either unclear or not well defined, and the disbursement procedures lacked transparency. As a result, where the activation procedures for emergency funds were not fully regulated, the process of allocating funds was often cumbersome and opaque (Wendling, et al., 2021). In some cases, certain reserves and unregulated contingency funds were mobilized outside of regular PFM processes, with limited information available publicly on the level of funding and deployment modalities (WHO, 2022). This placed strain on oversight mechanisms, weakening accountability and making it challenging to track the effectiveness and efficiency of emergency expenditures (Bandy and Metcalfe, 2021). Furthermore, the pandemic exposed disparities in PFM capacity between advanced and emerging economies, as countries having stronger institutional frameworks tended to be better positioned to manage the fiscal demands of a crisis.

Box II.A. Emergency Financing Tools in ASEAN+3 during COVID-19 Pandemic

Various PFM tools were used to finance emergency support measures during the COVID-19 pandemic. Malaysia established a multiyear COVID-19 Fund, an extrabudgetary fund with an initial allocation of RM45 billion, to expeditiously implement a slew of targeted interventions under the country's stimulus packages. In the Philippines, the Congress passed the "Bayanihan to Heal as One Act," which provided the legal basis for the President to exercise temporary budgetary measures to access and redirect public funding from various sources to the COVID-19 response. These temporary measures included redistributing resources from regular budget allotments under the General Appropriations Act (GAA), as well as accessing resources from the National Disaster Risk Reduction and Management Fund and other contingency funds. In Indonesia, the government established the COVID-19 Response and National Economic Recovery (PEN) program, allowing for expedited budget reallocations and emergency spending on direct cash assistance, subsidies, and health care support. It enabled the government to quickly assign resources to vaccination campaigns, hospital upgrades, and social safety nets for affected populations. Similarly, Korea deployed two supplementary budgets and special grant transfers to local governments, expediting funding to support small businesses and vulnerable groups. The country's approach facilitated the swift deployment of relief packages, helping to mitigate the economic downturn and support the health care system.

Table A.1. Budgetary measures in response to COVID-19 pandemic

[3] To give a fuller picture, external grants also played a significant role in supporting the spending needs during the pandemic. However, external grants are beyond the scope of this report and will not be discussed in detail.

Measures	New budget allocations via supplementary budgets	Activation of contingency funds or reserves	Reprioritised budget allocations in existing annual budget	Creation of extrabudgetary entities or funds	Creation of new budgetary program via legislation
China		✓	✓		
Indonesia			✓		✓
Japan	✓	✓			
Korea	✓	✓			
Malaysia			✓	✓	
Philippines	✓	✓	✓	✓	
Singapore	✓	✓	✓		
Thailand			✓		✓

Source: Authors' compilation based on various sources, including country sections in Chapter 3

Note: China's activation of reserves to finance policy and reprioritise budgetary allocations can be found in Report on the Implementation of Fiscal Policy of China for 2020 (Ministry of Finance, People's Republic of China, 2020). Japan used 1.639 trillion yen ($15.5 billion) reserves to spend on COVID-19 measures (Reuters, 2020a). Singapore carried out new budgetary allocations through supplementary budgets,advances from contingencies funds and reserves to finance additional expenditures (The Straits Times, 2020; Ministry of Finance, Singapore, 2020). Thailand's Cabinet extended soft loans to provide targeted relief to small and medium enterprises engaged in tourism, financed by reallotting funds from other financial assets (IMF, 2021).

8. **Fiscal management is complicated by the fiscal rigidity of social protection expenditures.** Fiscal rigidity of social protection expenditures stems from two channels: the statutory nature and the political appeal of these programs. Increasingly, social assistance programs are being anchored in legislation to provide a social protection floor for the population, alongside existing social insurance schemes. The legal commitments bind governments to provide sufficient funding regardless of economic and fiscal conditions. Such a situation tends to increase the portion of predetermined spending amid growing social protection needs, leaving limited room for flexibility in reallocating resources. This rigidity can become particularly challenging for policymakers when fiscal space is limited, forcing governments to cut spending in other priority areas or raise debt to meet these obligations. Fiscal rigidity can be further compounded by the political difficulty of reforming or scaling back such benefits, which the public often perceive as entitlements. Governments, aware of the potential electoral consequences, are reluctant to introduce reforms that may be viewed as reducing the benefits of certain groups, even when fiscal sustainability is at stake. As a result, once these programs are implemented, it becomes nearly impossible to withdraw or downsize them without facing significant opposition, further limiting the government's ability to respond to changing fiscal circumstances.

9. A robust PFM framework is a critical enabler for a sustainable expansion of social protection systems, particularly in light of growing demographic pressures and economic uncertainties. Effective PFM frameworks are critical in sustainably managing the long-term financial commitments associated with social protection programs. Instruments such as medium-term fiscal frameworks (MTFFs) and long-term fiscal projections allow governments to assess future fiscal resource needs and align social protection policies with available resources before making full commitments. These mechanisms enable policymakers to incorporate key macroeconomic and demographic trends, such as aging populations and labor market shifts, into their planning processes, ensuring that the development of social protection systems is both responsive and financially viable over the long term. An MTFF also allows fiscal authorities to identify and analyse evolving fiscal risks and develop necessary mitigation measures, supporting the effective and sustainable implementation of social protection programs. In addition, when the annual budget process is embedded within a forward-looking PFM framework, it provides an opportunity to regularly reassess financing needs and risks and strategically adjust allocations to evolving policy priorities, including social protection. A strong PFM framework also helps contingency funds to be disbursed in a timely manner in order to make rapid policy responses to meet urgent spending needs. Furthermore, robust expenditure tracking, monitoring, and evaluation mechanisms ensure that public resources are used efficiently and transparently, enhancing accountability without compromising flexibility during a crisis. All these advantages not only ensure the financial sustainability of expanding social protection systems but also strengthen public trust in the government's ability to manage resources responsibly.

3. Budgetary Mechanism for Social Protection in ASEAN+3

10. The budget process in ASEAN+3 economies shares many common elements with global practices. All ASEAN+3 economies follow the basic elements of a standard budgetary framework, involving top-down strategic planning and the establishment of overall fiscal aggregates in line with priorities outlined in national strategic plans. The process typically begins with macroeconomic forecasts that guide the envelope and allocation of resources, followed by the issuance of budget circulars to line ministries, which include indicative spending ceilings for each ministry. This procedure ensures that spending requests align with national fiscal targets and national strategic plans. Subsequently, line ministries submit budget requests, which are then subject to hearings and negotiations with the budget authority at bilateral or collective ministerial level, leading to agreement before the budget is finalized for legislative scrutiny and approval. While the principles are broadly similar across most countries' ministries of finance, actual implementation practices depend on many factors and vary significantly.

11. Differences emerge in how budgeting is carried out, reflecting country-specific budgetary systems. For instance, Singapore adopts a block budget system in which line ministries submit five-year budget proposals to the Ministry of Finance (MOF). This system allows line ministries discretion to allocate resources within their budgets over a specified time frame, enabling individual ministries to manage their own resources without line-by-line control by the MOF. Ministries are incentivized to prioritize spending within the allocated block of funds, fostering efficient expenditure management. Certain social protection programs are also funded by dedicated endowments and trust funds, or special transfers for one-off programs. These mechanisms, incorporated in the annual budget, ensure sustainability and dedicated funding for key social programs without relying on yearly budget allocations. Meanwhile, the Philippines adopts a two-tier budgeting approach (2TBA) to expenditure management. Tier 1 focuses on the actual cash requirements for ongoing programs and commitments at current cost and service levels. Tier 2 considers funding for new or expanded proposals, guided by a budget priorities framework (BPF). For a new social protection program to secure funding under Tier 2, it needs to be consistent with the agency's multi-year planning documents and reflect the government's priorities as well as 'implementation ready'. For example, the Department of Social Welfare and Development (DSWD) is required to showcase the expected benefits of a proposed program and its relevance to the Philippines Development Plan (PDP) and BPF. In addition, the DSWD must demonstrate its capacity to implement the program effectively by providing information on past budget usage rates, ensuring that proven operational capacity can support new initiatives. This structured and phased approach enables the Philippines to balance ongoing commitments with the introduction of new social initiatives while maintaining oversight and alignment with national priorities.

12. **Social protection programs of selected ASEAN+3 economies generally follow standard budget preparation procedures similar to other government programs**. However, due to the statutory nature and challenge in withdrawing or scaling them down, social protection programs tend to create long-term fiscal obligations that extend far beyond the annual budget cycle. Despite their long-term fiscal implications, the budgeting process for social protection is seldom treated differently and often handled with the same level of scrutiny as other programs, concentrating on resource needs for the budget year. Given the focus of the annual budgeting process, additional PFM institutions that cover a horizon over a longer time are critical to properly assess potential risks to fiscal sustainability in the face of rising social protection needs. Nevertheless, some countries in the region incorporate dedicated funding mechanisms to ensure the sustained implementation of certain social assistance programs. For instance, in the Philippines, PhilHealth coverage of Pantawid Pamilyang Pilipino Program (4Ps) beneficiaries and senior citizens is funded by revenue generated from the sin tax.

13. Countries have diverse frameworks for introducing new social protection programs, but few systematically incorporate long-term financing assessments into their decision-making processes. Typically, the introduction of new programs requires coordination between line ministries or a central supervisory agency and the fiscal authorities, to ensure their policy priorities align and budgetary resources are available. Countries frequently introduce or expand social protection programs to address immediate or structural social needs – such as poverty alleviation, unemployment, or an aging population – without incorporating comprehensive financial planning to ensure sustainability. Instead, new programs are often piloted to assess their effectiveness and resource needs before full-scale implementation. Despite coordination with fiscal authorities, however, thorough assessments of the long-term fiscal resource requirements of these programs and their implications for overall fiscal sustainability are often lacking. While legal frameworks exist to guide how new programs are introduced, medium to long-term resource needs are often inadequately considered. This can increase the risk of government overcommitment, especially if the expansion of social protection programs is based on temporary excess revenue without rigorous evaluation of their long-term financial requirements. In this aspect, Korea stands out with its National Finance Act, which mandates feasibility studies on new social protection programs exceeding KRW50 billion, with at least KRW30 billion subsidized by the central government.[4]

14. **Countries in this region demonstrate diverse approaches to controlling social protection costs**. In most cases, fiscal authorities, in collaboration with other ministries and agencies, set expenditure ceilings for ministries and sectors, ensuring that budgets proposed by ministries, departments, and other government entities align with national development plans and stay within the revenue envelope. A common method of managing fiscal resources allocated to social protection programs is through sectoral and/or ministerial ceilings, typically outlined in budget circulars during the preparatory phase. While budget frameworks form the primary mechanism for resource control, some countries adopt additional cost-containment measures to regulate rigid spending outside the formal budget process. For example, Japan and Korea manage rising social protection costs through separate unit-cost adjustment mechanisms – such as basic living standard revisions, pension benefit formulas, medical service fees, and health care reimbursement rates. This approach gives fiscal authorities the flexibility to adjust the resource needs of entitlement spending, which is rarely subjected to negotiation during the annual budget discussion process. However, the effectiveness of these measures depends significantly on the design and structure of individual social protection programs.

[4] Once a proposed program passes the feasibility studies, it must be presented to the National Assembly for further deliberation, with exceptions allowed for natural disasters and regional development.

15. Strong intergovernmental coordination is critical for the effective delivery of social protection programs. In countries where local governments are responsible for implementing social protection initiatives led by the central government, central fiscal authorities must ensure that sufficient resources are available for local governments to meet local needs. In regions with weaker financial capacity, fiscal transfers and subsidies from the central government are indispensable for the regional government to adequately provide its mandated public services, including equal access to social protection benefits. For example, in China, the implementation of social protection programs is delegated to local governments, but regional disparities in fiscal resources necessitate significant financial support from the central government to ensure equitable access to benefits (Box II.B). Similarly, in Indonesia, the central government controls program design, while local governments manage implementation supported by fiscal transfers from the central government. In countries with such shared policy responsibilities in place, coordinating the efforts of different government levels presents a considerable challenge, as fiscal and administrative capacities often vary appreciably across regions, leading to imbalances in service delivery. This issue is particularly evident in countries with substantial disparities in revenue capacity. Wealthier regions with stronger tax bases can maintain well-funded programs, while poorer areas often struggle to keep even the minimum of mandated social protection services. To address these challenges, robust intergovernmental fiscal frameworks that clearly define the responsibilities and financial obligations of each level of government are needed. This includes establishing transparent and predictable fiscal transfer systems that take into account both the needs and fiscal capacity of each region, as well as ensuring that local governments have the institutional capacity to manage and deliver social protection programs effectively. In the Philippines, the central government, through the DSWD and the Department of Budget Management (DBM), helps local governments develop social protection plans and promote governance and financial accountability using its Public Financial Management Competency Program.

16. Flexibility in the PFM system is essential for governments to manage the rapid expansion of social protection spending effectively, especially during a crisis. Economic shocks, natural disasters, and health emergencies often increase demand for social protection measures and require swift and effective policy responses. PFM frameworks should enable policymakers to redirect resources efficiently and quickly scale up social protection spending without compromising the discipline of fiscal management. Countries typically rely on a combination of in-year budgetary flexibility tools – such as virements, reserves, contingency funds and supplementary budgets – with pre-defined specific processes and conditions depending on the funding size and urgency. These tools provide governments with some capacity to amend the approved budget in response to unforeseen economic developments. The framework for these flexibility mechanisms tends to vary by country. For instance, the GAA in the Philippines stipulates several mechanisms to address funding shortfalls or urgent needs. It allows the use of allotted budget savings to cover deficiencies in existing appropriations, and specifies strict rules on fund augmentation for activities. The GAA also provides for a contingent fund, unprogrammed appropriations and Quick Response Funds. In Malaysia, the Constitution requires contingency reserves, which are included in the annual budget allocations, to be fully expended before a supplementary budget to accommodate additional spending can be tabled for legislative approval.

17. An effective monitoring system is essential for the successful implementation and performance assessment of social protection programs. Establishing such a system is a prerequisite for the efficient use of allocated funds and the alignment of spending with program objectives. Through continuous tracking of expenditures, governments can quickly identify potential implementation problems such as overspending, resource misallocation, or delays in fund disbursement, allowing for timely corrective actions. Monitoring also strengthens transparency and accountability standards as it requires regular recording and reporting of public fund usage, which helps build public trust and prevent misuse of public resources. Additionally, monitoring enables the assessment of program performance by linking financial inputs to outcomes, providing data to evaluate whether the social protection initiatives are achieving their intended goals, such as reducing poverty or increasing access to health care. Proper performance assessment is crucial for improving program design and spending efficiency, particularly in environments with limited fiscal space. In the Philippines, national government agencies are required to submit regular financial reports, such as Quarterly Budget and Financial Accountability Reports, Monthly Disbursement Reports, and Agency Performance Reviews. The DBM also publishes the National Government Disbursement Report and the Annual Fiscal Report to assess agency financial performance and address any spending issues. At local level, departments submit Quarterly Physical and Financial Reports of Operations to the Local Finance Committee, which conducts semiannual reviews of expenditures and performance, sharing the results publicly and with local authorities (DBM, 2023).

Box II.B. PFM Frameworks of Social Protection System in China

In China, social insurance schemes are managed through a separate social insurance fund budget, while social assistance programs are funded under the general public budget. China's budget system consists of four budgets – the general public budget, government fund budget, state-owned capital operating budget, and social insurance fund budget – at each level of government. These four budgets are formulated independently of one another, yet interconnected through fund transfers. The social insurance fund budget includes the revenue of funds raised from contributions of firms and individuals to five types of social insurance (pension, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance). It pays for social security benefits. Any financing gaps in the social insurance fund budget can be filled by fiscal subsidies from upper-level governments in the form of local government transfers from the general public budget, which can in turn receive transfers from the government fund budgets and state-owned capital operating budget. Social assistance programs, being non-contributory, are financed directly through the general public budget (AMRO, forthcoming).

China's budgeting system integrates all levels of government, reflecting both top-down and bottom-up interactions. The current budgeting system is guided by administrative regulations in the Implementation of the Budget Law 2020. China's fiscal year in the unified state budget begins on January 1 of every year. Local government budgets are prepared by the local executive, approved by the People's Congress at each local level, and subject to review by the State Council and the National People's Congress. At provincial level, budget formulation involves consultation with the Ministry of Finance around April, before the provincial fiscal authorities issues budget circulars inviting other provincial departments to submit funding requests for the following year, as well as revised estimates of current-year spending and the previous year's actual spending. The circulars also ask local governments below provincial level to follow a similar process and to prepare local budgets for approval by the People's Congress at each local level, followed by final submission to the provincial fiscal authorities. Around August, provincial fiscal authorities responsible for reviewing the departmental proposals provide feedback on departmental spending caps and individual programs, and advise local governments on the availability of financing from the higher-level government. The provincial fiscal authorities collate local government budgets, departmental spending proposals, revenue forecasts, current-year revenue estimates and actual revenues from the previous year into budget documents for the review and approval of provincial councils in November. The final budgets approved by the provincial councils are then submitted for review by the standing committee of the People's Congress, after which the Congress will vote on it. In December, the approved provincial budgets are submitted to the Ministry of Finance at central level for consolidation.

The social insurance fund budget follows a similar process. Under the Social Insurance Law (2018) and Budget Law regulations, the human resource and social security bureaus, along with fiscal authorities at each government level, initiate the social insurance fund budget (UN, 2022). Social insurance agencies, together with local tax offices, draft the budget and submit it to the corresponding social insurance administrative authorities for examination. Local level fiscal authorities review and consolidate the budgets before submission to the People's Government and People's Congress. Social insurance administrative authorities and local tax offices monitor the budget implementation and report on budgetary operations to the relevant agencies.

Multiyear budgeting has been introduced, but its implementation is still a work in progress. In 2019, the Chinese government switched to multiyear budgeting to improve fiscal planning over economic cycles. While multiyear budgeting is practiced at central government level, local governments have not fully adopted it yet, and estimates in the medium-term expenditure framework do not have a binding effect on future allocations. The social insurance fund budget, in particular, remains managed on an annual basis.

Fiscal burden sharing in social protection programs between the central and local governments is determined based on the financial strength of local governments. Central government subsidies via local transfers help support social insurance programs managed by local authorities. The sharing ratios are negotiated based on regional economic development and financial strength. For example, local governments in the less financially stable central and western regions receive up to 80 percent of their social protection program funding from central subsidies, while wealthier coastal regions get significantly less.

The pension system is highly fragmented, creating challenges for financial sustainability. Local governments separately manage more than 2,000 pension pools, many relying heavily on central government fiscal subsidies to meet their obligations. The sustainability of the pension system is further weakened by moral hazards, as fragmented intergovernmental fiscal responsibilities create incentives for local governments to compete for investment rather than focus on pension sustainability. A study found that while retirement age reforms might improve long-term sustainability, they were insufficient to counter the negative impacts of a fragmented system, which posed a greater threat to pension sustainability than population aging (Yuan, 2020).

In response to these issues, the Chinese government has undertaken several reforms. In 2018, the responsibility for social insurance premium collection was shifted from local social security authorities to the State Taxation Administration to improve compliance and consolidate revenue. Additionally, the central government established the Central Adjustment Fund (CAF), a risk-sharing pool managed at central level, to ease fiscal pressures faced by struggling local pension pools. Nearly 80 percent of the central government's fiscal subsidy for local social insurance programs is disbursed in November of the preceding year, improving cash flow and ensuring timely benefit payments. This practice, allowed under the Budget Law, is based on previous-year expenditure benchmarks, although the National People's Congress typically approves the budget in March of the following year.

4. Beyond the Annual Budget

18. To expand a social protection system, extending fiscal planning beyond the annual budget cycle is crucial for ensuring sustainability. Given the long-term financial commitments involved, relying solely on annual budgetary plans may not support optimal fiscal decisions. Medium-term expenditure frameworks (MTEFs) and long-term fiscal projections can provide complementary tools to address the limitations of annual budgeting. MTEFs offer a structured approach to the multiyear planning of resource allocation, helping governments align policy priorities with available resources while ensuring predictable funding for key projects, including social protection programs. This approach enables better decision-making and reduces the risk of disruption in implementation due to short-term fiscal pressures. Long-term fiscal projections, on the other hand, allow governments to assess the sustainability of fiscal policies over decades by considering evolving structural factors, such as demographic changes and changing social needs. These projections help anticipate future funding challenges, such as rising health care or pension costs, and enable governments to adjust policies in advance to keep systems relevant and sustainable. By adopting MTEFs and long-term projections, governments can better safeguard the future stability of their social protection systems and continue to meet the needs of vulnerable populations over the long term.

19. An MTEF enhances the government's strategic and forward-looking fiscal management by introducing a multiyear perspective to budgeting. MTEFs allow governments to develop multiyear spending plans aligned with broader policy objectives, such as social protection, while considering existing resource constraints. This medium-term approach ensures that annual budget allocations are not made in isolation but are part of a coherent strategy to achieve long-term goals. Governments can use MTEFs to guide annual budget allocations for policy priorities, ensuring that priority sectors such as health care, pensions, and welfare programs receive consistent funding over time. Furthermore, MTEFs prepare the groundwork for necessary financing measures, such as identifying funding sources or adjusting fiscal policies, to secure adequate resources for future spending plans. While the structure of an MTEF varies across countries, its use is widespread in the region as an essential tool for aligning budgetary allocations with strategic priorities and improving fiscal management (Table 1).

20. Rigid spending can be managed more effectively within an MTEF. Certain government expenditures, such as pensions, health care, and social benefits, are typically non-discretionary, driven by legal obligations or demand for entitlement programs. These spending categories are difficult to adjust in the short term. Therefore, some countries manage them separately within the MTEF to better control fiscal resource needs and government commitments. Separating these rigid expenditures can help governments improve fiscal discipline and predictability by focusing budget adjustments on discretionary expenditures. Meanwhile, incorporating medium and long-term forecasts into the MTEF makes it easier for governments to balance current spending needs with long-term fiscal pressures, especially from external drivers such as demographic changes, by allowing the authorities to better anticipate and prepare for future challenges. Requiring these forecasts in fiscal planning enables governments to proactively adjust strategies and implement structural reforms before fiscal pressures become unmanageable. This forward-looking approach not only enhances fiscal stability but also provides flexibility to accommodate rising mandatory spending without disrupting other critical budgetary priorities.

21. Long-term fiscal projections play an indispensable role in assessing and ensuring fiscal sustainability over a much longer horizon. Typically spanning 20 to 50 years into the future, long-term fiscal projections provide governments with a comprehensive view of potential fiscal pressures arising from the current fiscal commitments and structure, economic trends, and structural factors such as demographic changes, technological advancements, and evolving policy landscapes. [5] By analysing these elements, long-term projections help identify future fiscal challenges, such as rising health care and pension costs driven by aging populations or shifts in the labor market that may affect tax revenues and social welfare demands. For social protection systems, which often entail significant and growing fiscal commitments, long-term projections are particularly valuable. They offer insights into the financial sustainability of key programs, enabling policymakers to assess whether current fiscal policies can support future obligations without undermining broader fiscal stability. Moreover, these projections highlight the impact of non-policy factors – such as increasing life expectancy and declining birth rates – on pension systems, health care, and other social safety nets, enabling governments to develop preemptive policy reform strategies to mitigate long-term fiscal risks. Integrating long-term fiscal projections into medium-term planning frameworks such as the MTEF makes fiscal decision-making better aligned with medium and long-term objectives, and more sustainable and adaptable to future policy needs and economic conditions. Ultimately, long-term projections provide a critical tool for policymakers to navigate complex fiscal landscapes and prepare for future challenges before they become crises (Box II.C).

Box II.C. Korea's Long-term Fiscal Projection

The long-term fiscal projection in Korea has evolved in response to growing concerns about fiscal sustainability amid the fast aging population. Korea is one of the fastest-aging societies in the world, with a fertility rate among the lowest globally and an already shrinking working-age population. Along with continuously rising public debt, this demographic transition has put immense pressure on the sustainability of Korea's welfare and pension commitments, raising the alarm among policymakers. Formalizing long-term fiscal projections gained more prominence in Korea after the 2008 global financial crisis, which highlighted the vulnerability of countries that had unchecked fiscal policies and growing commitments. In this context, coordinated mechanisms to assess long-term sustainability risks were established, beginning with the social protection system.

[5] In general, fiscal projections of different social protection schemes hinge on both common and scheme-specific factors, and the latter may have different time horizons in sustainability concerns. For example, pension systems emphasize demographic stability and long-term commitments, health insurance focuses on cost growth and medical advancements, and unemployment insurance is more affected by economic cycles and labor market dynamics.

The Basic Act of Social Security was amended in 2012 to mandate the government to perform and publish medium and long-term projections of the overall social protection system biennially.[6] Subsequently, long-term projections covering the overall fiscal position were institutionalized, integrating other projections to promote consistency across different fiscal projections by syncing assumptions about key demographic and economic factors. After the National Finance Act was amended in 2015, the long-term projections are to be done every five years and to span at least 40 years. The long-term fiscal projections cover revenues and expenditures of both central and local governments, as well as social security funds (Koh and Kim, 2022).

Long-term projections are a government-wide effort to ensure fiscal sustainability in the face of long-term structural challenges, including demographic changes. The Long-term Fiscal Projection Coordination Committee, supported by the Ministry of Economy and Finance (MOEF), leads the overall process in collaboration with Statistics Korea and the Korea Development Institute (KDI) to produce demographic and macroeconomic projections. It also works with the Korea Institute of Public Finance (KIPF) to make revenue projections, and with social insurance operating agencies to draw up relevant policy assumptions and projections. The agencies share common assumptions about future trends in demographic changes and economic conditions, then independently prepare long-term projections for each social insurance scheme. The results are shared with the MOEF and consolidated to provide an overall picture of public finances, which is critical for evaluating the sustainability of the social protection system.

Long-term projections enable forward-looking assessments of fiscal sustainability that can guide policy reforms and enhance transparency toward more sustainable public finances. By using consistent assumptions, this integrated projection system helps policymakers identify potential funding gaps and reform issues in the overall social protection system. In addition, the National Finance Act also mandates that long-term forecasts be incorporated into medium-term plans, such as the National Fiscal Management Plan. This is to ensure that fiscal policy decisions are informed by long-term considerations, and to provide a framework for necessary reforms, enabling gradual adjustments to preemptively manage potential imbalances. By regularly updating and publishing fiscal forecasts, this system promotes informed public discussions on necessary reforms.

The current long-term projection system faces several critical challenges, particularly the intrinsic uncertainty and complexity surrounding Korea's fast demographic transition. As long-term fiscal projection results are sensitive to changes in assumptions, the pace and scale of Korea's demographic changes introduce a high degree of uncertainty into the long-term projections, making it more difficult for policymakers to make timely and accurate adjustments. Additionally, political cycles and public pressure often lead to mediocre reform plans which are

[6] First published in 2013, the social security projections are classified into nine functional categories of the OECD's SOCX database, covering both tax-financed social assistance and contribution-based social insurance.

substantially short of what is required by the long-term projections. This creates a disconnect between the available data and actual fiscal decision-making, further complicating efforts to enact necessary reforms for long-term fiscal sustainability.

Korea's experience with long-term fiscal projections provides valuable lessons for other countries with similar challenges. The country explicitly integrates long-term perspectives into medium-term fiscal planning and strategic fiscal management, producing a long-term fiscal projection system that serves as a good model to help future generations inherit a more stable, well-managed social security system. The Korean experience also underscores the importance of long-term perspectives in developing reform strategies to address effectively fiscal challenges posed by an aging population.

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22. The benefits of long-term fiscal projections are multifaceted. One of their key advantages is the ability to provide early warnings about the potential fiscal impacts of current policies, allowing governments to make informed adjustments long before issues become critical. For example, projections might reveal the future fiscal burden of an aging population, highlighting the unsustainable trajectory of current pension and health care systems. Publishing this information can generate public pressure, compelling policymakers to implement proactive reforms – such as adjusting the retirement age or increasing co-payment rates in health care services – to alleviate future fiscal pressures. These forward-looking reform measures also enhance the resilience of a social protection system in the face of demographic and economic challenges. Moreover, long-term fiscal projections promote transparency and accountability in fiscal policy. By making the long-term consequences of fiscal decisions explicit, these projections foster a more informed and constructive dialogue among stakeholders, including policymakers, agencies, and the public. High transparency and accountability standards are crucial for building strong public trust and securing support for necessary, but often politically challenging, reforms. When citizens and stakeholders are fully informed of the long-term fiscal risks, they are more likely to endorse policies aimed at addressing these challenges, such as pension reforms or adjustments in tax policy. Long-term fiscal projections also enhance the strategic alignment of short-term policies with long-term goals.

Using these long-term projections, the government can ensure that today's fiscal decisions do not compromise a sustainable financial future. Strategically well-aligned fiscal decisions can lead to a more stable approach to fiscal management and prevent frequent reactive policy corrections due to myopic past decisions. Furthermore, these projections enable governments to establish comprehensive fiscal risk management strategies, allowing for contingency planning that can mitigate the impact of unforeseen events such as an economic downturn or a global crisis. Ultimately, long-term fiscal projections provide a comprehensive framework for fiscal planning that balances immediate needs with long-term sustainability, fostering a more resilient and adaptable fiscal environment.

23. The inherent uncertainties of long-term fiscal projections require a framework for regular updates and adjustments. These projections are sensitive to assumptions about key factors – such as economic growth, fertility rate, life expectancy, and labor market dynamics – all of which are inherently very difficult to predict over an extended period. Even minor deviations in these assumptions can significantly affect projection outcomes, so governments must regularly reassess and adjust their policies to align with evolving economic and demographic conditions. Given that sustainability-enhancing reforms, such as pension adjustments, are often politically contentious, an automatic adjustment mechanism (AAM) is often adopted to depoliticize the policy adjustments. AAMs automatically adjust key policy parameters in response to changes in economic or demographic factors, thus reducing the need for contentious legislative debates. These mechanisms not only help mitigate fiscal risks but also promote resilience and intergenerational fairness of the system by ensuring adaption to the changing policy environment. By linking AAMs to long-term projections, governments can better manage fiscal uncertainties and maintain a sustainable social protection system (Box II.D).

Box II.D. Japan's Macroeconomic Slide Mechanism

Japan's macroeconomic slide is an automatic adjustment mechanism (AAM) meant to address significant demographic challenges to its pension system. Introduced in 2004, the macroeconomic slide is a pivotal reform to the Japanese national pension system and an integral component of the country's strategy to preserve pension sustainability amid profound domestic demographic and economic shifts. The macroeconomic slide automatically adjusts benefits based on key demographic and economic indicators, aiming to maintain the solvency of pension systems over the long term, thereby reducing the burden on the working population and limiting the growth of pension expenditures. This mechanism also enhances stability and predictability for beneficiaries by minimizing the need for abrupt or significant policy changes to ensure pension sustainability.

Instead of ad hoc direct adjustments to key pension parameters, the macroeconomic slide automatically adjusts benefit levels as the economic and demographic environment changes. Prior to the implementation of the macroeconomic slide, Japan's pension reforms focused on direct adjustments to contribution rates and benefit levels. These efforts, however, faced substantial political resistance and public opposition, resulting in inadequate reform measures that failed to secure the long-term sustainability of the pension system. In contrast, the macroeconomic slide is designed to control rising public pension expenditures by automatically adjusting benefits in response to demographic and economic changes. This automatic adjustment ensures a balance between expenditures and revenues without necessitating frequent legislative interventions, which often involve high social costs and substantial delays.

Under the macroeconomic slide mechanism, pension benefits are adjusted based on calculated demographic and economic factors. Specifically, before the macroeconomic slide mechanism, pension benefits were adjusted based only on economic factors – wage growth for new pensioners (wage slide) and inflation for existing pensioners (price slide). With the macroeconomic slide mechanism in place, however, pension benefits are subject to additional adjustments based on the number of insured people and the life expectancy.[7] For instance, a decline in the working-age population combined with sluggish economic growth would result in smaller increases or even decreases in pension benefits compared with adjustments based solely on wage and price inflation. Nevertheless, there is a safeguard to limit the extent of reductions by the macroeconomic slide mechanism, ensuring that current beneficiaries are protected from a net reduction of pension benefits after taking into account the price and wage slides combined.[8]

Table D.1. Characteristics of AAMs – Trigger and Adjustment Variables

Triggers / Adjustment variables		Ex Post Triggers[1)]				Ex Ante Triggers[2)]
		Life expectancy	**System dependency[3)]**	**Contributory years to length of benefit receipt**	**Current deficit**	**Future expenditure and deficit**
Benefit levels	**Benefit indexation**	Finland, Portugal	Japan			Canada, Germany
	Annuity divisor	Italy, Latvia, Poland, Sweden				Italy, Latvia, Poland, Sweden
	Other benefit reductions				US	
Eligibility criteria	**Retirement age**	Canada, Czech Republic, Finland, Germany, Greece, Norway, Portugal				Denmark

[7] Ministry of Health, Labour and Welfare of Japan (https://www.mhlw.go.jp/english/wp/wp-hw3/dl/11-04.pdf)

[8] Due to this limitation, the macroeconomic slide mechanism was not applied until 2015 (Saito, 2017).

	Minimum time for full pension			France		
Contributions	**Contribution rates**					Canada, Germany

Source: Arbatli et. al. (2016); AMRO staff compilation

Note: 1) Ex post triggers are based on an observed state of the world, such as improvements in life expectancy or backward-looking benefit indexation. 2) Ex ante triggers are based on predictions and expectations. 3) Ratio of pensioners to contributing workers.

Globally, many countries with mature pension systems have adopted AAMs.[9] In the early years, AAMs were used to uphold pension adequacy by automatically indexing benefits to wage and price increases.[10] In recent decades, however, they have increasingly focused on maintaining the financial sustainability of pension systems, which has also led to rising concerns about the adequacy of benefits in many countries, including Japan. Although AAMs can contribute to improving pension finances, they may not, depending on their design, be sufficient to provide financial sustainability. Therefore, they cannot fully substitute bold discretionary policy measures, especially in a financially unbalanced pension scheme. According to OECD (2021), about two-thirds of OECD countries have institutionalized some form of AAM in their mandatory or quasi-mandatory pension schemes to mitigate the impact of demographic changes.[11] Among the different types of AAMs, automatic balancing mechanisms (ABMs) are specifically targeted to ensure a balanced budget of the pension scheme, such as long-term financial equilibrium or short to medium-term balances.

While it improves the fiscal sustainability of a pension system, the macroeconomic slide faces several challenges. Additional adjustments to pension benefits tend to lower the real value of pension benefits, raising concerns about poverty among the elderly. According to OECD (2023), Japan’s income poverty rate among the elderly is 20 percent, significantly higher than the OECD average of 14.2 percent. Due to this possible erosion of real incomes of beneficiaries, AAMs are often politically difficult to implement or maintain. Although AAMs reduce the need for frequent legislative interventions, they can lack flexibility in responding to unforeseen economic shocks, especially those mechanisms based on historical data or trends. In addition, automatic pension benefit adjustments can have a substantial macroeconomic effect, especially when they affect a large share of population, such as in Japan. For example, a reduction of benefits lowers aggregate demand, which can worsen deflationary pressure and slow long-term economic growth.

References

[9] OECD (2021) describes AAMs as predefined rules that automatically change pension parameters or pension benefits on the evolution of a demographic, economic or financial indicator.

[10] Denmark was the first country that introduced a price indexation of pension benefits, in 1922. Arbatli et. al. (2016) called mechanisms that focused on protecting the value of pension benefits “traditional AAMs.”

[11] OECD (2021) classified AAM schemes adopted by OECD countries into five types – defined contribution (DC) schemes; adjusting retirement conditions to life expectancy; adjusting benefits to changes in life expectancy, demographic ratios or the wage bill; and a balancing mechanism.

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5. Sufficiency vs Sustainability of Social Protection Systems

24. The debate around the sufficiency and sustainability of social protection systems presents a complex challenge to policymakers. Ensuring the sufficiency of a social protection system – providing adequate benefits to meet the needs of vulnerable populations – often clashes with the goal of fiscal sustainability, as growing social expenditures put increasing pressure on government fiscal management and threaten the financial sustainability of the social protection system over the long term. As social protection demands grow, policymakers are forced to face increasingly difficult trade-offs and strive to balance immediate social needs with long-term fiscal viability.

25. Several demographic, economic and political factors amplify the difficulties. First, the rapid aging of populations in countries such as Japan, Korea and China is placing significant upward pressure on pension and health care costs, while their old-age poverty ratios are also quite high. Although most ASEAN countries are experiencing more modest aging, they generally face a faster increase in social protection demand as their economies develop and middle-income groups expand. Additionally, large informal sectors make it challenging to expand the contributory base to fund social protection systems, which in turn limits the fiscal space to address benefit insufficiency without compromising the system’s sustainability. Moreover, sociopolitical aspects pose additional difficulties to policymakers. Social protection benefits are often perceived as entitlements by the public, so any reforms to scale back tend to face strong public resistance. Under such political sensitivity, short-tenured policymakers may continue to expand benefits and services until sustainability concerns overwhelm public sentiment.

26. Addressing the trade-off between sustainability and sufficiency requires innovative policies and robust PFM institutions. Introducing AAMs within a pension system, for instance, could facilitate gradual policy adjustments that raise sustainability by depoliticizing necessary policy reforms. Such mechanisms help ensure that social protection systems remain responsive to immediate needs while adapting to long-term fiscal realities. Strengthening fiscal transparency, accountability, and adaptability of a social protection system can further mitigate the sustainability-sufficiency trade-off. In particular, integrating medium and long-term perspectives into social protection policy decisions, such as through an MTEF and fiscal risk management, can help governments better anticipate future fiscal liabilities from current policy commitments. Establishing independent fiscal institutions (IFIs) to regularly evaluate government policies is another promising option. IFIs that are mandated to provide objective assessments and recommendations for policy adjustments can help governments avoid politically motivated overcommitments. Ultimately, achieving both sufficiency and sustainability in a social protection system requires a careful balancing act, enabled by strong PFM systems that can adapt to the evolving policy environment.

6. Conclusion

27. The COVID-19 pandemic underscored the importance of developing resilient social protection programs supported by robust PFM systems. Many countries, particularly those with less developed PFM frameworks, struggled to rapidly scale up social protection measures as their support delivery was often hampered by limited institutional capacity, including insufficient administrative data, inefficient delivery systems, and inadequate identification and monitoring mechanisms. This experience helped governments identify vulnerabilities within existing systems and underscore the need to strengthen PFM frameworks to build more resilient and responsive social protection systems ahead of the next crisis.

28. Looking ahead, strengthening PFM frameworks is essential for continuing the expansion of social protection systems, with long-term fiscal sustainability given careful consideration. Following a period of scaling back temporary support measures that were introduced during the pandemic, many countries have resumed the expansion of social protection programs. As these programs are typically more permanent, incorporating a long-term perspective into fiscal decision-making processes is increasingly important for the sustainable development of the social protection system. Additionally, governments must strengthen their frameworks to incorporate contingency planning and budget flexibility to enhance the resilience of these systems. Effective management of social protection systems will also require robust mechanisms for tracking and monitoring expenditures, and for ensuring accountability and transparency in the use of public funds. By enhancing their PFM frameworks, governments can manage the complexities of expanding their social protection systems more effectively while maintaining fiscal discipline and ensuring long-term financial sustainability.

Appendix II.1. Selected Tables

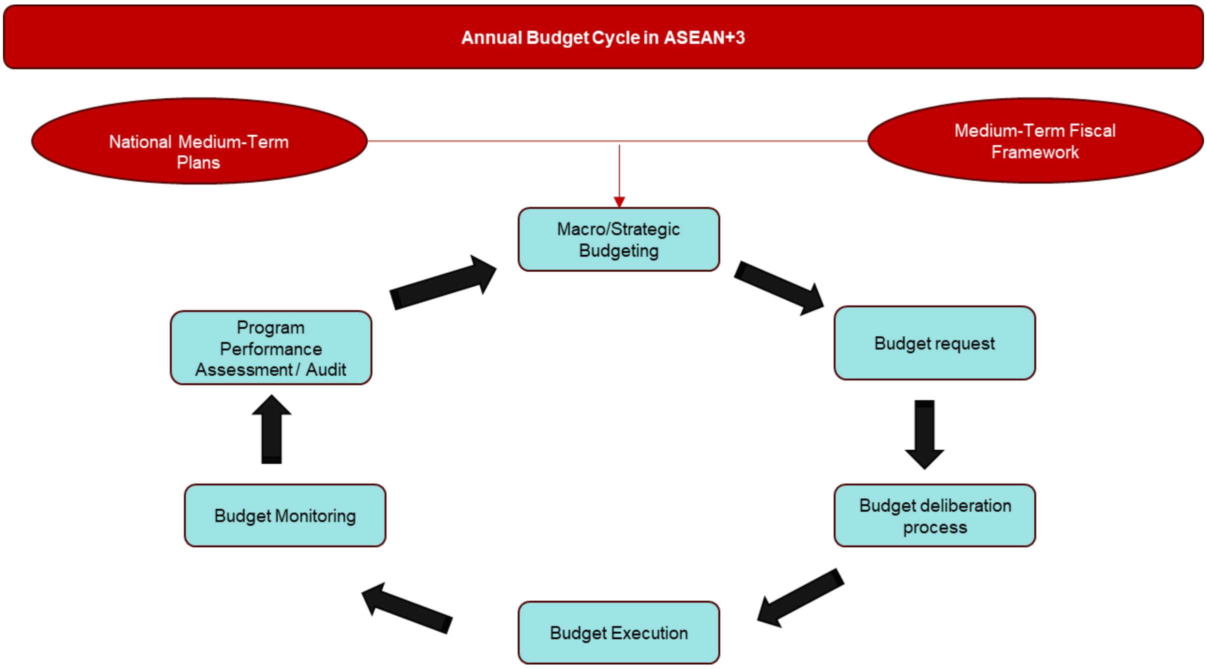
Table 1. Medium-term Perspective in Budget Process at Central Government Level (2018)

	Existence and Legal Basis of MTEF[1)]	Main Characteristics		Target(s) of Expenditure Ceiling[2)]		
		Length of ceiling[2)] (including upcoming fiscal year)	Frequency of ceiling revision	Total expenditure	Program or sector expenditure	Organisational expenditure
Indonesia	●	5 years	Annual	✓		
Malaysia	❍	3 years	Annual	✓		
Myanmar	❍	3 years	Annual			✓
Philippines	❍	6+ years	Annual	✓		
Singapore	❍	5 years	Every 5 years			✓
Thailand	●	3 years	Annual			✓
Vietnam	☐	3 years	Annual	✓	✓	✓
Japan	❍	3 years	Not revised	✓	✓	
Korea	●	5 years	Annual	✓	✓	

Source: OECD/ADB (2019), AMRO staff compilation

Note: 1) ● Yes: in a law which stipulates both the existence of a MTEF and budget ceilings; ❍ Yes: in a strategy/policy stipulating an MTEF and/or budget ceilings; ☐ Yes. 2) Ceiling in this table includes indicative expenditure ceiling and expenditure estimates.

Appendix II.2. Standard Budget Cycle in ASEAN+3



Source: Author's illustration

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III. China[1]

China has a complete social security system and key strategic documents and laws, which include requirements for financial resource support. When introducing a new program, the authorities will first conduct pilots in some regions. Assessing and discussing the demand for medium and long-term financial resources is one of the most crucial aspects of introducing a new program or modifying an existing scheme. The budgeting process is relatively standardized and rigorous, mainly relying on interdepartmental negotiation mechanisms. Social security-related departments and fiscal departments jointly participate, with the fiscal department paying more attention to expenditure scale, methods, and performance. After the outbreak of the COVID-19 pandemic, China quickly adjusted its programs, promoting the stable development of enterprises and improving people's health effectively.

1. Overview of the Social Protection System

1.1. Basic Structure and Main Features of Social Protection System

1.1.1. Overview of Social Security Systems and Institutional Arrangements

1. China's social security system is constantly developing and improving. In November 1993, the Third Plenary Session of the 14th Central Committee of the CPC passed the "Decision of the Central Committee of the Communist Party of China on Several Issues Concerning the Establishment of a Socialist Market Economy System." The document proposed that social security include social insurance, social relief, social welfare, preferential treatment and resettlement, social mutual assistance, and guarantee of personal savings accumulation. There have been differences in the wording regarding social security since then. Today, China has established a fully functional social security system with social insurance as the mainstay, complemented by social assistance, social welfare, and social preferential treatment. The social security discussed in this report primarily refers to these four components.[2]

2. Social insurance is the central component of social security in China and consists of five systems: basic endowment insurance, basic medical insurance, work-related injury

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[2] Social assistance refers to a system whereby the state and society provide financial assistance and living assistance to citizens who are in survival difficulties, so as to ensure their minimum living needs. China's social assistance system includes subsistence allowances, support for people in extreme poverty, relief for victims of disasters, medical assistance, education assistance, housing assistance, employment assistance and temporary assistance. Social welfare refers to all measures to improve the material and cultural life of the general members of society, including material support and service support. Social preferential treatment refers to a social security system in which the state gives preferential treatment, compensation and resettlement to special workers and their families, such as military personnel and their relatives.

insurance, unemployment insurance, and birth insurance. It guarantees the right of citizens to receive material assistance from the country and society in accordance with the law in cases of old age, illness, work-related injury, unemployment, childbirth or other needs. *In addition, some regions are conducting pilot projects on long-term care insurance, which is expected to become the sixth social insurance system in China.*

1.1.2. Fiscal Liabilities of the Government

3. The government's provision of fiscal support is an important guarantee of the smooth operation of the social security system. For example, the "Interim Measures for Social Assistance," issued in 2014, stipulates that governments at or above county level are responsible for improving the mechanism[3] of social assistance funds and material security, including government-arranged social assistance funds and social assistance work funds in the fiscal budget; social assistance funds shall be subject to special management and accounting in separate accounts, and be designated for specific purposes; no unit or individual shall embezzle or misappropriate the funds; and payment to beneficiaries shall be carried out in accordance with regulations on the management of the fiscal Treasury.

4. Apart from social assistance, the country has in place the revised "Social Insurance Law of the People's Republic of China." It stipulates that the state shall provide support for social insurance through preferential tax policies, and social insurance funds shall make ends meet using annual budgets. When social insurance funds are insufficient for payment, local governments at and above county level shall provide subsidies.

1.2. Key Strategic Documents and Laws

5. The Chinese government has established a comprehensive and complete legal and regulatory system for social security, including laws, regulations, and government documents, covering social insurance, social assistance, social welfare, and social preferential treatment.

1.2.1. Key Laws

6. In terms of legal and regulatory construction, social insurance comes first. The Social Insurance Law was promulgated in October 2010 and revised in December 2018. This is one of the most important laws about social security in China. It stipulates that statutory social insurance programs include five types of insurance: basic endowment insurance, basic

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[3] Social assistance funds shall be subject to special management, separate accounting and special funds for special purposes, and no unit or individual may misappropriate them. The funds shall be paid out according to regulations on the management of the Treasury.

medical insurance, work-related injury insurance, unemployment insurance, and birth insurance. The law also contains legal provisions that govern premium collection, social insurance funds, handling and supervision. It should be noted that many provisions of the social insurance system are granted through government and departmental documents instead of being stipulated in the law. Although they are not laws, they have the same legal effect. For example, to govern basic endowment insurance, the State Council issued the "Decision on Establishing a Unified Basic Endowment Insurance System for Urban Workers" in 1997, the "Decision on Improving the Basic Endowment Insurance System for Urban Workers" in 2005, and the "Opinions on Establishing a Unified Basic Endowment Insurance System for Urban and Rural Residents" in 2014. To regulate basic medical insurance, the State Council issued the "Decision on Establishing a Basic Medical Insurance System for Urban Workers" in 1998, and the "Notice on Issuing the Pilot Plan for the Merger of Birth Insurance and Basic Medical Insurance for Urban Workers" in 2017.

7. Complementing social insurance is the social assistance system. In February 2014, the State Council issued Order 649 to implement the "Interim Measures for Social Assistance" from May 1 that year. It established a complete and clear social assistance system that covered eight areas[4] and defined the participation of non-governmental entities such as organizations and individuals. This document, having been issued in the form of a State Council order, carries legal effect in its implementation. To further standardize the social assistance system, the full text of the "Social Assistance Law (Draft for Comments)," prepared by the Ministry of Civil Affairs and the Ministry of Finance, was released in September 2020 after soliciting opinions from all sectors of society. The document is divided into eight chapters,[5] totaling 80 articles.

8. In addition, social security laws and regulations also govern specific fields. Examples include the "Law of the People's Republic of China on the Protection of Veterans," the "Law on the Protection of the Rights and Interests of the Elderly," the "Law on the Protection of the Rights and Interests of Women," and the "Law on the Protection of the Rights and Interests of Persons with Disabilities," as well as the corresponding government documents. In 2021, the National Healthcare Security Administration consulted the public on a draft Healthcare Security Law.

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[4] Namely, minimum living allowance, support for extremely poor people, assistance for disaster victims, medical assistance, education assistance, housing assistance, employment assistance, and temporary assistance.

[5] Namely, General Provisions, Social Assistance Objects, Social Assistance Content, Social Assistance Procedures, Social Force Participation, Supervision and Management, Legal Responsibilities, and Supplementary Provisions.

1.2.2. Key Strategic Documents

9. In terms of planning, reports of important meetings of the CPC and the "Report on the Work of the Government" during the Two Sessions each year put forward plans about social security development. In October 2020, the "Proposal of the Central Committee of the CPC on Formulating the 14th Five-Year Plan for National Economic and Social Development and the Vision of 2035," adopted at the Fifth Plenary Session of the 19th Central Committee of the CPC, proposed to improve the multilevel social security system. Then in 2022, the report of the 20th National Congress of the CPC proposed establishing a system that would cover the entire population, coordinate urban and rural areas, and be fair, unified, safe, standardized and sustainable.

10. In addition, the government also issues guiding opinions on the reform of social security, which can be seen as constituting the future development plan of the system. For example, in 2020, the Central Committee of the CPC and the State Council issued "Opinions on Deepening the Reform of the Medical Security System," which set out the development goal of health care security reform.

1.3. Recent Developments and Trends

11. Social security is a fundamental institutional guarantee for safeguarding livelihoods, promoting equity, and enhancing well-being, with years of reform and development yielding significant progress in its system. As of the end of 2022, the number of people holding basic medical insurance was 1,345.92 million (Figure 9), and the participation rate was stable at more than 95 percent of the total population. Participation in basic endowment insurance totaled 1,053.07 million (Figure 8), making China's social security system the largest in the world.

12. The development of social security in China is naturally under challenges, among which the biggest is about the aging population. By end-2023, there were 297 million people aged 60 and above, accounting for 21.1 percent of the total population; 217 million people were aged 65 and above, taking up 15.4 percent (National Bureau of Statistics, 2024). The degree of aging continues to deepen, which has had long-term and far-reaching impacts on the social security system. For example, the aging of the society has led to a deterioration in the elderly dependency ratio (Figure 11), posing severe challenges to the balance of income and expenditure of basic endowment insurance, and increasing pressure on fiscal expenditure. It also puts pressure on the operation of the basic medical insurance system.

13. In order to actively respond to the challenge of aging, China carried out pilot work in 2016 on long-term care insurance in some regions. The trial identified the first batch of 15 pilot cities, and selected Jilin and Shandong provinces as the key contact regions for the pilot projects. To further explore a framework that would adapt to national conditions, a second batch of pilot cities were identified in 2020 to test out the introduction of long-term care insurance nationwide. A total of 49 cities are now conducting pilot work. As of end-2022, the 49 cities had a combined 169.902 million people taking part in long-term care insurance, and 1.208 million enjoying the benefits. In 2022, long-term care insurance fund revenue was RMB24.08 billion, fund expenditure was RMB10.44 billion, and 7,679 designated service providers were in operation offering long-term care (National Healthcare Security Administration, 2023). In addition, some cities which were not selected for the pilots are implementing long-term care insurance systems on their own. In the face of a severely aging population, long-term care insurance is expected to become the sixth type of insurance in China's social insurance system.

2. Fiscal Management of the Social Protection System

2.1. Fiscal Considerations in Introducing a New Program or Modifying an Existing Scheme

14. The rollout of a new social security program is generally decided by the State Council or relevant central department, and the general approach to ensure smooth implementation is to first carry out pilot projects in selected regions, then summarize the experience and improve the system, after which the projects are extended nationwide. For example, the long-term care insurance now being piloted started out in Qingdao of Shandong province, which took the lead as early as 2012. Subsequently, Nantong in Jiangsu province and other regions also conducted pilot runs on their own. However, the institutional models are different among the various regions, especially in the financing mechanism. The Ministry of Human Resources and Social Security considered the work in these cities, and in 2016 it selected 15 cities, including Qingdao and Nantong, to carry out long-term care insurance pilot projects. Financial support varied in scale and method among the cities that were piloting the long-term care insurance system, and was gradually adjusted. In summary, introducing a new social security program is a process of multiparty negotiation. The main focus of finance in this process revolves around the following conditions: the scale of short-term and long-term fiscal expenditures; how the government provides subsidies; and the performance of the disbursed subsidies.

15. To modify an existing social security program, different situations call for separate discussions. Generally speaking, the central government will first provide principled and directional adjustment suggestions, and it is up to the local governments to adjust accordingly. For example, the central government will determine the minimum standard for increasing pensions accorded by basic endowment insurance for urban and rural residents, and local governments can then raise their pension levels based on their own financial situation. Secondly, some social security programs, mainly about social insurance, have a higher level of overall planning. For example, China is now promoting national basic endowment insurance for employees of enterprises. This type of insurance generally comes under central government reform, and local governments have little right to decision-making.

16. Of course, be it a new program or the modification of an existing scheme, finance is one of the most important constraints. Generally, for any social security program that involves government financial expenditures, the fiscal authorities will intervene in the formulation of the programs. The different needs and priorities of the various departments are revealed during the process of consultation and discussion. The fiscal authorities are responsible for scrutinizing expenditure scale, support methods and support performance.

2.2. Budgetary Process of Social Protection Programs

2.2.1. Budget Request and Review Process

17. The annual social security budget is formulated through a collaborative process, guided by multiple factors. The annual budget application for social security programs is mainly formulated jointly by the ministries of Civil Affairs, Health, and Human Resources and Social Security, as well as the National Healthcare Security Administration, its branches at local level, and the fiscal authorities. The budgets at various levels shall be prepared according to annual economic and social development objectives, the general macro-control requirements of the state, and the balancing requirements for the budgets to be carried over to the next year, by reference to the implementation of the prior year's budgets, expenditure performance evaluation results, and the forecast of the current year's revenues and expenditure, after opinions have been solicited from all parties concerned under the procedures. The fiscal authorities, in conjunction with social insurance administrative authorities and tax authorities, formulate specific measures to govern the revenue, expenditure, and financial management of the social insurance fund budget.

18. The annual budget review of social security programs is mainly conducted by their respective people's congresses of the same level. The National People's Congress of the People's Republic of China reviews the draft central and local budgets, reports on the implementation of these budgets, and approves reports about the central budget and its implementation. The Standing Committee of the National People’s Congress supervises the implementation of the central and local budgets and reviews and approves adjustments of the central budget. People’s congresses at or above the county level shall review the draft of the local general budget and the report on the implementation of the local general budget and approve the budget and the report on the implementation of the budget. The standing committees of local people’s congresses at or above county level shall supervise the implementation of the overall budget at their respective levels, and review and approve adjustments of their budget. In summary, the National People’s Congress reviews and approves the central budget, while local people’s congresses review and approve their corresponding local budgets.

19. The fiscal departments at various government levels oversee budget planning, execution, adjustments, and reporting, ensuring alignment with procedural standards. The fiscal department of the State Council shall prepare specific drafts of the central budget and final accounts, organize the execution of central and local budgets, propose a plan for using central budget reserve funds, prepare specific adjustment plans for the central budget, and regularly report to the State Council on the implementation of the central and local budgets. The fiscal department of local governments at all levels shall prepare specific drafts of their respective budgets and final accounts, implement the overall budget at local government level, propose a plan for using budget reserve funds at local government level, prepare a specific adjustment plan for the budget, and regularly report to the local government and the fiscal department of the higher-level government on the implementation of the overall budget at this level. The implementing authorities each prepare their own budget and final account draft, organize and supervise the execution of their budget, and regularly report to the fiscal department of the local government on the budget implementation. The fiscal department of the State Council shall submit, at least 45 days before the annual session of the National People’s Congress begins, a preliminary proposal of the draft central budget to the Financial and Economic Affairs Committee of the National People’s Congress for preliminary review. The fiscal department of the government of a province, autonomous region, or municipality directly under the central government shall submit, at least 30 days before a session of the people’s congress at the same level begins, a preliminary proposal of the draft budget at the same level to the relevant specialized committee of the people’s congress at the same level for preliminary review.

2.2.2. Systems to Ensure Sufficiency of Appropriated Resources

20. If social security programs face a fiscal budget shortage during the fiscal year, it is generally assured that the social security system will continue to operate normally by increasing the fiscal budget. The “Budget Law of the People’s Republic of China” requires governments at all levels to establish a balancing mechanism for budgets to be carried over to the next year. In a general public budget at any level, 1 to 3 percent of the expenditure in the budget shall be set aside as reserve funds to cover additional expenditure incurred to deal with natural disasters and other emergencies, and other unexpected expenditure in the implementation of the current year’s budget. According to provisions of the State Council, budget circulating funds may be established for a general public budget at any level for the government at the same level to adjust the seasonal balance of revenues and expenditure in the budget year. The State Council also provides for a budget stabilization fund to be established for a general public budget at any level to cover any budgetary fund deficit in the subsequent years.

21. If any adjustment is required in the course of budget implementation, a government at any level shall prepare a budget adjustment proposal, specifying the cause, item, and amount of adjustment. Where budgetary expenditure must be increased in a timely manner during budget implementation as a result of a natural disaster or other emergency, reserve funds shall first be used to cover the additional expenditure. If the reserve funds are inadequate, the local government may first allocate funds to cover the expenditure, and include it in the budget adjustment proposal if adjustments are required. Fiscal authorities at all levels shall submit a preliminary budget adjustment plan to a special committee of the local people’s congress for preliminary review 30 days before the standing committee of the local people’s congress holds a meeting to review and approve the plan. To adjust the central budget, the proposal shall be subject to the review and approval of the Standing Committee of the National People’s Congress. To adjust the budget of the local government at or above county level, the proposal shall be subject to the review and approval of the standing committee of the people’s congress at the same level. To adjust the budget of a township, ethnic township or town, the proposal shall be subject to the review and approval of the people’s congress at the same level. No budget may be adjusted without approval.

22. Certain social security programs, such as the medical assistance system, rely on predictions based on the previous year’s budget execution and historical growth rates to determine the allocation scale, as the number of eligible beneficiaries is difficult to predict in advance. For example, in order to design policies for medical assistance, the Hunan Healthcare Security Administration began a research project, “Decision Support Plan for Improving the Medical Assistance System in Hunan Province,” in end-2019. The project comprehensively analyzed basic medical insurance data for three years from 2018 to 2020. It also consolidated and expanded the achievements of poverty alleviation through medical security. The project connected rural revitalization strategies effectively to propose a scientific indicator system and evaluation method for defining medical assistance targets, and to develop medical assistance treatment standards that are in line with local economic and social development. Based on the analysis of data on insured individuals, medical expenses, and the use of medical insurance funds, especially the structural analysis of medical expenses data for impoverished people during the poverty alleviation period, corresponding minimum payment standards and cap lines were set for disadvantaged groups, and compared with the effectiveness of medical insurance poverty alleviation policies for disadvantaged populations during the poverty alleviation period to ensure that the new medical assistance policies could play a supporting role and help achieve the goal of effectively preventing and resolving the risk of people returning to poverty due to illness. Take the central government's medical assistance funds as an example. These funds are allocated to local governments by mainly considering general assistance needs and special assistance needs, and by using the performance adjustment factor and financial adjustment factor to make appropriate adjustments.[6]

23. Where revenues fall short of estimates in the annual implementation of the general public budget of a province, autonomous region, or municipality directly under the central government, and the revenues and expenditures cannot be balanced by using the budget stabilization fund, reducing expenditure or other means, the local government involved may add a deficit with the approval of the people's congress at the same level or the standing committee thereof. The deficit shall be reported to the Ministry of Finance of the People's Republic of China for record and shall be made up in the budget for the next year.

2.2.3. Program Monitoring

24. The social security program has comprehensive monitoring methods. Taking the social insurance fund as an example, firstly, the standing committees of the people's congresses at all levels shall listen to and review the special work reports of the local people's governments on the income and expenditure, management, investment operation, and supervision and inspection of the fund, organize law enforcement inspections on the implementation of this law, and exercise supervisory powers in accordance with the law.

[6] The performance adjustment factor is determined based on a performance evaluation and other criteria, and the financial adjustment factor is determined by the coefficient of the degree of financial difficulties of each region.

Secondly, the social insurance administrative authorities of governments at or above county level should strengthen supervision and inspection of employers and individuals to ensure compliance with social insurance laws and regulations. Thirdly, the local fiscal department and audit agency shall supervise the income and expenditure, management, and investment operation of social insurance funds based on their respective responsibilities. Fourthly, the social insurance administrative authorities shall supervise and inspect the income and expenditure, management, and investment operation of the social insurance fund. If any problems are found, they shall provide rectification suggestions, make implementation decisions in accordance with the law, or submit implementation suggestions to relevant administrative departments. The inspection results of social insurance funds shall be regularly disclosed to the public. Fifthly, the local government shall establish a social insurance supervision committee composed of representatives of employers, insured personnel, trade union representatives and experts to understand and analyze the income and expenditure, management, and investment operation of social insurance funds, provide opinions and suggestions on social insurance work, and implement social supervision.

2.2.4. Performance Assessment

25. The performance management of a budget refers to activities that integrate performance concepts and requirements into the entire process of fund budget management, including determining reasonable performance goals, comprehensively monitoring performance operation, scientifically evaluating performance, and applying results to improve the effectiveness of policy implementation, enhance fund usage efficiency, promote fund actuarial balance, and prevent fund operation risks. Take the performance management of a social insurance fund budget as an example. In order to establish a scientific, reasonable, and standardized budget performance management system and better manage social insurance funds, the Ministry of Finance, the Ministry of Human Resources and Social Security, the State Taxation Administration, and the National Healthcare Security Administration jointly issued “Management Measures for Budget Performance of Social Insurance Funds” in May 2022.

26. To integrate budget and performance management, social insurance funds should manage their budgets by enforcing the requirements of comprehensive budget performance management. They should also establish a performance management chain with goals for budget preparation, monitoring of budget execution, evaluation of budget completion and application of evaluation results. In addition, performance management should undergo the full process, from preparation, execution and adjustment to the final settlement and supervision of social insurance fund budgets. All income, expenditure and surplus of the fund are to be included in the scope of performance management.

27. The local fiscal department heads the performance management of the social insurance fund budget, with close cooperation from the social insurance administrative authorities, social insurance agency, and tax department. The fiscal department is mainly responsible for leading the development of performance management methods, performance evaluation plans and indicator systems, reviewing and issuing performance goals, organizing and guiding performance monitoring and evaluation, approving performance evaluation reports, providing feedback and applying performance evaluation results, and promoting the disclosure of performance outcomes. The social insurance administrative authorities are mainly responsible for conducting an initial review of performance targets, guiding the implementing agencies to carry out performance monitoring and evaluation, forming and submitting performance evaluation reports to the fiscal authorities, and proposing ideas on how to apply performance evaluation results.

28. The performance goals of a social insurance fund budget are divided into overall goals and time-bound annual goals. The performance indicators are the result of breaking down and refining performance goals, and are specific tools for measuring the goals' degree of achievement. They are set via a combination of quantitative and qualitative methods, covering decision-making, process, output, and benefits. After the annual budget of the social insurance fund is executed, the performance is evaluated using scientific and reasonable indicators, standards, and methods in accordance with requirements. Based on the performance goals, authorities conduct objective and fair measurement, analysis, and evaluation of the degree of goal achievement, policy output effects and other aspects to arrive at evaluation results. The evaluation mainly covers the implementation of budget management work, the implementation of management-related policies, and the sustainable operation of the fund. It includes overall regional self-assessment and the performance evaluation of higher-level departments. The local fiscal authorities lead and organize the self-assessment of the coordinating region of the same level. Based on work needs, evaluation can be entrusted to a third party, such as an intermediary agency, for specific implementation. Each coordinated region shall carry out its own performance evaluation according to the requirements for different types of insurance, and submit the previous year's self-evaluation report to the provincial authorities before the end of May each year. Each province shall carry out provincial performance evaluation work as required, and submit the evaluation report of the previous year to the central authorities before the end of July each year.

29. At the same time, various regions are putting their evaluation results to good use, applying them as an important basis for improving policies and managing social insurance funds, enhancing fund arrangements, and promptly rectifying problems found in the evaluation. At present, the performance management system of other social security plans, such as social assistance, is being studied.

2.3. Resource Sustainability Assessment

30. Medium and long-term resource needs are assessed to ensure financing sufficiency and fiscal sustainability. In the process of introducing new social security programs or modifying existing schemes, one of the most crucial aspects is to evaluate and discuss medium and long-term financial resource needs. At present, China solves this problem mainly through interdepartmental consultation mechanisms. Implementing departments will make predictions and evaluations when submitting proposed social security or reform plans, and the fiscal authorities will also independently carry out predictions and evaluations. Sometimes, a third party such as a university or research institute may be commissioned to independently carry out predictions and evaluations and provide their results for government departments' reference.

31. In general, the mid-term finances of social security are jointly studied and formulated by the fiscal authorities and a business supervisory ministry or department, be it Civil Affairs, Human Resources and Social Security, Healthcare Security or Health. If necessary, the government agencies will commission a third party, such as a university, research institute or consultancy, to make mid-term forecasts, and the predicted results will serve as important references. No particularly long-term assessment has been introduced at the official level in China.

3. COVID-19 Pandemic and Reform Priorities

3.1. COVID-19 Pandemic

32. Responses to the pandemic showed up the success and failure of social protection. After the COVID-19 pandemic broke out, China quickly implemented a policy of phased reduction and exemption of social insurance premiums for enterprises, and phased reduction of work-related injury insurance and unemployment insurance rates, so as to ease the difficulties of enterprises in a timely way, promote the orderly resumption of work and production at enterprises, and support the stability and expansion of employment. The National Healthcare Security Administration quickly issued policy documents, adjusted medical insurance payment policies in a timely manner, included drugs and projects required for diagnosis and treatment in the temporary medical insurance catalogue, and ensured that patients were not affected by cost issues, nor designated medical institutions by payment policies, through the authorities' expansion of the scope of medical insurance fund payment and dynamic adjustments of treatments and budgets, making important contributions to an effective fight against the pandemic. In addition, the phased cost reduction policy of medical insurance and the payment of vaccine and nucleic acid testing fees by medical insurance funds are important steps toward transforming medical insurance into health insurance, synergizing pandemic prevention and control, safeguarding livelihoods, and stabilizing employment.

33. The Ministry of Civil Affairs issued a "Notice on Social Assistance during the Prevention and Control of the Novel Coronavirus Pneumonia Epidemic" in January 2020. It required multiple measures to be adopted to ensure the basic livelihood of people in need, strengthen decentralized care services for those in extreme poverty, boost pandemic prevention and control, and give full play to the role of temporary assistance. Families and individuals suffering from pneumonia caused by COVID-19 would be included in the scope of temporary assistance in a timely manner.

34. The measures and results of the Chinese government in social security in response to COVID-19 reflect the ability of the social security system to react to major public health emergencies, while they have also reflected some areas that need improvement. For example, the ability to tackle public health emergencies must be improved. It is necessary to prepare a better emergency response mechanism for social security to address sudden major risks, a mechanism which is able to not only resist routine, foreseeable risks such as birth, aging, illness, and death, but also cope with unpredictable, unconventional risks.

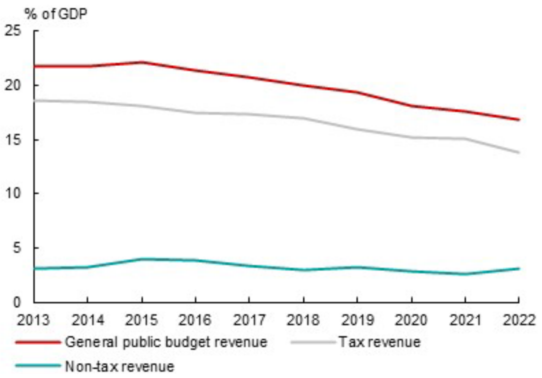
3.2. Challenges and Reform Directions for China's Social Security System

35. Reform priorities in fiscal management should seek to achieve sustainable development of the social protection system. As urbanization accelerates, the population ages, and employment methods diversify in China, social security will need further improvement. The main reasons are that the systems are not yet fully integrated, with transfers and connections among systems not smooth enough; the prevailing social security does not cover some migrant workers, flexible employment personnel or new forms of employment, resulting in cases of people not covered by social security; and the basic guarantee led and managed by the government is dominant while supplementary guarantees undertaken by market entities and other institutions and individuals are not sufficiently developed. In addition, the overall level of social security needs to be improved, such as the extent of benefits protection. Differences exist in the income and expenditure of social insurance funds among different regions, with a significant gap between fund income and expenditure in underdeveloped areas, as well as unreasonable differences in treatment between urban and rural areas, regions, and groups. Furthermore, there is still a gap between the capacity of social security public services and the needs of the people. All these are main areas that call for further improvement.

36. Finance is the foundation and important pillar of national governance, playing an important role in the development of social security. To achieve a more sustainable social security system, finance can be improved in the following areas. Firstly, strengthen the guidance function. Strengthen the guiding role of finance in the development of the social security system and enhance the depth and breadth of finance pre-intervention in the construction and reform of social security programs. Secondly, improve the mechanism of fiscal expenditure. While maintaining the growth of fiscal expenditure, more attention should be paid to the structural issues of fiscal expenditure. For example, the country could invest more fiscal resources in some weaker program. Thirdly, research and improve the fiscal expenditure responsibility plans of the central and local social security systems. Fourthly, improve the budget performance management of the entire social security system, enhance performance evaluation, strengthen fund supervision, prevent fund expenditure risks, and use the fund more efficiently.

Appendix III.1. Selected Figures

Figure 1. General Public Budget Revenue/GDP

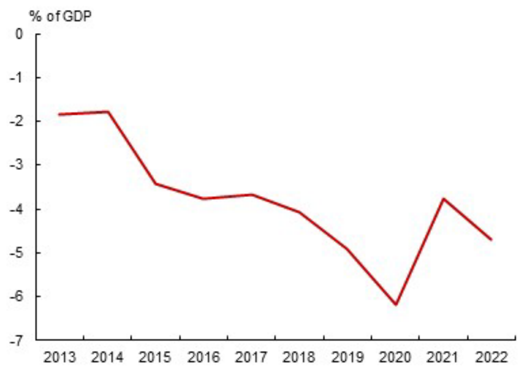


Source: National Bureau of Statistics (NBS) of China

Figure 2. General Public Budget Expenditure/GDP

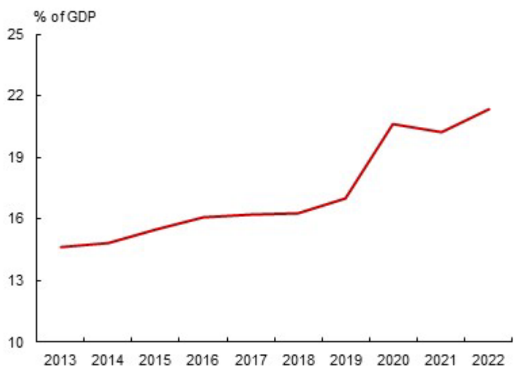
Source: NBS of China

Figure 3. Fiscal Balance/GDP



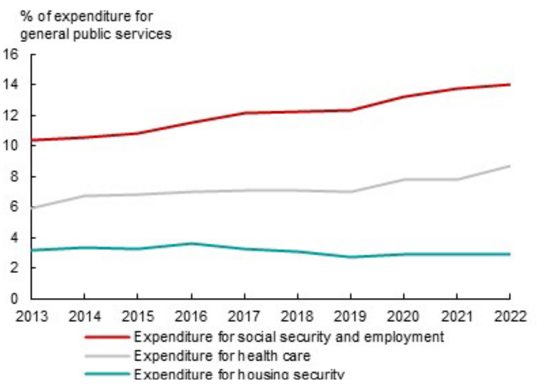
Source: NBS of China

Figure 4. Central Government Debt/GDP



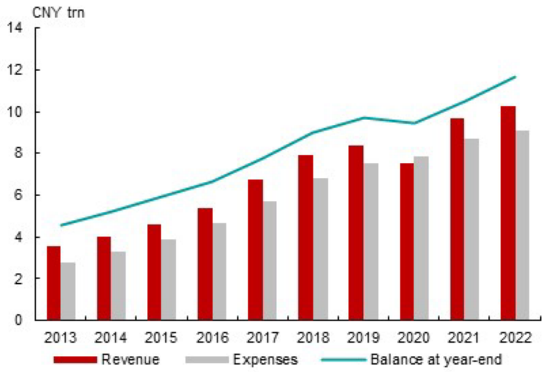
Source: NBS of China

Figure 5. Social Protection Spending/ Expenditure for General Public Services



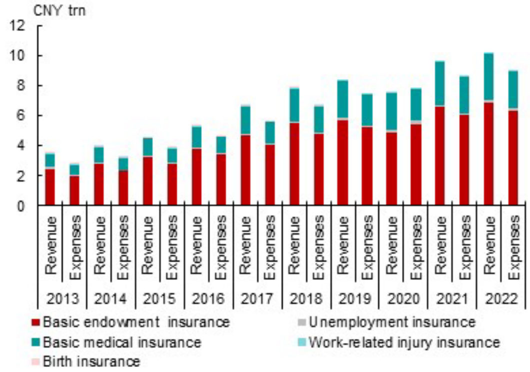
Source: NBS of China

Figure 6. Revenue, Expenses and Balance of Social Insurance Fund



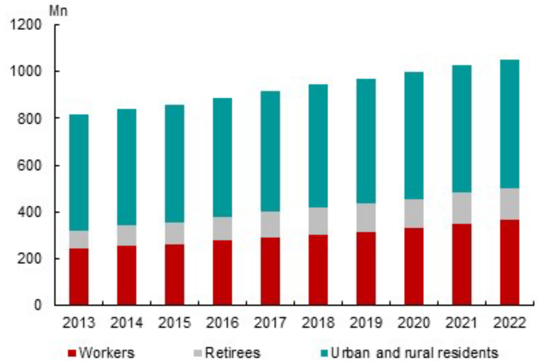
Source: NBS of China

Figure 7. Revenue and Expenses of Social Insurance Fund by Component



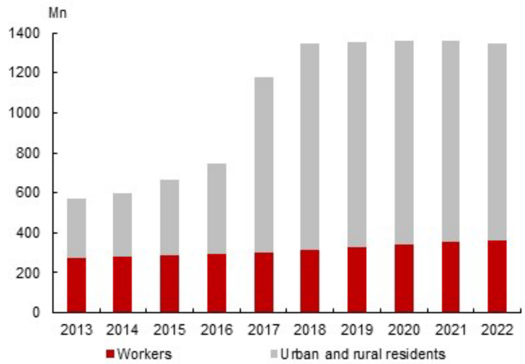
Source: NBS of China

Figure 8. Basic Endowment Insurance Participants



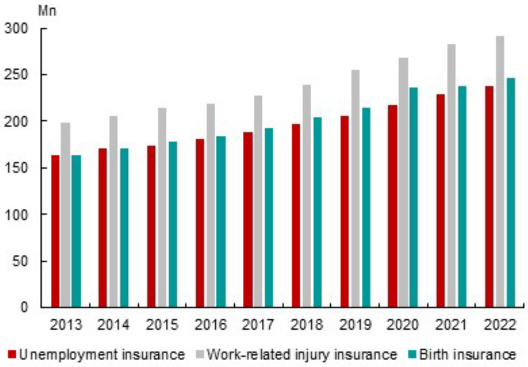
Source: NBS of China

Figure 9. Basic Medical Insurance Participants



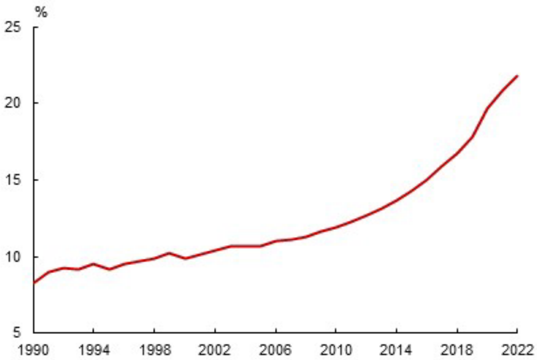
Source: NBS of China

Figure 10. Other Social Insurance Participants



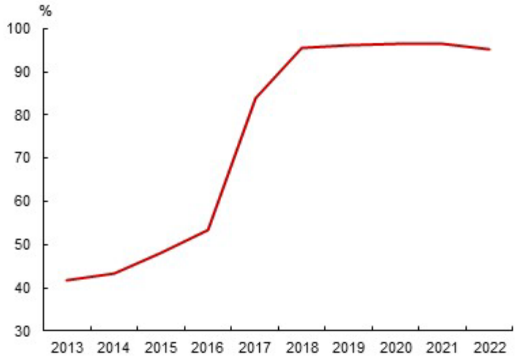
Source: NBS of China

Figure 11. Elderly Dependency Ratio



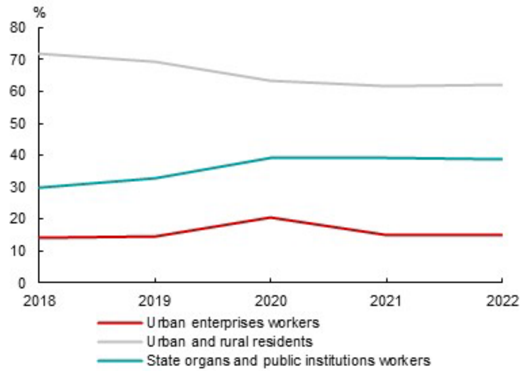
Source: NBS of China

Figure 12. Coverage of Basic Medical Insurance



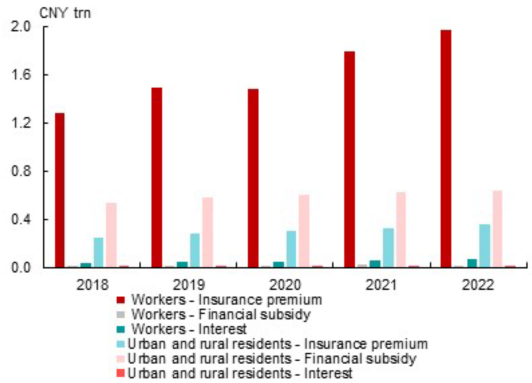
Source: NBS of China

Figure 13. Proportion of Financial Subsidy Income in Basic Endowment Insurance



Source: NBS of China

Figure 14. Revenue of Basic Medical Insurance



Source: NBS of China

Appendix III.2. Selected Tables

Table 1. Selected Economic Indicators

	2018	2019	2020	2021	2022
Real Sector and Prices	(In annual percentage change)				
Real GDP	6.7	6.0	2.2	8.4	3.0
Agriculture	3.5	3.1	3.1	7.1	4.1
Industry	5.8	4.9	2.5	8.7	3.8
Services	8.0	7.2	1.9	8.5	2.3
CPI	2.1	2.9	2.5	0.9	2.0
Fiscal Sector	(In percent of GDP)				
Revenue and grants	19.9	19.3	18.0	17.6	21.5
Tax revenue	17.0	16.0	15.2	15.0	1.7
Nontax revenue	2.9	3.3	2.8	2.6	0.0
Expenditure	24.0	24.2	24.2	21.4	1.2
for General Public Services	2.0	2.1	2.0	1.7	1.2
for Foreign Affairs	0.1	0.1	0.1	0.0	3.3
for National Defense	1.2	1.2	1.3	1.2	0.8
for Public Security	1.5	1.4	1.4	1.2	0.3
for Education	3.5	3.5	3.6	3.3	3.0
for Science and Technology	0.9	1.0	0.9	0.8	1.9
for Culture, Tourism, Sport and Media	0.4	0.4	0.4	0.3	0.4
for Social Security and Employment	2.9	3.0	3.2	2.9	1.6
for Health Care	1.7	1.7	1.9	1.7	1.9
for Energy Conservation and Environment Protection	0.7	0.7	0.6	0.5	1.0
for Urban and Rural Community Affairs	2.4	2.5	2.0	1.7	0.6
for Agriculture, Forestry and Water Conservancy	2.3	2.3	2.4	1.9	0.2
for Transportation	1.2	1.2	1.2	1.0	0.1
for Resource Exploration and Industrial Information	0.6	0.5	0.6	0.6	0.0
for Commerce and Services	0.2	0.1	0.2	0.1	0.2
for Financial Affairs	0.2	0.2	0.1	0.1	0.6
for Assistance to Other Regions	0.0	0.0	0.0	0.0	0.2
for Nature Resources, Ocean and Weather	0.2	0.2	0.2	0.2	0.2
for Housing Security	0.7	0.6	0.7	0.6	0.9
for Reserve of Grain, Oil and Other Materials	0.2	0.2	0.2	0.2	0.0

	2018	2019	2020	2021	2022
for Prevention of Disasters and Emergency Management	0.0	0.2	0.2	0.2	0.1
for Interest Payments on Debts	0.8	0.9	1.0	0.9	-4.7
for Issuing Debts	0.0	0.0	0.0	0.0	21.5
Other Expenditure	0.3	0.2	0.2	0.1	1.7
Overall fiscal balance	-4.1	-4.9	-6.2	-3.8	-4.7
Public debt	16.3	17.0	20.6	20.2	21.4
Memorandum Items					
Nominal GDP (RMB billion)	91,928	98,652	101,357	114,924	121,021
Nominal GDP (USD million)	13,892	14,300	14,694	17,813	17,993
GDP per capita (USD)	9,903	10,158	10,413	12,613	12,741
Exchange rate (RMB/USD, average)	6.62	6.90	6.90	6.45	6.73

Source: NBS of China

Table 2. Revenue, Expenses and Participants of Social Insurance

	Basic Endowment Insurance	Unemployment Insurance	Basic Medical Insurance	Work-related Injury Insurance	Birth Insurance
	Revenue (100 million yuan)				
2013	24732.6	1288.9	8248.3	614.8	368.4
2014	27619.9	1379.8	9687.2	694.8	446.1
2015	32195.5	1367.8	11192.9	754.2	501.7
2016	37990.8	1228.9	13084.3	736.9	521.9
2017	46613.8	1112.6	17931.3	853.8	643.0
2018	55005.3	1171.1	21384.4	913.0	781.0
2019	57025.9	1284.2	24420.9	819.4	
2020	49228.6	951.5	24846.1	486.3	
2021	65793.3	1459.6	28732.0	951.9	
2022	68933.2	1596.1	30922.2	1053.3	
	Expenses (100 million yuan)				
2013	19818.7	531.6	6801.0	482.1	282.8
2014	23325.8	614.7	8133.6	560.5	368.1
2015	27929.4	736.4	9312.1	598.7	411.5
2016	34004.3	976.1	10767.1	610.3	530.6
2017	40423.8	893.8	14421.8	662.3	744.0
2018	47550.4	915.3	17823.0	742.0	762.0
2019	52342.3	1333.2	20854.2	816.9	
2020	54656.5	2103.0	21032.1	820.3	
2021	60196.5	1500.0	24048.2	990.2	
2022	63079.0	2017.8	24597.2	1025.0	
	Insurance participants at year-end (10,000 persons)				
2013	81968.4	16416.8	57072.6	19917.2	16392.0
2014	84231.9	17042.6	59746.9	20639.2	17038.7
2015	85833.4	17326.0	66581.6	21432.5	17771.0
2016	88776.8	18088.8	74391.6	21889.3	18451.0
2017	91548.3	18784.2	117681.4	22723.7	19300.2
2018	94293.3	19643.5	134458.6	23874.4	20434.1
2019	96753.9	20542.7	135407.4	25478.4	21417.3
2020	99864.9	21689.5	136131.1	26763.4	23567.3
2021	102871.4	22957.9	136296.7	28286.5	23751.7
2022	105307.3	23806.6	134592.5	29116.6	24621.5

Source: NBS of China

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IV. Indonesia[1]

The fiscal management of Indonesia's social protection system is crucial to the effectiveness of its social welfare programs and long-term viability. Given the wide range of social protection efforts to assist poor and vulnerable families, fiscal management requires effective resource allocation, efficient budgeting, and sound oversight to maximise the effectiveness of these programs. Sustainable financing mechanisms are also critical to preserving financial-sector stability. Furthermore, rigorous evaluation of the impacts of social protection programs, cost-effectiveness assessments, and periodic reviews of eligibility criteria can enhance resource allocation and sustainability of the system, foster resilience and continue to assist people in need while promoting economic and social progress.

1. Overview of the Social Protection System

1. Social protection programs in Indonesia have gone through transformation over time. Starting from the 1970s, government development programs have been pro-poor, especially in the agricultural sector, despite not seeking to explicitly help poor people. In 1998, a social protection system started to be developed, beginning with the Social Safety Net (Jaring Pengaman Sosial/JPS) program for people experiencing poverty. This program was implemented by synergizing with local governments. It emphasized access to basic service needs and economic empowerment for beneficiaries using target data from the line ministries responsible for delivering the program. In the 2000s, social protection programs developed further as coverage expanded, serving not only poor people but also vulnerable groups. From 2014 until the present day, social protection has evolved to include education, health care and economic empowerment with the launch of the Smart Indonesia Program (Program Indonesia Pintar/PIP) and the National Health Insurance (Jaminan Kesehatan Nasional/JKN) program, as well as various microfinancing programs such as People's Business Credit (Kredit Usaha Rakyat/KUR) and Joint Business Group (Kelompok Usaha Bersama/KUBE).

2. Several regulations underlie the implementation of social protection programs in Indonesia. Law 11/2009 on Social Welfare was the beginning of formal regulations regarding social protection programs. Government Regulation 39/2012 on the Implementation of Social Welfare further explained that social protection was aimed at individuals, families, groups, and

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communities which were experiencing sudden and adverse shocks due to a social or economic crisis, politics, disasters or natural phenomena. Presidential Regulation 18/2020 on National Medium Term Development Plan 2020-2024 (Rencana Pembangunan Jangka Menengah Nasional/RPJMN) expanded the scope of social protection. According to these regulations, social protection is a government effort to protect the Indonesian population from various vulnerabilities and shocks, whether economic or social in nature, or arising from natural disasters and climate change.

3. Law 11/2009 on Social Welfare and Government Regulation 39/2012 on the Implementation of Social Welfare both define social rehabilitation, social security, social empowerment, and social protection as the different kinds of social welfare programs provided by the government of Indonesia. All these aspects come together as a comprehensive system that aims to provide social safety to everyone in need. Individuals experiencing social dysfunction, poor or socially and economically disadvantaged families, groups of people categorized as poor, remote or vulnerable, and distant indigenous communities tied by geographical, economic, or sociocultural ties all receive social protection. Thus, this social protection system constitutes a comprehensive means of granting access to legal aid, social advocacy, and social assistance. Through direct support, accessibility provision, and institutional strengthening, social assistance enables recipients to live decently. Because societal shocks may occur unexpectedly, this help can be transient; otherwise, it can be constant until fundamental necessities are satisfied. Legal aid and social advocacy are also offered to defend the rights of beneficiaries according to the law. Today, as a means of social welfare, the government is putting a greater focus on social protection by carrying out social assistance and social security programs. Through this comprehensive system, it is hoped that the social welfare of citizens is guaranteed to satisfy the minimum fundamental necessities demanded.

4. Social assistance programs are intended to improve living standards and reduce poverty and disparities among income groups. Under social welfare efforts, the government implements several major national initiatives. The designated beneficiaries are poor and vulnerable families. Each initiative has a different number of beneficiaries. Examples of some social protection initiatives are the Indonesia Smart Program (Program Indonesia Pintar/PIP), Non-Cash Food Assistance (Program Sembako), and Family Hope Program (Program Keluarga Harapan/PKH). PIP is social assistance meant solely for educational purposes, by offering support to guarantee access to learning opportunities and continuation of education for children from underprivileged homes. Program Sembako provides food aid to low-income families, while PKH gives conditional cash transfers to improve the welfare of poor families. PIP has about 18 million target beneficiary students, Program Sembako has 18.8 million target beneficiary households, and PKH, 10 million target beneficiary households. The benefit amount varies for each PKH component and PIP educational level, whereas Program Sembako has a fixed benefit amount of IDR200,000 per month per beneficiary household. These initiatives, taken together, build a strong social safety net that boosts community welfare and shields weaker groups from social and financial risks.

5. Social security in Indonesia is contributory in nature, funded by its participants. The two main programs of social security are national health insurance (Badan Penyelenggara Jaminan Sosial/BPJS Kesehatan) and national employment insurance (Badan Penyelenggara Jaminan Sosial/BPJS Ketenagakerjaan). BPJS Kesehatan grants health care protection nationwide, while BPJS Ketenagakerjaan protects workers through work accident insurance, old-age savings, pensions, and death benefits. Although Indonesia operates social security programs on a contributory basis, the government helps poor and vulnerable groups with their contributions through the National Health Insurance Contribution Assistance Recipient (Penerima Bantuan Iuran Jaminan Kesehatan Nasional/PBI JKN) scheme so that they do not have to pay contributions to the health insurance program. In the employment sector, BPJS Ketenagakerjaan manages several programs, including work accident insurance (Jaminan Kecelakaan Kerja/JKK), death insurance (Jaminan Kematian/JKM), pensions (Jaminan Pensiun/JP), job loss insurance (Jaminan Kehilangan Pekerjaan/JKP) and old-age insurance (Jaminan Hari Tua/JHT). Specifically for civil servants, their pensions are managed by the Civil Servant Insurance (Tabungan dan Asuransi Pegawai Negeri/TASPEN) program. As for soldiers, police officers and Ministry of Defense employees, their pensions are managed by a state-owned social insurance company called Asuransi Angkatan Bersenjata Republik Indonesia (ASABRI).

6. Implementing social protection to promote social welfare is mandated by the Constitution and linked to fiscal commitment. The mandate is stated in the national principle Pancasila and the 1945 Constitution, the foundational elements of the Indonesian state. It is linked to the fiscal commitment stipulated in Law 17/2003, which states that the annual state budget Anggaran Pendapatan dan Belanja Negara (APBN) has six functions: authorization, allocation, planning, distribution, supervision, and stabilization. The fiscal commitment is manifested, inter alia, in mandatory spending and fiscal rules. Furthermore, the implementation of fiscal commitments is translated into budgeting that aligns with national development planning. Through Law 25/2004, the country carries out the RPJMN, which contains national development strategies, general policies of ministries and across ministries, regional and cross-regional programs, as well as a macroeconomic framework that covers a comprehensive picture of the economy, including the direction of fiscal policy in Government Work Plans that is provided in the form of a regulatory framework and an indicative funding framework. These fiscal responsibilities are outlined in the government work plans. The Ministry of National Development Planning (Bappenas) ensures the management efficiency and sustainability of social protection programs.

7. In general, the social protection system has a formal legal basis in the form of key strategic documents and laws that set out the scope of current programs. There are several key strategic documents: Presidential Regulation 18/2020 on RPJMN 2020-2024, Presidential Regulation 36/2023 on Social Security Roadmap 2023-2024, and Presidential Regulation 108/2022 on Government Work Plans 2023. The social protection system is also governed by some key legislations, for example, Law 11/2009 on Social Welfare, Government Regulation 39/2012 on the Implementation of Social Welfare, Minister of Social Affairs Regulation 120/18 on the Family Hope Program, Minister of Social Affairs Regulation 4/2023 on the Implementation of the Basic Food Program, and Law 40/2004 on the National Social Security System.

8. Social protection is an integrated part of the national development planning system. Presidential Regulation 18/2020 on RPJMN 2020-2024 states, in Appendix I (page I.6), that basic services and social protection constitute one of the government's medium-term strategies and strategic issues for human capital development, and are significant and priority projects until 2024. Appendix I (page I.47) states the indicative funding and implementation for social protection programs, and Appendix II (page 35) states the indicative program targets and budget for 2020-2024 and related parties, which are the private sector and the government. Law 25/2004 Article 4 states that the RPJMN also includes a macroeconomic framework, which consists of a comprehensive picture of the economy that gives the direction of fiscal policy in the government work plans in the form of a regulatory framework and an indicative funding framework. Therefore, synergy with the fiscal authorities and the relevant ministries and institutions is critical before finalizing a strategic plan document.

9. Social protection is one of the three pillars of human capital development. Human capital development is among priorities outlined in RPJMN 2020-2024 and one of the President's five primary directions for achieving the 2045 Advanced Indonesia Vision. As a result, many social protection programs remain a top priority in the state budget. The growth of social protection expenditure in recent years, particularly during the COVID-19 pandemic, demonstrates this fact. Social protection programs are the responsibility of both the central and local governments, as regulated by Law 11/2009 on Social Welfare and Government Regulation 39/2012 on the Implementation of Social Welfare. Therefore, a specific Village

Direct Cash Assistance (Bantuan Langsung Tunai/BLT) program has been implemented since COVID-19, overseen by local administrations.

10. In recent years, the government has initiated social protection reform to accelerate welfare improvements. First, the government is constantly improving databases and methods for determining beneficiaries of social assistance and other government programs to increase data accuracy. Second, the government is trying to consolidate social protection programs through complementarity, integration, and program digitization. Third, the government is attempting to provide adaptive and durable social protection. Fourth, the government wants to create synergy among social protection funding channels. Fifth, the reform of social protection programs necessitates restructuring social protection legislation.

11. Social protection programs are also instruments for accelerating the alleviation of poverty and extreme poverty and increasing welfare through reducing risk and vulnerability. Indonesia has three pillars of poverty alleviation, according to Presidential Instruction 4/2022: easing the burden of expenditure, increasing income, and reducing pockets of poverty. These three pillars work through social protection programs. To ease the burden of expenditure on citizens, the government provides social assistance. To increase income, the government offers community empowerment programs through PKH, Wage Subsidy Assistance (Bantuan Subisidi Upah/BSU), microfinancing (Pembiayaan Ultra Mikro/UMi), and credit subsidies for micro, small and medium enterprises (Kredit Usaha Rakyat/KUR). Empowerment programs are one of the steps the government takes to strengthen graduation from poverty by increasing people's access to capital and employment. The government is working on the third pillar, which is reducing pockets of poverty, by providing subsidies and PBI JKN. The level of poverty and extreme poverty in Indonesia continues to be on a sliding trend after rising due to the pandemic, with authorities providing reasonably comprehensive social protection programs to the community.

2. Fiscal Management of the Social Protection System

12. It is crucial to ensure new social protection programs or modifications to existing ones align with the government's strategic directions and priorities amid limited fiscal space. Indonesia's fiscal discipline, governed by Law 17/2003, sets out the fiscal rule of maintaining the budget deficit below 3 percent of GDP and the debt-to-GDP ratio under 60 percent, ensuring sustainable government borrowing and macroeconomic stability. Several steps are undertaken in formulating the design and strategy of social protection policies, including budget allocation.

- **Policy Framework and Planning:** The government outlines its strategic directions and priorities through national development plans, poverty reduction strategies, and social welfare frameworks. Social protection initiatives are designed to align with these overarching policies to address specific goals, such as poverty reduction, health improvement, educational access, or response to crises such as a pandemic.

- **Government Coordination and Decision-making:** Interministerial coordination involving key government bodies ensures that proposed social protection programs match the government's priorities. Decision-making bodies, such as the President, relevant ministries including the Ministry of Social Affairs and Ministry of Finance (MoF), and parliamentary committees, assess and approve new programs or modifications based on their alignment with national priorities.

- **Budget Allocation and Approval:** The government allocates budgets based on its strategic priorities. Introducing or modifying social protection programs requires financial resources, and budget allocations are made in line with government priorities. Parliamentary approval of budgetary allocations further ensures alignment with strategic directions.

Specifically, during the pandemic, Indonesia implemented social protection measures that included cash transfers, food assistance, and support for affected businesses. These initiatives aimed to alleviate economic hardships caused by the pandemic while aligning with the government's strategic focus on safeguarding public health and sustaining livelihoods.

13. Several line ministries and government institutions are involved in various aspects of social protection, such as Bappenas, the MoF, the Ministry of Social Affairs, the Ministry of Health, the Ministry of Education, the Coordinating Ministry for Human Development and Cultural Affairs, the National Team for the Acceleration of Poverty Reduction (TNP2K), and the Ministry of Women's Empowerment and Child Protection. These government institutions work collaboratively to design, implement, and monitor social protection programs, each contributing to different aspects such as policy formulation, funding, service delivery, and monitoring the impact of these programs on the welfare of citizens. As the fiscal authority, the MoF is pivotal in monitoring, evaluating, and guiding the fiscal aspects of social protection. Through these roles and responsibilities, the MoF ensures prudent fiscal management, compliance with legal frameworks, and the sustainable usage of funds allocated to social protection in Indonesia.

14. In the context of national development planning, Indonesia has several planning documents. There are national long-term planning documents (RPJP 2015-2024), national medium-term planning documents (RPJMN 2020-2024), and annual planning documents (Rencana Kerja Pemerintah/RKP). In addition, planning documents have been drawn up at the ministry and agency levels, namely the Ministry's Strategic Plan for the medium five-year term and the annual Ministry's Work Plan. The Ministry's Strategic Plan is derived from the RPJMN.

15. A comprehensive process determines the financing needs of social protection programs. The processing of each development is as follows, based on Government Regulation 17/2017 Article 7:

- *The MoF conducts the current budget performance review, and Bappenas conducts the current development performance review.*
- *Based on both reviews, Bappenas establishes the development's themes, targets, policy direction, and priorities, which the President will later review and approve.*
- *The approved development's themes, targets, policy direction, and priorities form the basis for preparing and proposing national programs and activities across line ministries.*
- *The MoF and Bappenas prepare the budget availability by referring to the Macroeconomic Framework and Principles of Fiscal Policy (Kerangka Ekonomi Makro dan Pokok-Pokok Kebijakan Fiskal/KEM-PPKF).*
- *Bappenas sets the national priorities, priority programs, priority activities, priority projects, locations, outputs, and funding indications, including social assistance targets and the budget. The MoF and Bappenas then set the indicative budget allocations.*

The assessment of medium and long-term financing and fiscal sustainability are explained in the sections below.

2.1. Medium Term

16. Indonesia has no centralized platform for discussing the resources required specifically for mid-term social protection programs. Instead, the government relies on a medium-term fiscal framework (MTFF) to plan and manage its finances over five years. The MTFF covers all fiscal projections and is not limited to social protection only. It is restricted to central government expenditure but excludes the breakdown of each expenditure item based on type or function.

17. The MTFF is elaborated on in the Macroeconomic Framework and Principles of Fiscal Policy (KEM-PPKF), which discloses the annual projections, assessments, and plans. This framework considers revenue generation, expenses, and budget allocations, including the strategies of social protection programs in more detail. The KEM-PPKF is an annual policy document outlining the country's macroeconomic vision, strategic plans and specific fiscal policies, targets, and regulations for the following year. It is the basis for formulating the Financial Notes (Nota Keuangan) and the draft of the annual state budget (RAPBN).

18. Moreover, the Indonesian government has the RPJMN, which outlines the country's development priorities and five-year plans. The RPJMN is a guiding document for predicting trends and designing expenditure frameworks. This comprehensive plan encompasses assumptions, fiscal projections and priorities in terms of expenditure. It covers growth, infrastructure development, social welfare enhancements, educational improvements, health care provisions, and other crucial areas. The plan establishes targets, outlines strategies, and allocates budgets for programs and projects to achieve Indonesia's objectives within the specified time frame. Coordination between the RPJMN and national budgeting ensures that government spending aligns with the medium-term development priorities outlined in the plan. Furthermore, it offers a structure for tracking and assessing advancements made toward these goals.

19. The RPJMN typically involves dividing resources across sectors, including social protection. These sectoral allocations are determined based on the development goals. The RPJMN sets policy objectives for development, defining the desired outcomes and impacts. Decisions on how to allocate resources within social protection programs in the RPJMN involve a multidimensional approach that considers factors such as societal needs, policy goals, stakeholder input, fiscal considerations, and evaluations of past initiatives. Once determined, these allocations are integrated into the budgeting process to ensure that resources are appropriately distributed to achieve the targets and goals outlined in the medium-term development plan. The coordination typically follows this process:

- Government institutions responsible for finance, planning, social affairs, education, health, infrastructure, and other aspects actively participate in developing the RPJMN. They contribute insights, data, and policy proposals related to their areas.
- The planning process often involves consultations and engagements with stakeholders such as ministries, local governments, the private sector, civil society organizations, academic institutions, and community representatives. This collaborative approach allows for a range of perspectives.

- Each government institution prepares its plans and proposals for its sector. These plans are then integrated into the RPJMN. They include targets, strategies, and resource allocations tailored to each sector's responsibility.
- The RPJMN ensures alignment with the government's priorities and goals. It integrates the sectoral plans into a framework reflecting the country's development agenda.
- The RPJMN serves as a foundation for the government's budgeting process. It provides guidelines for allocating resources across sectors according to the plan's medium-term development priorities.

20. While the RPJMN provides a road map, the allocation of annual budgets is influenced by immediate requirements, fiscal realities, and government priorities for that specific year. Although programs or allocations mentioned in the medium-term plan may influence budget decisions, they do not guarantee an exact match with the budget allocation in subsequent years. Adjustments and prioritization can be made during the budgeting process based on the prevailing situation and available resources. The RPJMN undergoes regular evaluations to assess progress and ensure that strategies align with evolving priorities. Similarly, annual budgets are modified to ensure alignment with national development goals, which may or may not directly mirror the medium-term plan.

2.2. Long Term

21. Indonesia does not have a specific centralized platform dedicated to discussing the long-term resource needs of social protection programs or the sustainability of social security funds. In the absence of a dedicated central platform, the Indonesian Long-Term Development Plan (RPJP) provides macro-political planning with a 20-year outlook as well as the vision, mission, and long-term development direction, which can then be used as guidelines for preparing the RPJMN every five years. The MoF also publishes the Long-Term Fiscal Sustainability document, the last version being in 2019. The document elaborates on three fiscal scenarios to achieve the 2045 Advanced Indonesia Vision. The government needs to develop a long-term macro-fiscal management direction and strategy projections. The government will pursue three fiscal support scenarios: baseline, scenario 1 (moderate reform), and scenario 2 (comprehensive reform). This document also elaborates on social protection in its scenarios.

22. While a standalone platform exclusively dedicated to discussing social protection may be unavailable, social protection topics are often integrated into broader conversations about social welfare, economic development, and public policy in Indonesia. Additionally, various governmental and non-governmental entities might address these issues periodically or on an ad hoc basis through different channels, depending on specific circumstances such as natural disasters and crises. These discussions might encompass broader aspects of social protection and the sustainability of social security funds. Government bodies may arrange meetings and forums among themselves to discuss the long-term resource needs and sustainability of social protection programs and social security funds.

3. COVID-19 Pandemic and Reform Priorities

3.1. COVID-19 Pandemic

23. The 2020 National State Budget initially had no allocation to handling a major public health crisis because the COVID-19 outbreak had happened suddenly. The unprecedented pandemic crisis required huge amounts of funds to contain the disease and to protect the livelihoods of people and businesses from widespread bankruptcy. However, as per Law 17/2003, the allowable level of fiscal deficit is below 3 percent of GDP. Thus, the government had to initiate the Government Regulation in Lieu of Law 1/2029, which was later legalized as Law 2/2020. This legislation allowed the government to respond swiftly and boldly. Given the scale of the crisis, the fiscal deficit widened markedly to 6.1 percent in 2020 to facilitate the National Recovery Program (PEN), financed partly through refocusing and reallocation. From a state financial perspective, the policy of refocusing and reallocating the budget was the first step in handling COVID-19. This policy proved that from the start, there was attention and anticipation from the state's financial side regarding the COVID-19 outbreak.

24. The refocusing and reallocation policy was outlined in Presidential Instruction 4/2020, dated March 20, 2020. This regulation states that ministers and institution leaders are asked to prioritize the use of existing budgets for activities that support the acceleration of anti-pandemic measures by refocusing activities and reallocating the budget. Through this Presidential Instruction, to support pandemic-related funding, ministers were asked to follow up by making budget cuts or savings, especially on non-priority spending such as official travel, meeting costs, honorariums and non-operational spending, and on capital spending for non-priority projects and activities. Adjustments included identifying and reviewing projects that could be postponed, and also single-year projects that could be converted to multiyear undertakings, and multiyear projects that could be extended. The Presidential Instruction contained five instructions, as follows:

- Prioritize using existing budget allocations for activities that accelerate the handling of COVID-19 by refocusing activities and reallocating the budget.
- Accelerate activity refocusing and budget reallocation through a budget revision mechanism and immediately submit budget revision proposals to the Minister of Finance.

- Speed up the procurement of goods and services to support the accelerated handling of COVID-19 by simplifying and expanding access.
- Procure goods and services to accelerate the handling of COVID-19 by involving the Government Goods/Services Procurement Policy Institute and the Financial and Development Monitoring Agency.
- Procure goods and services for health and medical equipment to handle COVID-19, paying attention to goods and services that follow standards set by the Ministry of Health.

25. In the National Economic Recovery (PEN) program, social protection is one of the main focuses. The social impacts of the pandemic are addressed through social protection policies outlined in PEN. The social protection components in the program include:

- Cash social assistance: increasing cash social assistance to vulnerable and directly affected groups, such as low-income families, informal workers, and those who have lost their jobs due to the pandemic. This assistance aims to help with their basic needs.
- Social safety nets: developing and expanding social safety nets through food aid, health assistance, and social security programs to provide broader protection to affected communities.
- Worker and unemployment protection: strengthening efforts to protect affected workers through work-hour reductions, wage subsidies, and other support measures to prevent layoffs.
- A strengthened health sector: investing in the health sector to boost the health system, including increased access to essential health services and support for medical workers fighting the pandemic.
- More access to education and training: developing education and training programs for the community to acquire new skills, increase competitiveness in the job market, and adapt to economic changes.
- Special assistance to vulnerable groups: paying special attention to vulnerable groups such as children, older people, people with disabilities, and women to ensure that the social assistance and protection granted are appropriate for their needs.

26. The social protection policy mix in the PEN program can reduce the shock effect of the decline in economic activity during the pandemic. The performance of the social protection system is clearly illustrated by the poverty level, which can be reduced significantly from initial projections. In the initial scenario, without government intervention, the pandemic is estimated to lead to an additional 4.86 million poor people. By comparison, according to Statistics Indonesia records, September 2020 saw an additional 2.76 million poor people. This means the government reduced half of the initial projection through social protection programs.

27. The social protection system encountered challenges that affected the execution of stimulus support measures during the pandemic. Some of the challenges included:

- Ensuring coverage and targeted help: it was challenging to reach all groups and those most affected by the pandemic. Accurately identifying and targeting beneficiaries also posed difficulties, resulting in exclusion and inclusion errors.
- Data and information gaps: inaccurate or outdated beneficiary data hindered efficient targeting to render assistance. The lack of access to data made it challenging to identify and assist those most in need, leading to inefficiencies in distributing support.
- Insufficient coordination and integration: effective implementation requires coordination among government institutions and levels. Fragmentation, a lack of coordination, and communication gaps among stakeholders sometimes resulted in duplicate efforts and inefficiencies when delivering support.
- Constraints on capacity and resources: the rapid expansion of social protection programs necessitated resources and enhanced capacity.

The sudden increase in social protection needs during the pandemic prompted Indonesia to implement several measures and improvements within its social protection system to address the immediate challenges and support vulnerable populations.

3.2. Reform Priorities

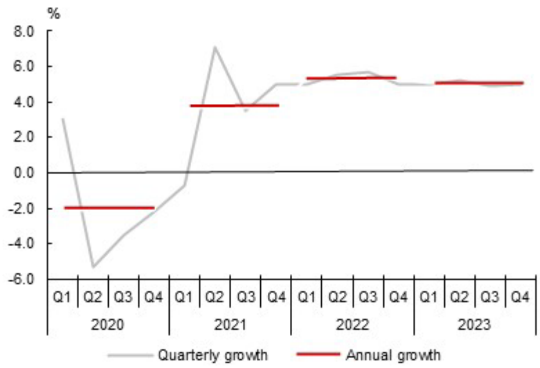
28. The pandemic was a catalyst for efforts to strengthen and reform social protection programs. Social protection measures within the PEN program provided by the government to the community have successfully helped handle the pandemic and aided economic recovery. In response to the pandemic, the government developed a social protection scheme that offered adaptive social protection. The transformation of social protection toward adaptive social protection is directed at increasing coverage, social assistance based on vulnerability status, social security, and employment and entrepreneurship opportunities for the entire community in cases with and without a disaster. Adding more flexibility and establishing a mechanism or protocol for social protection to face a crisis are integral to the adaptive social protection system.

29. The BLT program was another immediate reform adopted by the government. Under the old social protection system, targeting relied on only a Proxy Means Test or a top-down approach. However, based on village discussions, targeting efforts were shifted to a bottom-up approach. This change resulted in community checks on assistance recipients. Yet another adjustment was about the preemployment card. Before the pandemic, the preemployment card program focused only on improving the competencies of job seekers, laid-off workers, and those who needed skill enhancement. The beneficiaries would be able to enroll in the listed courses and would receive cash incentives after completing their courses. However, during the pandemic, objectives of the preemployment card program were extended. Instead of solely focusing on skill development, it also provided more cash incentives to beneficiaries.

30. To strengthen social protection and support efficiency, one of the reform priorities is the accuracy of the system's beneficiary selection, as protecting the poor and vulnerable groups is paramount. It is also the key to expanding coverage, specifically to older people and people with disabilities. Furthermore, changes in the social protection system database during the pandemic provided for a more bottom-up approach to the targeted recipients, as elaborated above. The pandemic has allowed for exclusion error corrections as the community is able to recommend adding more poor people, who are not covered by the Proxy Means Test system, to the social protection system database.

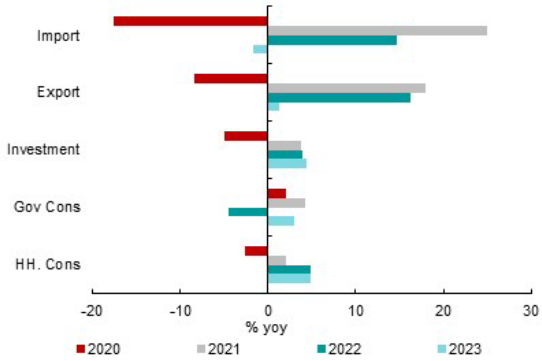
Appendix IV.1. Selected Figures

Figure 1. GDP Growth



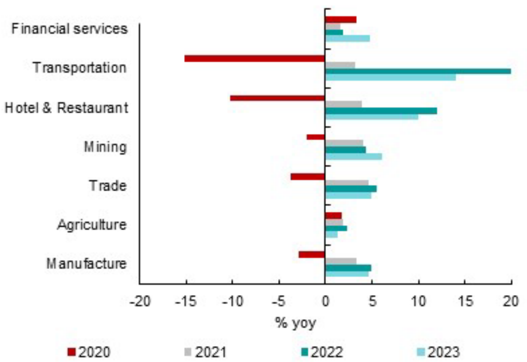
Source: Ministry of Finance (MoF)

Figure 2. GDP Growth: Expenditure



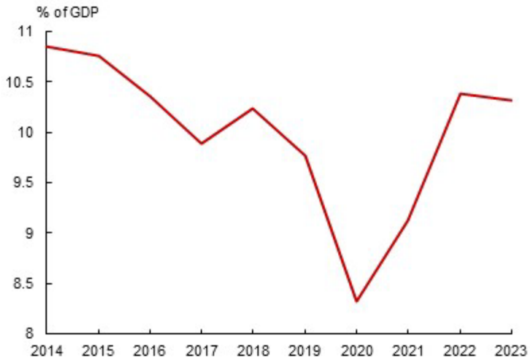
Source: MoF

Figure 3. GDP Growth: Production



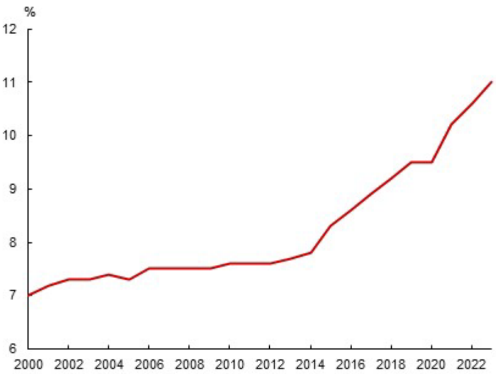
Source: MoF

Figure 4. Tax Revenue Ratio



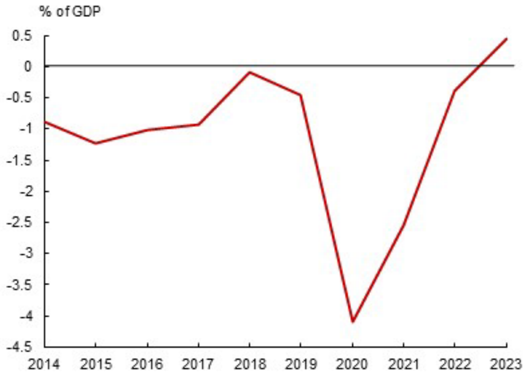
Source: MoF

Figure 5. Old-age Dependency Ratio



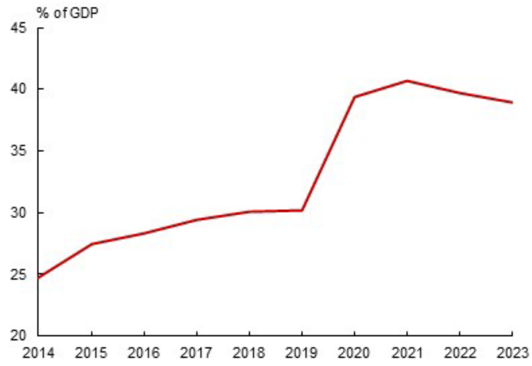
Source: MoF

Figure 6. Primary Balance



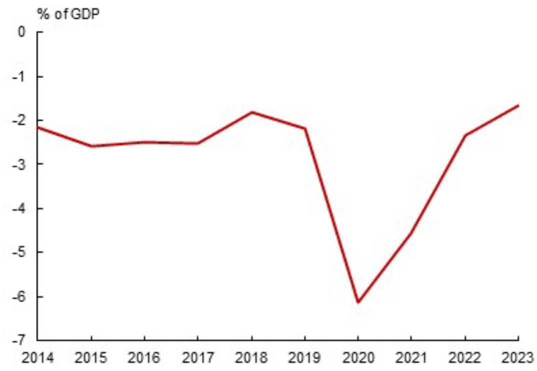
Source: MoF

Figure 7. Public Debt Ratio



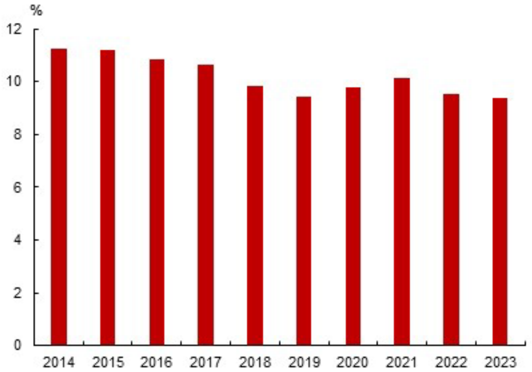
Source: MoF

Figure 8. Fiscal Balance



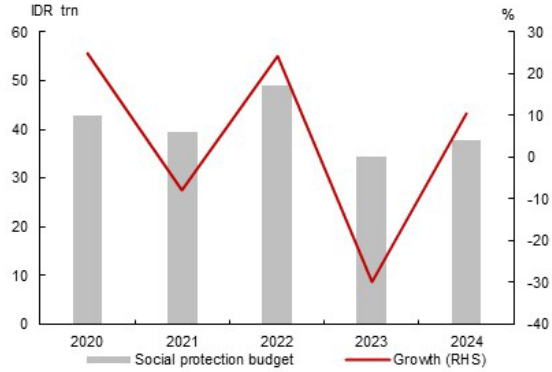
Source: MoF

Figure 9. Poverty Rate



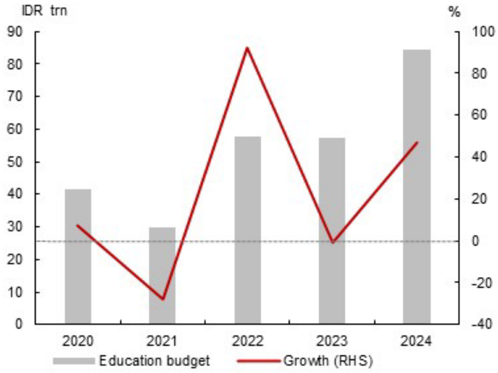
Source: MoF

Figure 10. Social Protection Budget



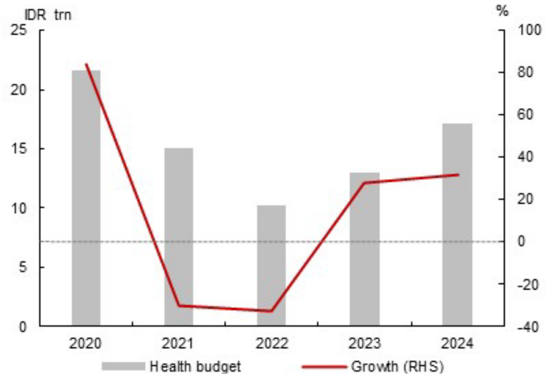
Source: MoF

Figure 11. Education Budget



Source: MoF

Figure 12. Health Budget



Source: MoF

Appendix IV.2. Selected Tables

Table 1. Selected Fiscal Indicators

Real Sector and Prices	2019	2020	2021	2022	2023
Real Sector and Prices	(In annual percentage change)				
Real GDP	5.0	-2.1	3.7	5.3	5.1
Agriculture	3.6	1.8	1.8	2.3	1.3
Industry	3.8	-2.9	3.4	4.9	4.6
Services	7.5	-0.6	3.7	7.9	7.7
GDP Deflator	-0.0	0.0	-0.1	-0.1	-0.0
CPI Inflation (average)	2.8	2.0	1.6	4.2	3.7
CPI Inflation (end of period)	2.6	1.7	1.9	5.5	2.6
Fiscal Sector	(In percentage of GDP)				
A. Revenue	12.4	10.7	11.8	13.5	13.3
I. Tax Revenue	9.8	8.3	9.1	10.4	10.3
II. Nontax Revenue	2.6	2.2	2.7	3.0	2.9
B. Expenditure	14.6	16.8	16.4	15.8	14.9
I. Central Government	9.5	11.9	11.8	11.6	10.7
II. Regional Transfers & Village Funds	5.1	4.9	4.6	4.2	4.2
C. Primary Balance	-0.5	-4.1	-2.5	-0.4	0.4
D. Surplus (Deficit)	-2.2	-6.1	-4.6	-2.4	-1.7
E. Financing	2.5	7.7	5.1	3.0	1.7
Memorandum Items					
Nominal GDP (IDR trillion)	15833.9	15443.4	16976.7	19588.5	20892.4
GDP per capita (USD)	4174.9	3911.7	4349.5	478.9	4919.7
Exchange rate (IDR/USD, average)	14,146.3	14,572.3	14,312.0	14,870.6	15,255.1
Exchange rate (IDR/USD, end of period)	13,831.5	14,034.5	14,197.7	15,652.3	15,338.9

Source: MoF

Table 2. Statistics on Social Protection

Program	Beneficiaries				
	2019	2020	2021	2022	2023
Population (million)	266.9	270.2	272.7	275.8	278.7
Number of poor people (million)	25.14	26.42	27.54	26.16	25.9
PKH (million families)	10.00	10.00	10.00	10.00	10.00
Cash transfer for education (million students)	18.4	18.1	18.1	17.9	18.1
Contribution subsidy for National Health Insurance (million people)	96.5	96.6	99.9	111.0	96.8
Cash transfer for higher education/university (thousand students)	463.60	818.10	1164.00	713.80	994.30
Cashless food assistance (million families)	15.60	19.41	18.56	18.80	18.80
Number of pension contributors	4,387,673	4,345,738	4,685,886	4,905,618	4,933,255
% coverage	1.64	1.61	1.72	1.78	1.77
Health insurance	224,149,019	222,461,906	235,719,262	248,771,083	267,311,566
% coverage	83.98	82.33	86.44	90.21	95.92
Social security for workers	34,166,257	29,980,082	30,660,901	35,864,017	41,560,938
% coverage	12.80	11.10	11.24	13.00	14.91

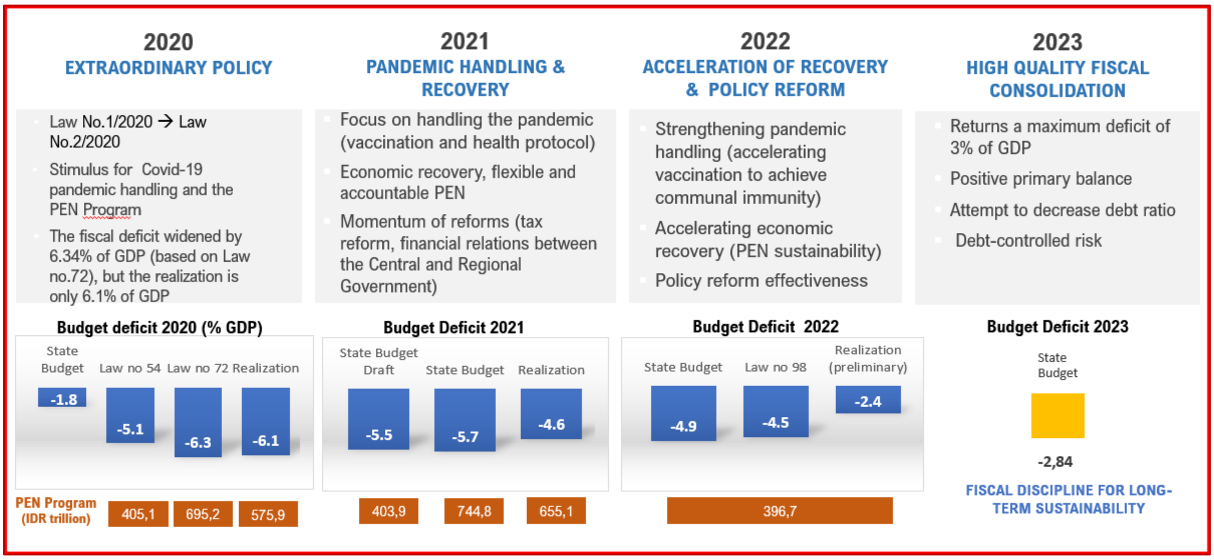
Source: Statistics Indonesia; Ministry of Education; National Social Security Council; MoF

Table 3. Spending on Social Protection

Program	Spending				
	2019	2020	2021	2022	2023
Nominal GDP (IDR trillion)	15,832.7	15,443.4	16,976.8	19,588.1	20,892.4
PKH					
nominal (IDR trillion)	32.75	41.9	27.9	28.6	28.7
% to nominal GDP	0.21	0.27	0.16	0.15	0.14
Cash transfer for education					
nominal (IDR trillion)	11.2	11.1	11.0	11.1	9.7
% to nominal GDP	0.07	0.07	0.06	0.06	0.05
Contribution subsidy for National Health Insurance					
nominal (IDR trillion)	35.8	48.6	44.8	43.6	46.5
% to nominal GDP	0.23	0.31	0.26	0.22	0.22
Cash transfer for higher education/university					
nominal (IDR trillion)	4.8	7.1	9.8	10.8	12.9
% to nominal GDP	0.03	0.05	0.06	0.06	0.06
Cashless food assistance					
nominal (IDR trillion)	19.3	43.9	47.6	44.1	45.1
% to nominal GDP	0.12	0.28	0.28	0.22	0.22

Source: Statistics Indonesia; MoF

Appendix IV.3. National Economic Recovery (PEN) Program



Source: MoF

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V. Japan[1]

Japan does not have an independent fiscal institution that critically assesses or provides nonpartisan advice on fiscal policy and performance, nor any comprehensive fiscal mechanisms that effectively regulate public finance and budgeting in general. Its system of social protection has traditionally been built around full-time employees through public health and pension insurance, leaving other functions of a social safety net to local governments. As such, the country has placed more emphasis on social contributions than on taxes to raise revenues. However, recent socioeconomic changes have made it difficult to further exploit social insurance premiums as a source of revenue. The issue facing Japan calls for more revenues raised by taxes, rather than by premiums. Unfortunately, such policies are always unpopular.

1. Overview of the Social Protection System

1.1. Overview

1. In Japan, the Ministry of Health, Labour and Welfare (MHLW) of the central government designs and oversees social protection programs through national legislation.[2] Local governments[3] are involved in almost all social protection programs except public pensions and employment-related social insurance. The laws governing social protection programs that involve local governments thus necessarily specify the roles and fiscal responsibilities of local governments along with those of the central government. More generally, national laws specify the organizational structure of local governments and assign the same expenditure functions to the same class of localities, that is, prefectures, designated cities, core cities, special cities, ordinary cities, towns and villages, including the social

[1] Prepared by Professor Masayoshi Hayashi, hayashim@e.u-tokyo.ac.jp, University of Tokyo.

[2] Because Japan has so many national laws on social protection programs, this report cannot provide an exhaustive list. For more details, visit https://www.japaneselawtranslation.go.jp/en/laws/search-cat and click on “Labor, Public Welfare and Social Welfare”.

[3] The Japanese system of local government comprises municipalities as the first tier and prefectures as the second tier. There were 1,741 municipalities as of January 24, 2024, consisting of 792 cities, 743 towns, 183 villages, and 23 Tokyo metropolitan special wards (https://www.soumu.go.jp/kouiki/kouiki.html). Cities are categorized into 20 designated cities, 62 core cities, 23 special cities (which are now in a transitory stage to being abolished), and 687 ordinary cities. Their expenditure functions vary according to the type of municipality. Prefectures, as the second tier, geographically cover municipalities and consist of 47 units (one to, one do, two fu, and 43 ken), including the Tokyo metropolitan government (Tokyo-to). They provide services whose benefits spill over municipal boundaries and require uniform standards across municipalities within the jurisdiction of the same prefecture. They also conduct infrastructure projects that are too large to be undertaken by municipalities and provide technical assistance to municipalities when required. The organizational structure is uniform within a given class of local government, with the executive and legislative branches separated. Mayors of municipalities and governors of prefectures, as well as members of municipal councils and prefectural assemblies, are all directly elected for a four-year term through popular voting. The budget of a local government is prepared and proposed by the executive branch, then approved by the legislative branch.

protection programs that they implement.[4]

2. Local governments can also provide their own additional services and benefits through their bylaws and additional budgeting measures.[5] When local governments provide more services and benefits than specified by the national standards, such additional provisions are called *Uwanose* (topping up). When they provide services and benefits in areas "adjacent" to those the central assignment originally targets, such an extension is called *Yokodashi* (widening out). Furthermore, national legislation often assigns specific functions *without* specifying the standards to be satisfied. In such a case, local governments are free to decide their level of relevant services and benefits.

3. Local governments are an integral part of social protection programs in Japan (Hayashi 2010, 2018). Although local governments account for 27 percent of the total disbursement of social benefits, their share of social assistance benefits in both cash and kind exceed 90 percent (Table 1). Note that because local governments manage region-based public health insurance and long-term care insurance programs, the local share of social security benefits in kind, comprising health and long-term care benefits, amounts to 41 percent.

4. The MHLW uses the term "social security (*Shakai Hosho*)" to mean social protection and classifies it into four categories: social insurance (public pension, public health insurance, public long-term care insurance and employment-related insurance); social welfare (assistance and services for children and the disadvantaged, including the aged and handicapped); public assistance (minimum income guarantee for the poor); and public health (management and regulation of medical service provision and drugs, health promotion, and food safety).[6] The following sections briefly describe the first three of the four social protection program categories in Japan: social insurance, social welfare, and public assistance.

1.2. Social Insurance

[4] For example, the Japanese system of income support and personal social services is largely, but not exclusively, defined by Fukushi Roppo, or the Six Acts of Social Welfare, which consist of the Public Assistance Act, Child Welfare Act, Act on Welfare for Single Parents and Widows, Act on Welfare for the Elderly, Act on Welfare for the Physically Handicapped, and Act on Welfare for the Mentally Handicapped. These laws define local governments as providers of social assistance and services. In addition, the Social Welfare Services Law requires prefectures and larger municipalities, meaning the cities, to establish welfare offices to implement social assistance and services specified by the Six Acts. Smaller municipalities, namely towns and villages, are not required to do so, although a handful of them have their own welfare offices. Prefectural welfare offices, apart from carrying out their own functions, also cover the functions for towns and villages that have not set up their own welfare offices.

[5] National legislation supersedes local bylaws when the two are in conflict.

[6] See https://www.mhlw.go.jp/stf/newpage_21479.html (accessed on March 13, 2024). Note that this classification is developed from a recommendation made by the Social Security System Council on October 16, 1950 (https://www.ipss.go.jp/publication/j/shiryou/no.13/data/shiryou/syakaifukushi/1.pdf, accessed on March 13, 2024). The old classification was not exactly equal to the current classification because the public long-term care insurance program, introduced in 2000, was then nonexistent. In addition, the council is now defunct and its present successor, the Social Security Council, is different in its capacity from the predecessor.

5. Social insurance programs in Japan consist of public pension, public health insurance, long-term care insurance, and employment-related insurance.

6. The Japanese system of public pension is two-tiered. The first tier is the National Pension Insurance (NPI), which provides a baseline income for the retired. All residents, including foreigners, between the ages of 20 and 60 years are expected to pay NPI premiums. The second tier is Employees' Pension Insurance (EPI). Its premiums include those paid for NPI and are roughly proportional to income earned, subject to a ceiling. Its benefits increase in line with premiums paid during the employee's working life. Those who are excluded from EPI, such as the unemployed, are enrolled only in NPI.

7. Public health insurance follows two schemes that respectively target those aged below 75 and those aged 75 and older (Table 2). The scheme for those aged below 75 is composed of two sets of programs. The first set consists of occupation-based programs collectively called Employees' Health Insurance (EHI). The programs classified as EHI are administrated by different insurers, including the Japan Health Insurance Association, 1,388 health insurance associations, and 85 mutual aid associations. The insurance programs managed by these insurers cover employees and their dependents.

8. The other set of public insurance programs for those aged below 75 years is called National Health Insurance (NHI), which covers those excluded from EHI, thus completing the coverage of all in the Japanese population aged below 75. NHI programs are region-based and consist of programs managed by regional NHI associations of independent professionals, such as medical practitioners; and programs jointly managed by municipalities and prefectures, called municipal NHI. Programs offering municipal NHI cover people who are excluded from EHI and NHI association coverage, hence they typically include the unemployed, the self-employed including farmers and excluding the said professionals, and retirees.

9. The second scheme for those aged 75 years and above, called "old-old," is the Medical Care System for Elderly in the Latter Stage of Life (MCSE).[7] A *Koiki Rengo*, a union formed by all municipalities within a single prefecture, manages finances for the health

[7] The central and local governments use different English translations of this system. For example, the MHLW refers to it as the "Long Life Medical Care System" or "Medical Care System for Elderly in the Latter Stage of Life" (https://www.mhlw.go.jp/english/wp/wp-hw3/dl/2-003.pdf). Local authorities variously call it the "Medical Insurance System for the Latter-Stage Elderly" (Kasama city, https://www.city.kasama.lg.jp/page/page012712. html); "Medical Care System for the Elderly Aged 75 and Over" (Osaka city, https://www.city.osaka.lg.jp/contents/wdu020/fukushi /english/kokuho/44_koukikoureisya_iryouseido.html); and "Advanced Elderly Medical Service System" (Yokohama city, https://www.city.yokohama.lg.jp/lang/residents/en/insurance/default2020030 9.html).

care of 75-year-olds and above in their prefecture.

10. The coverage of medical services under these public health insurance programs is identical, standardized, and wide. Anyone with comparable characteristics can use various standardized medical services by paying identical user fees or co-payments, regardless of the type of public health insurance program the person is enrolled in. Patients are free to choose any medical service provider, be it a clinic or hospital, private or public, although patients without a referral letter may be required to pay an additional fee at specified large hospitals. In the standard case, public health insurance covers 70 percent of medical costs, therefore co-payments make up 30 percent. When the monthly co-payment exceeds a prescribed threshold that increases stepwise with the patient’s income, public health insurance additionally covers all the excess amount through the High-cost Medical Expenditure Benefits.

11. Long-term Care Insurance (LTCI) started in 2000 with municipalities as the insurers.[8] The program covers those aged 65 years and older (Category I) and those between 40 and 64 years (Category II). To receive LTCI benefits, prospective recipients first have their needs assessed by their municipality of residence. Those who are found to be eligible are classified into several stages according to the severity of their long-term care needs and become entitled to “purchase” long-term care services from providers of their choice, usually private **provider**s. In standard cases, the insurer makes co-payments amounting to 10 percent of the actual cost. The benefits are received up to a ceiling that increases as the severity of their individual needs rises.

12. Employment-related insurance consists of Employment Insurance (EI) and Industrial Accident Compensation Insurance (IACI). Only employers are liable to pay premiums for these insurance programs. EI is public unemployment insurance. Employers must participate in the scheme to cover full-time workers below the age of 65. Part-time and temporary workers who work for 20 hours or more per week are also enrolled if they are expected to remain in their jobs for more than six months. The IACI provides benefits to workers (or their survivors) who suffer injury, illness, or death due to circumstances related to their work or commuting. While this insurance applies principally to businesses with employees, special provisions are available for the self-employed without employers and for workers assigned to overseas jobs.

1.3. Child Benefits and Social Welfare Programs

13. The system of child benefits consists of three types of allowances, all of which

[8] For details on LTCI programs in Japan, see Hayashi (2018).

follow uniform national standards. The first is the Child Allowance (CA), which operates under revised conditions starting October 2024: families receive benefits if their children are not older than 18 years, up from 15 years, and their benefit levels have also increased, albeit still depending on the child's age and the number of children, but no longer dependent on the parents' income. The second is the Child-rearing Allowance (CRA), which disburses benefits to low-income single parents with dependents aged less than 18 years. The payments depend on the number of children and decrease with income above a certain threshold. The third is the Special Child-rearing Allowance (SCRA), which supplements families with handicapped children over and above the other child allowances, if applicable. Its benefits are restricted by income level; however, the restrictions are rather generous.

14. Municipalities, as prescribed by national laws, examine eligibility and make payments for the CA, CRA, and SCRA. In particular, applicants to the SCRA and other handicapped benefits in general undergo assessments of national standards to certify their need for handicapped services if they live in larger municipalities, such as designated and core cities, while residents in smaller municipalities are evaluated by their prefecture.

15. Generally, municipalities and prefectures are also responsible for implementing other social welfare programs. Such programs typically target households with children, single mothers and widows, the elderly, and the handicapped. Elderly services are mainly provided through LTCI programs, with some services granted directly by local governments. The handicapped are categorized as physically disabled, mentally disabled, and intellectually disabled. As with the SCRA, children with these handicaps receive additional special care and benefits. The services range from facility-based to in-home provisions. A substantial number of social welfare programs are provided at the discretion of local authorities, over and above those specified by national legislation.[9]

16. Roughly speaking, municipalities consult with users, provide certain services directly, and make arrangements with private social service providers, while prefectures build and manage facilities and other infrastructure. Such private service providers are certified by the government as social welfare foundations (SWFs), non-profit

[9] Local governments are not prohibited from developing their own social programs. First, there are many cases where national laws simply mandate that localities conduct specific programs, but the central government does not explicitly specify either benefit levels or eligibility criteria. In such cases, localities have full discretion in implementing the programs. An example is School Expense Assistance (SEA). While the central government mandates that municipalities implement SEA programs to help children in low-income households attend primary and junior high school, municipalities have full discretion over eligibility criteria and benefit levels for families with children who marginally fail to qualify for PA benefits. As such, SEA programs differ greatly among municipalities. Second, as briefly mentioned in the text, localities often provide supplementary benefits over and above central government requirements. For example, the handicapped receive a variety of supplementary income support. While they can avail themselves of a national system of benefits, the Tokyo metropolitan government, for instance, provides additional monthly benefits to the severely handicapped. Furthermore, municipalities in Tokyo give varying amounts of additional benefits to the less severely handicapped.

agents whose functions are defined by a national law known as the Social Welfare Service Act. In many cases, the local government commissions SWFs to deliver personal social services. Most facilities are managed by non-governmental entities such as SWFs.

1.4. Public Assistance Program

17. Public Assistance (PA) is the last safety net[10] in Japan. The Public Assistance Act requires local governments to implement PA programs through their welfare offices. Prefectural welfare offices provide PA to towns and villages that do not have welfare offices. To receive PA benefits, applicants must have exhausted most of their available resources. Benefits are provided only if their income and resources are insufficient to cover the minimum costs of living. PA benefits are equal to the part of the basic cost of living that exceeds what the individual earns with his/her best effort. PA thus intends to guarantee a minimum cost of living.[11] As such, PA benefits are provided only after a careful examination, or means test, of the applicants' financial situation. Most of the assistance is paid in cash, with the cost of medical and long-term care paid directly to the service providers. In addition, recipients get housing and shelter in kind, if applicable.

18. While local governments implement the PA program, the central government sets the eligibility conditions and benefit levels by determining the basic costs of living, called "Assistance Standards," which the PA intends to guarantee. The Subcommittee on Assistance Standards of the Social Security Council regularly reviews eligibility conditions and benefit levels by evaluating the Assistance Standards. The review is recommended, but not mandated, to be conducted every five years. During the review, the subcommittee evaluates the standards by considering the distribution of earnings of Japanese workers. However, it does not, at least formally, consider fiscal resource needs or financing options.

1.5. Economic and Social Trends

19. Japan's economy has been stagnant for more than three decades, since the 1990s (Figures 1, 2). At current prices, there was virtually no growth before 2015 in the sense that, between 2000 and 2015, its GDP exceeded the 2000 level only once, in 2007, and experienced a large dip in 2008. The average annual growth rate at current prices during 2000-2014 was as small as -0.01 percent. At constant prices, however, steady growth can be observed, albeit with small dips in 1998, 2001, and 2014 and a relatively large dip in 2007-08.

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[10] One may think of a social protection system as consisting of layers of protection nets. A scheme as a safety net positioned in the upper layers of the system may fail to cover all the needs of the people. In other words, there are necessarily "holes" in the net. The last safety net is what the phrase literally means. It is the safety net scheme at the bottom of the system, the last resort that is intended to cover all the needy that the upper layers of social protection schemes fail to protect.

[11] For details on PA programs in Japan, see Hayashi (2023).

The average annual rate at constant prices was at 0.8 percent, below 1 percent. In addition, the growth was mainly due to deflation during that period, as the GDP deflator and CPI show (Figures 3, 4). After 2014, steady growth at both current and constant prices was recorded, notwithstanding decreases in 2019 and 2020, the latter of which was due to the COVID-19 pandemic. After 2014, the average annual rate from 2015-2022 was 1.0 percent at current prices and 0.5 percent at constant prices. The growth at constant prices was even smaller than in 2000-2014.

20. Furthermore, the Japanese economy has aged and will continue to grow older (Figures 5, 6). The latest official population forecasts by the National Institute of Population and Social Security Research predict that Japan's total population will decrease by 32.1 percent to 87 million in 2070 from its peak of 128 million in 2010. Its working-age population, of 15 to 64-year-olds, will shrink more severely, by almost half (48 percent) from its peak of 87 million in 1995 to 45 million in 2070, and by 40 percent from 75 million in 2020. Meanwhile, the elderly population, of people aged 65 and above, is forecasted to steadily increase to a peak of 40 million in 2043, followed by a gradual decline. These results imply a rapid pace of aging (Figure 6). The share of 65-year-olds and above will continue to rise from 29 percent in 2020 to around 40 percent in 2070, while those aged 15 to 64 will continue to decrease from 60 percent to 52 percent during the same period.

21. Market inequality, in terms of the Gini coefficient before redistribution in 1981, increased from the late 1990s to the early 2010s, and has not decreased since then (Figure 7). While a large part of the increasing inequality was attributable to Japan's aging population (Ohtake 2005), the rise in recent years is conspicuous even after controlling for the aging effect (Shikata and Tanaka 2017). The Gini coefficient after redistribution has been stable since the 1990s, implying that Japan's redistribution measures are effective. However, the Gini coefficient *after* redistribution in recent years is almost equal to that *before* redistribution. In addition, despite the relatively stable values of the Gini coefficient after redistribution, the relative poverty rate continued to rise until the early 2010s (Figure 8). Since this poverty rate refers to the proportion of households with equivalent income less than half the median income, it implies that the bottom of the income distribution has gradually thickened. However, this trend has reversed over the past decade, and the poverty rate has been declining.

2. Fiscal Management of the Social Protection System

2.1. System to Ensure Sufficiency of Appropriated Resources

22. The socioeconomic trends described in the previous section have substantially

increased demand for social protection spending (Figures 9-16). Among the types of general government expenses, spending on social benefits has continued to grow (Figures 9, 10), climbing by 50 percent from 2000 to 2022 (Figure 11). Its share of total expenses grew from 45 percent in 2000 to more than 55 percent in 2019 before the pandemic triggered a huge spike in total expenses, the denominator of the share (Figure 12). Among the categories of social protection programs, public pension has been paying out the largest benefits, followed by public health insurance, social assistance including social welfare and PA programs, and long-term care insurance (Figures 13, 14). Social benefit expenses for the last two categories have grown the most since 2000 (Figures 15, 16). Given that Japan has been running government deficits all this while (Figure 17) and has accumulated a quite high debt-GDP ratio (Figure 18), the increase in social benefit expenses poses a serious challenge to public finance.

23. Social protection programs in Japan are naturally financed by taxes (including future taxes in case of as-usual deficit financing), social contributions in the form of mandatory public insurance premiums for specific programs, or a combination of the two. Social contributions, which constitute 35-40 percent of general government revenue, are earmarked for only social benefit expenses, whereas taxes, which constitute more than half of the revenue, are naturally used for other government expenses as well (Figures 19, 20).

24. The government, both central and local, is fiscally committed to all these benefits by paying fixed proportions of the expenses as stipulated by national legislation (Table 3). First, for public *insurance* programs, the central government transfers from its general account to its special accounts administering those programs fixed proportions of the benefits that the special accounts pay out.[12] Second, in public insurance programs where local governments are the insurers, namely NHI and LTCI, both the central and local governments transfer fixed proportions of their benefits from their general accounts to the special accounts of the local governments. Third and last, for programs that are implemented and spent by local governments through their *general* accounts, the central government also disburses fixed proportions of the benefits to the local budgets. The central funds disbursed to local governments in the latter two cases are classified as a subcategory of the Central Government

[12] In fact, such special accounts are subaccounts of an overarching account called the Pension Special Account, which has six subaccounts, including those for the NPI and the EPI.

Subsidies (CGSs)[13] called *Kokko Futan-kin* or National Treasury Contributions (NTCs).[14]

25. The central government also takes care of costs for local governments that are not covered by NTCs through the Local Allocation Tax (LAT). The LAT, though labeled as a "tax," is a general-purpose central grant financed by national taxes and other central revenue sources. The central government allocates 94 percent of the total LAT budgets among prefectures and municipalities, following a gap-filling formula which yields the amount of LAT as the nonnegative difference *g* between its Standard Fiscal Demand (SFD) and its Standard Fiscal Revenue (SFR). The SFR estimates the fiscal capacity of a given locality, and the SFD estimates the level of local expenses required to maintain "standard" public services within that locality. As such, only localities with "weak" fiscal capacity receive LAT grants.

26. The SFD is the sum of the standardized spending estimates for various expenses categories. Such estimates include the local costs of statutory social protection programs that are spent through the general accounts of local governments, including funds transferred from the general accounts to the local special accounts of NHI and LTCI. In other words, the LAT, together with the NTCs, fiscally guarantees the benefits of statutory social protection programs. The SFD also allows for some "standard" costs of social protection programs that may or may not be independent of the nationally designed schemes.

27. The current system of the central sharing of local government expenses originated during the war years, when fiscal incentives were required to fully mobilize local government resources. Since then, the central government has traditionally displayed a strong aversion to fully funding local programs through CGSs make localities spend social benefits excessively (Okuno, 1944). For example, when the PA program was being designed in the late 1940s after the war, there was a tense debate within the central government between full and partial funding. However, the aversion to full funding was so influential that the NTCs for PA programs allowed for 80 percent of PA benefits when the PA program was initiated (Kasai, 1978). Furthermore, the central government attempted to offload its costs of

[13] CGS, also known as National Treasury Disbursement (*Kokko Shishutsu-kin*), is a generic term for categorical disbursements from the budgets of line ministries of the national government. CGSs are categorized into three types. First, as in the text, National Treasury Contributions (*Kokko Futan-kin*) are obligatory disbursements to local governments through which the central government, as required by national legislation, pays fixed proportions of specific categories of expenses that local governments spend from their budgets. Second, National Treasury Subsidies (NTSs, *Kokko Hojo-kin*) serve as an incentive for local governments to adopt specific projects that contribute to national policy objectives. NTSs are typically budgetary measures that do not require specific national legislation. This type of CGS also supports some smaller social programs that are supplementary to their respective statutory programs. Examples include subsidies for in-home handicapped services, and for local projects that encourage PA recipients to get a job. Third, National Treasury Commissions Payments (*Kokko Itaku-kin*) finance services that local governments are required to supply on behalf of the national government, such as the conduct of national elections.

[14] The English translations of Kokko Futan-kin are not uniform. In addition to "National Treasury Contributions", other terms being used are "National Treasury Obligations" and "National Treasury Expense Sharing."

PA programs onto localities by reducing its share,[15] claiming that more central funding would "loosen" local welfare payouts. It successfully reduced the share from 80 percent to 70 percent in FY1985. Thereafter, the reduction was meant to be reviewed by 1989, and was eventually set at 75 percent that year with a 5 percentage point offset. In 2005, the central government again tried to reduce its share of PA benefits, but failed to repeat the 1985-89 feat.

28. Only the Diet's revisions of national legislation can change the cost proportions of NTCs in statutory social protection programs. Changing the proportions paid by NTCs is a political challenge because it involves multiple stakeholders, including private interests known as the welfare industry, central government ministries, local governments, and insurers of social insurance programs. Furthermore, it is difficult for the central government to unilaterally set up a proposal without consulting the parties whose budgets are disrupted by the change, namely the local government and social insurance insurers. When the central government plans to introduce new policies that affect local governments, it is required by national legislation[16] to consult local governments in a meeting of the concerned parties.[17] A report containing a summary of the consultation is submitted to the Diet without delay after the meeting.

2.2. Central Budgeting for Social Protection Programs

29. The central government's annual budgeting follows a parliamentary-Cabinet system. The constitutional authority for formulating the budget resides in the Prime Minister's Cabinet. The Council on Economic and Fiscal Policy of the Cabinet Office formulates the Basic Policy on Economic and Fiscal Management and Reform, which the Cabinet is to approve, usually in summer, as its basic budgetary and policy stance. The contents of the Basic Policy are supposed to be reflected in the budget for the next fiscal year and thereafter. Note that bureaucrats themselves draft legislation in Japan and that the Diet does not have budgetary support institutions which are comparable to the United States' Congressional Budget Office or Government Accountability Office.

30. Japan's fiscal year starts in April, and the process that leads to the next fiscal year's budget typically begins in June, months before January, when the Cabinet submits the

[15] Changes in LAT grants offset changes in NTC disbursements only in localities that receive LAT grants, meaning fiscally weak localities. Such offsets are not realized in fiscally strong localities, which do not receive LAT grants. Where non-recipients exist, reductions in the central share offload the costs of locally implemented social protection programs from the central government.

[16] The legislation, enacted in 2011, is called the Act on National and Local Consultations.

[17] The concerned parties consist of ministers of central ministries related to the matter under discussion, and representatives of the National Governors' Association, the Japan Association of City Mayors, the National Association of Towns and Villages, the National Association of Chairpersons of Prefectural Assemblies, the National Association of Chairpersons of City Councils, and the National Association Chairpersons of Town and Village Assemblies.

budget to the Diet. The Budget Bureau of the Ministry of Finance (MOF) has primary authority to prepare the budget by incorporating the budget requests of government bodies into a final budget. These requests are submitted by the ministries and other agencies in the form of preliminary estimate documents at the end of August, adhering to MOF rules to obtain rough estimates of their budgets. The MOF reviews and adjusts the estimates within anticipated revenues, presents its initial draft to the government bodies, and then negotiates with them to work out minor adjustments.

31. The initial budget is subject to ex ante ceilings that are typically imposed as a percentage of the previous year's amounts. The budget ceilings are specified and approved by the Cabinet around June, when the budgetary process begins. The ceilings are not placed on respective programs, but on wider categories, including mandatory expenses, social expenses, discretionary expenses, and the LAT.

32. Since social protection programs are typically prescribed by national legislation, expenses on such programs are mandatory. Their budget requests are thus based on increases in mandatory expenses that reflect recent growth in the relevant benefits and recipients; and on changes in program expenses due to institutional changes, if any, according to the law. These changes, which are allowed in the budget ceilings, are considered "natural increases." Budgeting for these statutory programs may be free from reviews which are required for non-statutory or budget-based programs.

33. The budget requests are supposed to reflect the results of the Administrative Project Review (APR).[18] In the APR, ministries and other agencies are required to review the programs and projects they implemented in the previous year and to reflect the review results in making their current budget requests. These projects total around 5,000 across the whole central government, about one-fifth of which are then reviewed by external experts every five years. In FY2022, the MHLW implemented more than 1,000 projects, the reviews of which were then reflected in the FY2023 budget.[19] The projects are a subset of individual programs,

[18] The APR was introduced in 2013 to supplement the Plan-Do-Check-Action (PDCA) cycle. In the APR, efforts shall be made (i) to render the status of budget execution for each project public in an easy-to-understand manner, and (ii) to ensure that the verification is external, objective, specific, and rigorous by seeking the opinions of those who have knowledge and experience in budget execution and other project-related administrative operations. Each ministry or agency is expected to identify the status of all projects, including where the budget is ultimately spent and on what it is spent, clarify this information with the public, and then, while drawing on external perspectives, disclose the process and check the contents and effects of the projects. The Cabinet Secretariat, which also serves as the Secretariat of the Administrative Reform Headquarters, shall plan and promote procedures common to all government ministries and agencies. Specific initiatives include procedures for implementation guidelines, forms, schedules, public processes, fall reviews, and fund sheets. The review sheet is prepared and made public for each government ministry and agency, and describes the project contents, objectives, results, flow of funds, and results of the review. Selected reviews are available on the APR website (https://www.gyoukaku.go.jp/review/database/index.html).

[19] The list is downloadable from the APR website. For MHLW projects, the file is at https://www.mhlw.go.jp/jigyo_shiwake/dl_2022/hanei01.xlsx.

each program being a given system of a specific social protection category. For example, the category of "PA program" consists of nine projects whose titles contain the phrase "Public Assistance." In this case, most of them supplement the statutory PA program by administering and implementing it.[20] In other words, the program, in this case PA, as a whole is not the subject of the APR.

34. After the MOF settles its budgetary negotiations, it submits the proposed budget to the Cabinet for decision. The Cabinet, upon granting its approval, proposes the budget to the Diet in January. In the Diet, the Budget Committee of the House of Representatives (HOR) holds hearings to deliberate the proposal. The HOR votes on the proposal and is expected to approve it at least 30 days prior to April 1, the start of the new fiscal year. After the HOR approval, the proposal is sent to the House of Councilors (HOC). In case the HOC fails to approve within 30 days, the HOR decision prevails. All these Diet deliberations are not substantive, as all negotiations among the ruling political parties and ministries/agencies are usually completed before the budget document reaches the Diet. In this sense, the submission of the budget document to the Diet is not considered to mark the beginning of budget formulation but the outcome of budget deliberations.

35. During the fiscal year of the budget's execution, considered as the second year of the budget cycle, a supplementary budget, or sometimes more than one, is routinely prepared. The aforesaid ceilings apply to only the initial budget; the supplementary budget is free from the ceilings. The supplementary budget thus takes care of financial needs that cannot be realized initially, thereby constituting a loophole in the budget restrictions placed by the ceilings. The ratio of the supplementary budget to the initial budget is larger when unexpected fiscal demands are larger: 15.8 percent in 2009 during the global financial crisis, 16.3 percent and 15.8 percent in 2011 and 2012 in the aftermath of the Great East Japan Earthquake, and 71.1 percent, 33.8 percent and 29.4 percent in 2020, 2021 and 2022, respectively, over the pandemic years. Excluding these years, the average ratio from 2000 to 2023 was 4.4 percent.

36. The next fiscal year (third fiscal year) completes a multiyear budgetary cycle that started two years before. By the end of July, after the fiscal year has drawn to a close in March, the ministries and agencies submit their settlement documents to the MOF, which

[20] The names of the nine PA projects are roughly translated as follows: (1) Project for Promoting Public Assistance Recipients' Employment and Self-support, (2) Subsidies for Specified Job Seekers' Employment Development (Employment Development Course for Public Assistance Recipients), (3) Commissions for Public Assistance Guidance and Auditing, (4) Research Project on Public Assistance, (5) Commissioned Study on Digitization of Public Assistance, (6) Projects for Proper Provision of Public Assistance (related to Subsidies for Support to Needy Persons for Job Preparation), (7) Projects to Support Prefectures' Municipal Public Assistance (related to Subsidies for Support to Needy Persons for Job Preparation), (8) National Workshop for Public Assistance and Employment Support Workers, and (9) National Workshop for Public Finance Caseworkers.

prepares the financial statements based on these documents. The statements go through Cabinet approval and are then sent to the Board of Audit (BOA)[21] by the end of November. The BOA inspects and confirms the financial statements and produces an inspection report. With the inspection report, the Cabinet then submits accounting documents for Diet deliberation in February or March of the next calendar year, around the end of the third fiscal year. Because the settlement of the accounts does not require a vote by the Diet, feedback from the BOA review to the next cycle of budgeting is considered of minimal importance.

2.3. Mechanism for Containing Budget Expansion

37. Since the budgetary process considers all the available information every year, expenses for social protection programs are in effect being monitored constantly by the fiscal authority and ministries in charge. However, Japan does not have overarching institutions that integrate the pieces of monitored information in a way that helps long-term fiscal planning of social protection programs.[22] The Council on Economic and Fiscal Policy of the Cabinet Office advises on fiscal affairs by presenting medium and long-term fiscal estimates, as does the Council on Fiscal Institutions at the MOF. However, they fall short of an independent fiscal institution (IFI) that critically assesses and, in some cases, provides nonpartisan advice on fiscal policy and performance (OECD 2023), or any other comprehensive fiscal mechanisms that regulate public finance and budgeting in general effectively, including those for social protection programs.

38. While no such overarching institutions or mechanisms exist in Japan, several social protection programs have institutional mechanisms that help contain expenditures and secure revenues. Some important examples are as follows.

39. Medium and long-term considerations are made for public pension programs whose eligibility conditions and benefit levels are specified by national legislation. As mandated by national law, the MHLW evaluates the prospects of public pension finances every five years at the longest, and adjusts the institutional parameters of the public pension system if necessary. It forecasts and evaluates future revenues and benefits 50 years ahead, although the period varies depending on the case. Note that the MOF is not involved in this

[21] The Board of Audit inspects the accounting practices of the government. When it finds inappropriate or unreasonable practices, the Board not only discloses them but also proactively investigates the causes and encourages corrective measures and improvements. On an ad hoc basis, the Board also publishes reports that examine whether social protection programs are properly implemented. For example, it published a report on PA in 2013 (https://report.jbaudit.go.jp/org/h25/ZUIJI1/2013-h25-Z1000-0.htm) and on LTCI in 2015 (https://report.jbaudit.go.jp/org/h27/2015-h27-0873-0.htm).

[22] Social protection costs are unlikely to fluctuate significantly in a short time except in extraordinary circumstances such as a catastrophic disaster, like the Great East Japan Earthquake in 2011 or the COVID-19 pandemic starting 2020. As social protection expenses are largely affected by demographic factors, medium and long-term considerations may be more important for the design and financing of social protection programs.

evaluation. The MHLW publishes the results of its evaluation as "Estimates on the Future of Public Pension Finances." In addition, Japan introduced an indexing method called "macroeconomic slide" in 2004. This mechanism links pension benefits to current wages and prices, effectively suppressing the benefits when wages and prices rise. It therefore works as an automatic device to contain public pension expenses.

40. Another built-in mechanism for containing social benefits is found in LTCI programs. As required by law, municipalities that serve as insurers of their LTCI programs must balance their LTCI accounts in a three-year period called program management period (PMP). When planning the budget for the next PMP, they project their three-year LTCI expenses and calculate transfer receipts from the upper levels of government and their own general accounts following institutional parameters stipulated by national laws. Municipalities set their own local LTCI premiums, contributed by residents aged 65 years and above, to close the gap between the expenses and receipts, hence the premiums differ across municipalities. Note that the premiums are fixed *ex ante* for a given PMP, and as such, realized annual budgets do not usually balance *ex post* for the three-year period. When surpluses occur, they are saved. If deficits are severe enough to exhaust savings, the municipality takes out a loan from the prefectural fund. It repays the loan in the next PMP out of additional increases in premiums, implying a future hike in premiums. If local politicians want to avoid raising premiums, this mechanism would discourage the expansion of LTCI benefits.

41. The central government also controls the prices of medical services, drugs, and long-term care services that are covered by public health insurance programs and the LTCI program. Given its ability to set prices covered by public insurance programs, the government can exploit these prices as yet another device for containing social benefits when making a budget. Public prices are reviewed every two years for medical and long-term care services, and every year for drugs, which was revised from a two-year interval in FY2020. Changes in those prices are obviously considered in budgeting. When pressing fiscal concerns present themselves, however, the government can and did respond in the short term by reviewing specific items, as with the case of nivolumab. In 2014, the cost of this drug, registered as OPDIVO®, was covered by public health insurance only for treating melanoma. Its public price then was JPY729,849 for 100 milligrams. After the drug obtained additional approval for treating non-small-cell lung cancer in December 2015 and renal cell carcinoma in September 2016, its use skyrocketed, leading to concerns about a surge in medical benefits. The government then halved the price in February 2017, and further reduced it by 23.8 percent in April 2018, and by 37.5 percent in November 2018, as many as three times in two years.[23]

42. Lastly, local governments, by implementing non-trivial proportions of social protection programs, *may* help contain the programs' expenses. First, central budgeting for the LAT binds aggregate local expenses, including those of locally implemented social protection programs. The LAT budget is obtained as the difference between the projected levels of aggregate local revenues and expenditures.[24] The central government can thus control aggregate expenditure estimates to determine the aggregate amount of the LAT. Since the LAT is an indispensable source of revenue in most localities, the central government can also affect local expenses.[25] Second, localities share fixed proportions of the costs of social protection programs that they are mandated by national laws to implement. Therefore, non-LAT recipients suffer financially if the program costs increase. The same applies to LAT recipients when the local costs go beyond what the LAT guarantees, since local cost estimates incorporated in the SFD are determined ex ante and, in most cases, not adjusted ex post. Thus, localities may naturally take care not to overspend on their programs.

2.4. Fiscal Considerations when Introducing or Modifying Programs

43. Social protection programs that apply universally require national legislation to be introduced and implemented.[26] As such, the standard procedures for national legislation set by the Constitution form a framework in which policymakers and politicians interact.[27] The key players usually consist of the political party or parties in power, the MHLW, the MOF, the Ministry of Internal Affairs and Communications (MIC) if the program involves local

[23] The following web article closely examines the historical case of nivolumab: https://www.tkfd.or.jp/research/detail.php?id= 4270 (last accessed on March 23, 2024).

[24] The LAT budget is obtained from the Local Public Finance Program (LPFP) and the negotiation, called Local Public Finance Measures, between the MOF and the MIC. Under the LPFP, expenditures are projected for a list of items that include salaries and wages of local public officials, current operating expenditures, capital spending, and debt service. These items are not actual local spending but "standard" spending that the central government deems appropriate. For example, wages and salaries are made comparable to those of central government officials. The subsidized components of current operating expenditures and capital spending are calculated using subsidy rates and unit costs set by national laws and the central budget. Debt service accounts for only limited types of local bonds specified by the central government, such as those listed in the Local Borrowing Program. Revenues are projected for prescribed categories of local revenues, including local taxes and local public bond issues. These revenue projections are added and compared with the aggregate value of the expenditure projections. The latter value always exceeds the former, thus yielding a gap for the LAT to fill. In other words, the LPFP has the function of determining the aggregate amount of LAT that is necessary to sustain the "standard" local expenditures specified in the LPFP.

[25] Of course, depending on the political climate at the central government, its effect on local expenses can be expansionary, as in the late 1990s, or contractional, as in the mid-2000s.

[26] Of course, there are numerous smaller programs which do not require separate legislations. These programs are the subject of the APR during the budgetary process, as explained in the text. Typically, such programs have a time limit on their implementation, and are supplementary to existing statutory programs or experimental in nature. Local governments also develop and implement their own social protection programs, which are necessarily small in scale.

[27] Since social protection services are provided by private and non-governmental entities, the stakeholders include their respective representatives.

governments, and other stakeholders[28] such as interest groups.

44. In considering social protection programs, a key institution is the Social Security Council, which is established by an ordinance as an advisory body to the minister.[29] The council operates within the structure of the MHLW and has dozens of subcommittees dedicated to different areas of social protection policy.[30] When issues arise in social protection programs under the MHLW's jurisdiction, the ministry usually raises them at the council, which then mobilizes a subcommittee, whose members include experts and stakeholders in relevant areas, to deliberate the issue.[31] The subcommittees have different roles and responsibilities, and deliberate different issues. When required, they may discuss the costs of a program. After the deliberation, the council reports to the MHLW minister.

45. Fiscal consideration obviously matters in the policymaking process that leads toward legislation. Because the MOF is involved, this process naturally considers the costs of a new plan and evaluates whether the new plan agrees with the government's fiscal priorities. An example is found in the passage of a bill in February 2024 that amended national laws to introduce a new policy package on child services. The package includes expansion of CA benefits and eligibility and extension of childcare day services to all families. To secure funds for these measures, the government will collect "support funds" by increasing public health insurance premiums. The current plan is to collect JPY600 billion in FY2026, JPY800 billion in FY2027, and JPY1 trillion in FY2028 and beyond. It has been reported that the estimated monthly increase in social contributions per person is expected to be JPY300 in FY2026, JPY400 in FY2027, and JPY500 in FY2028 and after.[32]

46. It is not easy to generalize the policymaking process that leads toward introducing new plans, as different programs may have different institutional aspects and political landscapes in which their policymaking process operates. The most recent introduction of a major social protection program was the LTCI program. The process of establishing this program originated in the late 1980s (Tanaka 2018), culminating in the passage of the Long-Term Care Insurance Act in 1997 and the start of its implementation in 2000. A large body of literature has been written in Japanese on the political and institutional process of introducing

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[28] See the HOR website at https://www.sangiin.go.jp/eng/guide/legi/index.htm.

[29] See the MHLW webpage at https://elaws.e-gov.go.jp/document?lawid=412CO0000000282 (last accessed on March 20, 2024).

[30] The exact number of subcommittees and their meeting records, including handouts distributed at the meetings, can be found on the MHLW webpage at https://www.mhlw.go.jp/stf/shingi/indexshingi.html (last accessed on March 20, 2024).

[31] The following news article gives a sense of how a subcommittee may handle an issue: https://japannews.yomiuri.co.jp/politics/politics-government/20221026-67040/ (last accessed on March 20, 2024).

[32] See https://www.japantimes.co.jp/news/2024/02/27/japan/politics/japan-economic-security-bill/ (last accessed on March 23, 2024).

LTCI. Studies written in English on this matter include Campbell (2022).

2.5. Recent Key Strategic Documents and Plans

47. On December 22, 2023, the Headquarters for Social Security System Oriented to All Generations presented the most recent key strategic document, known as the Reform Agenda. The headquarters, established through Cabinet approval and organized by the Cabinet Secretariat, is a body that focuses on reforming the social protection system in Japan. It aims to address the increasing burden of an aging society and declining birth rate by reforming the current system in which, as the headquarters perceives, benefits are skewed toward the elderly and burdens are skewed toward the working-age population. The headquarters' Council for Social Security System Oriented to All Generations deliberates the agenda.

48. The agenda does not explicitly relate reforms to medium-term or annual resource allocations. Instead, it specifies the list of goals to be achieved before 2028, including an expansion of EPI and EHI program coverage to elicit more premium payments from healthy individuals; smoothing of notches in the budget constraints of part-time workers caused by social insurance contributions, to encourage part-time female workers to work longer; premium parity among EHI programs; digital transformation of medical, long-term care, and other health information; efficient management of health and long-term care provisions; and equal provision of social welfare services among localities. The agenda does not set numerical goals.

3. COVID-19 Pandemic and Reform Priorities

3.1. COVID-19 Pandemic

49. In FY2020, the Japanese government announced a series of packages to combat the pandemic and its expected adverse effects on the economy through three rounds of supplementary budgets. The packages amounted to JPY77 trillion in the FY2020 budget alone, equivalent to 15 percent of GDP. While this package included the costs of directly combating the pandemic by supplying vaccines and preparing additional medical infrastructure, a significant proportion of the expenses was targeted at small businesses, including compensation to businesses that lost revenue due to governmental anti-COVID regulations, such as shortened trading hours. Direct support for households was also provided as cash transfers of JPY100,000 to all individuals, totaling JPY13 trillion, aid to low-income parents (JPY0.4 trillion), and emergency loans for individuals (JPY1.5 trillion). As such, the support packages during the pandemic were a combination of targeted and general blanket measures. These measures, which are now terminated, supplemented the existing social protection programs during the pandemic.

50. The pandemic exposed significant gaps in the coverage of the social protection system. For example, families who were already struggling before the crisis were hit hardest.[33] Anti-COVID measures were thus provided to supplement existing social protection programs. Local governments implemented these emergency measures. Prefectures and larger urban cities, which are responsible for regulating medical facilities, arranged them so that they could respond to the medical needs of the pandemic. Furthermore, the local governments provide public health services through their public health centers based on the Community Health Act. The health centers, whose function is to support and promote the health and hygiene of residents, were at the forefront of the fight against the pandemic. Municipalities, including cities, provided vaccines and carried out direct support programs for households, namely the cash transfers, the aid to low-income parents and the emergency loans. The fact that these programs were implemented by local governments, the same entities that had been conducting social protection programs, obviously contributed to the smooth development of the pandemic response and possibly prevented the situation from worsening.

51. Most of the emergency measures were terminated in May 2023. Given that only a few years have passed since the pandemic ended, it is difficult to evaluate how these emergency measures have affected the Japanese social protection system. Time and more studies are needed to examine this issue. However, a crisis helps create new social protection measures. A good example is the global fiscal crisis in the late 2000s, which also had severe adverse impacts on the Japanese economy. During this period, emergency benefits were provided for those who could not receive employment insurance, typically non-regular workers. Based on this emergency program, legislation was passed in October 2011 to institutionalize the Job Seeker Support System. In the aftermath of the crisis, the government also reorganized public loans into a general support fund program that came in useful during the pandemic, granting special loans with relaxed requirements. Finally, in the financial crisis, a housing allowance was created for those who had the ability and desire to work but had lost their jobs. In April 2015, this emergency measure was incorporated into a larger program by new legislation to become the Housing Security Benefit.

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[33] Kikuchi et al. (2021) showed that the effects of the pandemic on workers in the Japanese labor market varied by age, gender, employment type, educational level, occupation, and industry. Their economic analysis showed that the shocks were amplified for those who earned less before the crisis. Contingent workers were hit harder than regular workers, younger workers were hit harder than older workers, females were hit harder than males, and workers engaged in social and non-flexible jobs were hit harder than those in ordinary and flexible jobs. The most severely affected by the COVID-19 shocks was a group of female, contingent, low-skilled workers engaged in social and non-flexible jobs and without a spouse of a different group.

3.2. Fiscal Challenges

52. The adverse effects of the pandemic appear to have been short-lived. While the Japanese economy remains as stagnant as it was before the pandemic struck in the second quarter of 2020, its recent quarterly GDP at constant prices had almost recovered to the previous level (Figure 21). The unemployment rate, which increased above 3 percent from August to October in 2000, and from April to June in 2001, has recently settled at around 2.5 percent (Figure 22). The Gini coefficients before and after redistribution did not change much from 2014 to 2020 (Figure 7), while the poverty rate decreased slightly from 2018 to 2021 (Figure 8).

53. However, the implications of changes in the number of recipients of social protection benefits are mixed and not straightforward. The number of monthly recipients of Employment Insurance declined immediately after the pandemic, but its recent levels appear to be, on average, slightly higher than before (Figure 23). Meanwhile, the number of monthly PA recipient households, which had begun to climb with the outbreak of the pandemic, continued to increase with some fluctuations even after the pandemic ended. In particular, the number of PA households categorized as "others," which refers to PA households whose heads are healthy and aged 64 years and below, has steadily increased, albeit with a few slight dips (Figure 24). In addition, the huge spending increase in FY2020 has clearly made fiscal conditions even worse (Figures 9-16). This resulted in the debt-GDP ratio, which had been high but relatively constant for several years before the pandemic, rising further in FY2020 (Figure 18).

54. Given these worsening fiscal conditions, one might argue for a shift from a social protection system that provides broader support to one that is more targeted. The choice between the two systems, however, is not straightforward. Obviously, which system is "stronger" or "better" depends on individual value judgments. In addition, this issue stems from the classic debates of universalism versus selectivism in social policy literature, for which a clear answer is difficult to come by. For example, such a dichotomy is not applicable because each social protection program is different in nature and requires a different style of fiscal management. The PA program is completely different from public old-age pension insurance, for instance. While the PA program covers those who cannot afford basic living expenses, the public pension program disregards its recipients' basic costs of living, instead excluding people who have not paid premiums. Their styles of fiscal management are also different. The PA program is financed solely from taxes and administered by local governments, whereas public pensions are financed from taxes and social contributions and managed by the central government. Furthermore, funds for the latter are invested in capital markets.

55. In any event, a "stronger" or "better" social protection system requires more funding. The challenge is fiscal and will remain so, be it in the post-pandemic or pre-pandemic era, or whatever the perspective on social policy. Japan must deal with fiscal issues stemming from an already low birth rate that continues to decline and an already high aging population rate that continues to increase, both of which are further complicated by persistent budget deficits (Figure 17) and the extraordinary level of public debt (Figure 18).

56. Given the aging population, the issue is expected to be more serious for programs that involve the elderly, namely, health care, the LTCI, and old-age pension. The central government, along with prefectures that are required to develop plans to contain medical costs every six years, is vigorously pursuing policies that curb health care benefits, including health promotion, reorganization of local medical facilities, and promotion of the use of generic drugs. Implicit in their thinking is that there exists a large amount of unnecessary medical treatments that do not serve the health of patients.

57. For LTCI and pension programs, the increasingly high social insurance premiums may be an issue. The Japanese system of social protection relies more on social insurance premiums than on taxes to finance its spending.[34] As explained, the LTCI program automatically raises its premiums to balance the budget over a three-year period. Furthermore, the rate for EPI premiums continuously increased by 35 percent from 13.5 percent in 2004 to 18.3 percent in 2018.[35] Similarly, NPI premiums, which are of a fixed amount, also climbed, though not necessarily every year. Monthly NPI premiums rose by 25 percent from JPY13,300 to JPY16,610 during the same period when there was little inflation (Figure 4). While the data suggest that raising social contributions is less challenging than raising taxes, it also implies that the premiums have become too high for low-income households to willingly contribute to social insurance programs.

58. While EPI premiums are collected as withholding (payroll) taxes, NPI premiums are paid directly. NPI premium collection has suffered since local offices of the Social Insurance Agency, now Japan Pension Service, took over the task in 2002 from municipalities which had been collecting the premiums. Indeed, only about 40 percent of people who are required to join the NPI program pay the full premiums (Figure 25).

59. If people stop contributing to social insurance programs, they receive either no

[34] In addition, the system of old-age pension effectively cuts benefits in times of inflation through Macroeconomic Slide.

[35] These rates are shared equally by employers and employees.

pension benefits, or such a small amount as to be far below the basic cost of living.[36] Exclusion from social insurance has a significant impact on future PA programs. Even now, elderly households constitute the largest category of PA recipients, making up 55 percent of recipient households as of December 2023. By construction, they are those with no or little pension benefits (Figure 26), whose numbers are expected to increase as aging progresses and holes in the existing pension system remain as they are. This implies a further rise in PA spending, which would require more tax revenue at both central and local levels.[37]

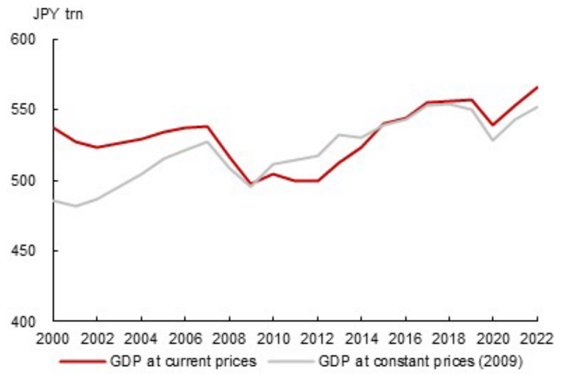
60. The Japanese system of social protection has traditionally been built around full-time employees through social insurance, leaving the residual functions of a social safety net to local governments. In addition, it has placed more emphasis on social contributions than on taxes to raise revenues. Socioeconomic changes in recent years have made it difficult to further exploit social insurance premiums as a source of revenue. The issue facing Japan calls for more revenues raised by taxes, rather than by premiums. Unfortunately, such policies are always unpopular.

[36] The full NPI benefits an individual receives, of JPY68,000 a month in 2024, is lower than the Public Assistance Standard, meaning the basic cost of living, for a single-person household in the Tokyo area, which received JPY90,980 or more a month in 2023.

[37] The PA program has its own problems. It is argued that the strict eligibility assessment and somewhat arbitrary implementation by some local governments have resulted in very low take-up rates, making the program unable to eliminate all poverty effectively.

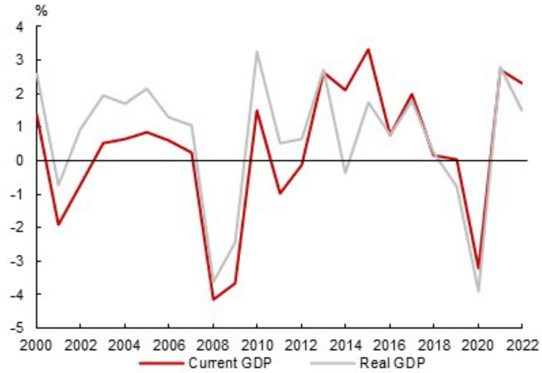
Appendix V.1. Selected Figures

Figure 1. GDP at Current and Constant Values



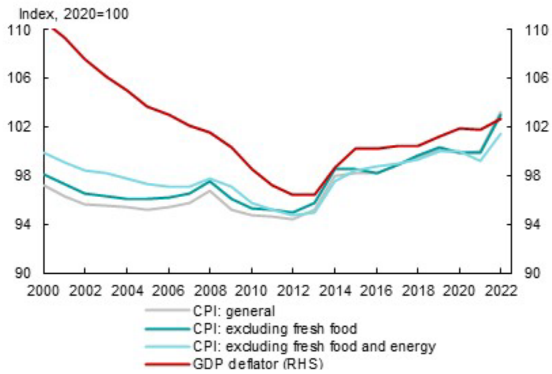
Source: Cabinet Office

Figure 2. Annual Growth Rate



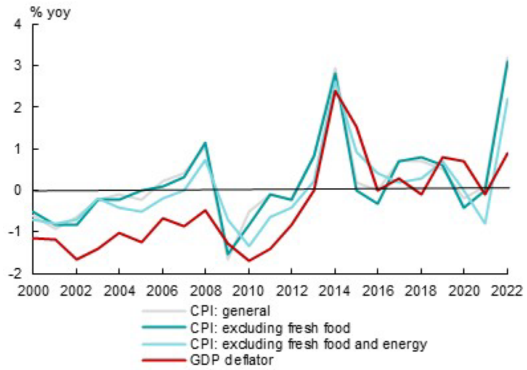
Source: Cabinet Office

Figure 3. Annual Price Levels



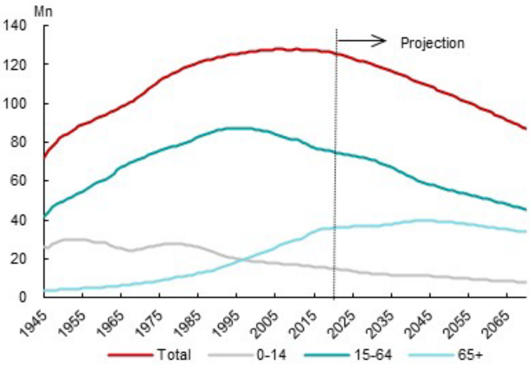
Source: National Institute of Population and Social Security Research; Statistics Bureau of Japan

Figure 4. Annual Price Level Change Rate



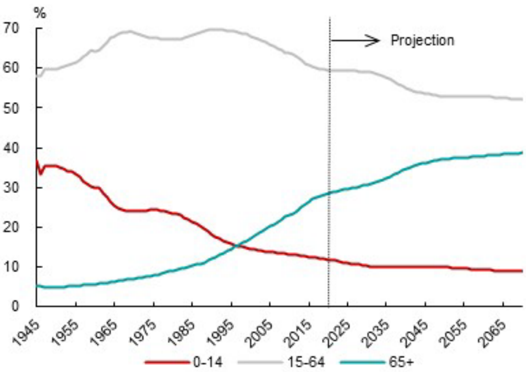
Source: National Institute of Population and Social Security Research; Statistics Bureau of Japan

Figure 5. Population Trends and Forecasts



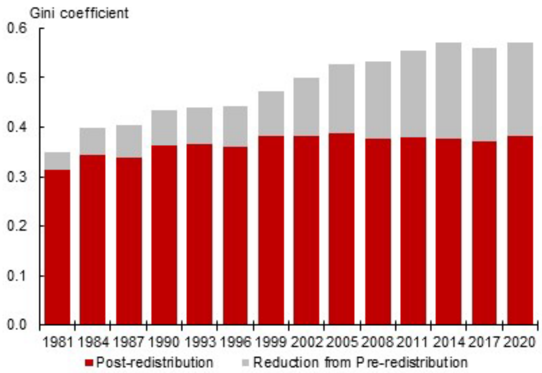
Source: National Institute of Population and Social Security Research

Figure 6. Population Share by Age



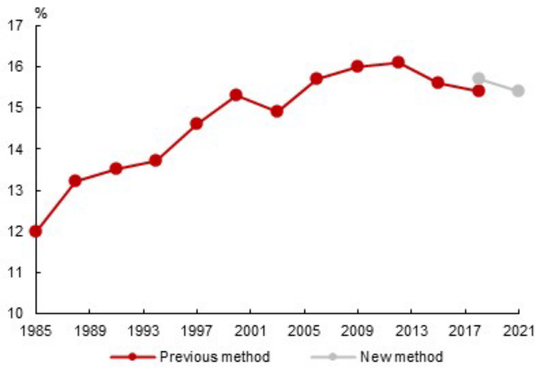
Source: National Institute of Population and Social Security Research

Figure 7. Gini Coefficient Before and After Redistribution



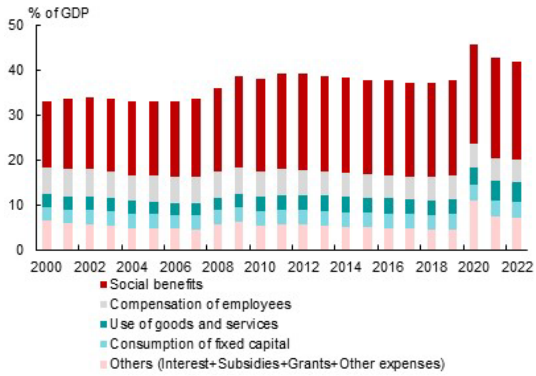
Source: Ministry of Health, Labour and Welfare

Figure 8. Relative Poverty Rates



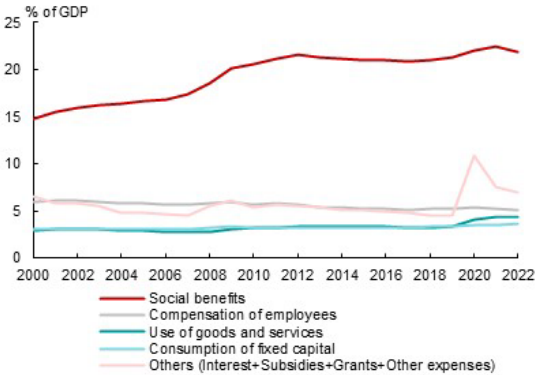
Source: Ministry of Health, Labour and Welfare

Figure 9. Ratio of Government Expenses to GDP (General Government)



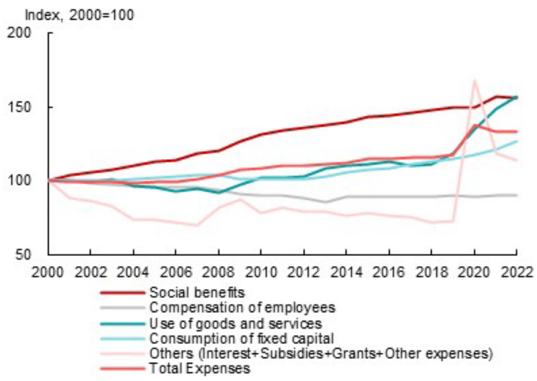
Source: Cabinet Office

Figure 10. Ratio of Government Expenses to GDP by Type (General Government)



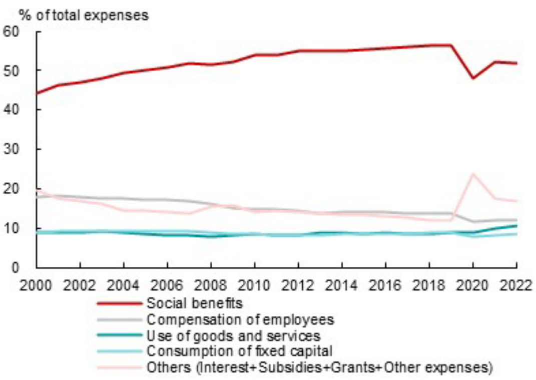
Source: Cabinet Office

Figure 11. Growth of Government Expenses by Type (General Government): 2000 level = 100



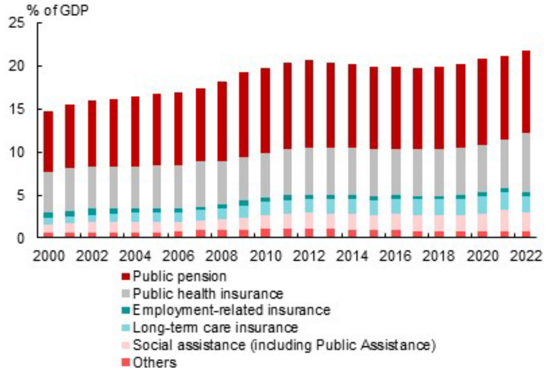
Source: Cabinet Office

Figure 12. Share of Government Expenses by Type (General Government)



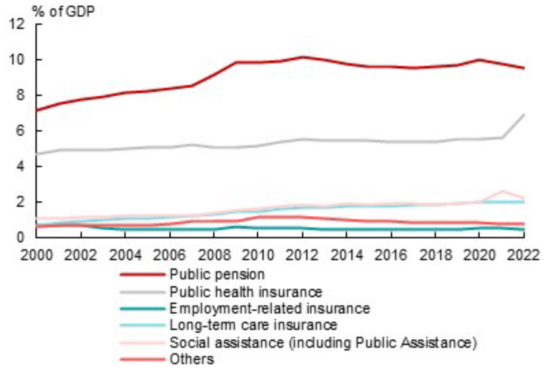
Source: Cabinet Office

Figure 13. Ratio of Social Benefit Expenses to GDP



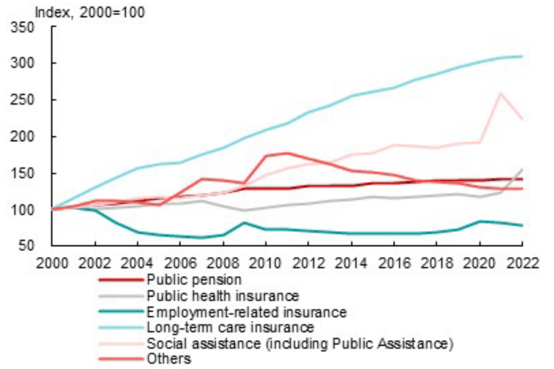
Source: Cabinet Office

Figure 14. Ratio of Social Benefit Expenses to GDP by Program Category



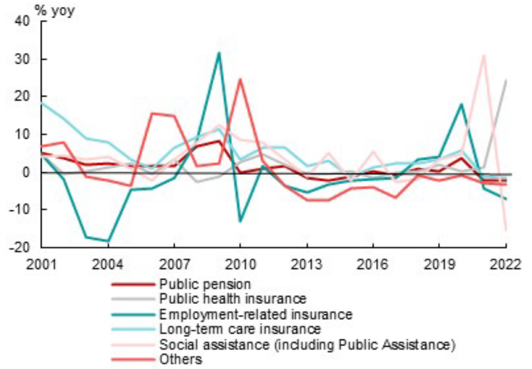
Source: Cabinet Office

Figure 15. Growth of Social Benefit Expenses by Program Category: 2000 level = 100



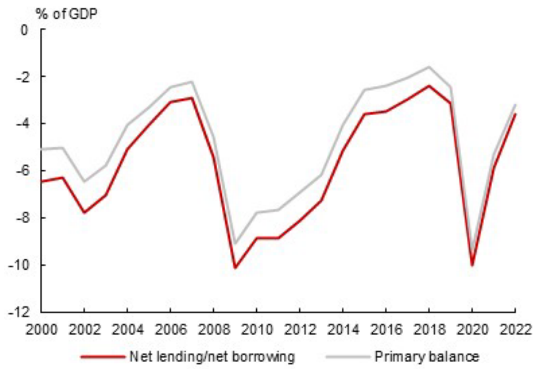
Source: Cabinet Office

Figure 16. Annual Growth Rate of Social Benefit Expenses by Program Category



Source: Cabinet Office

Figure 17. Ratio of Net Lending/Net Borrowing and Primary Balance (General Government) to GDP

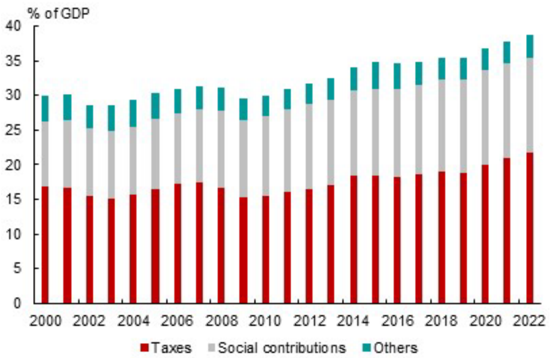


Source: Cabinet Office

Figure 18. Ratio of Gross Public Debt to GDP (General Government)

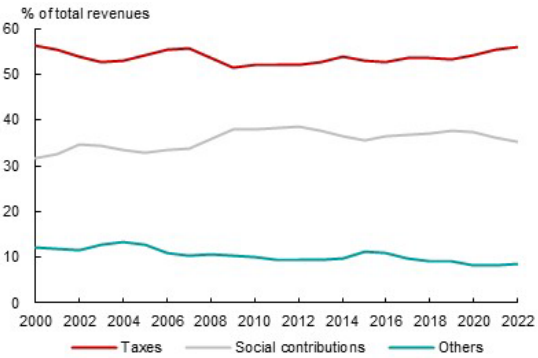
Source: International Monetary Fund

Figure 19. Ratio of General Government Revenue to GDP



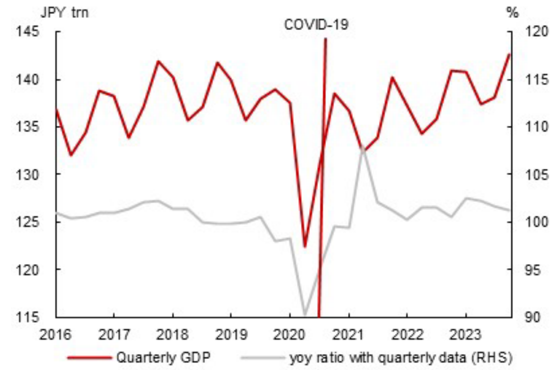
Source: Cabinet Office

Figure 20. Share of Taxes and Social Contributions in General Government Revenue



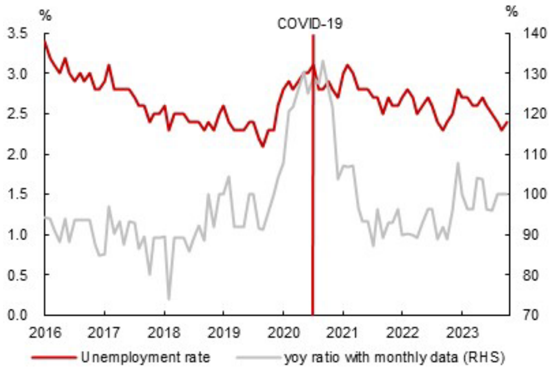
Source: Cabinet Office

Figure 21. Quarterly GDP at Constant Prices Before and After COVID-19



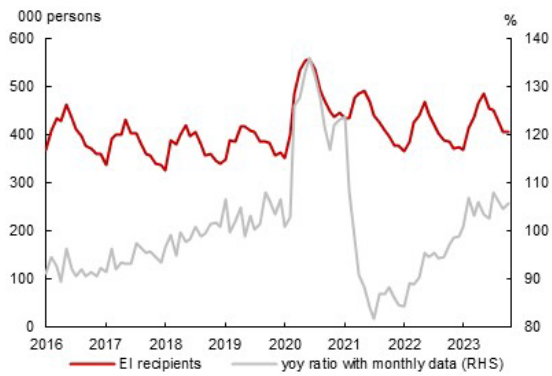
Source: Cabinet Office

Figure 22. Monthly Unemployment Rates Before and After COVID-19



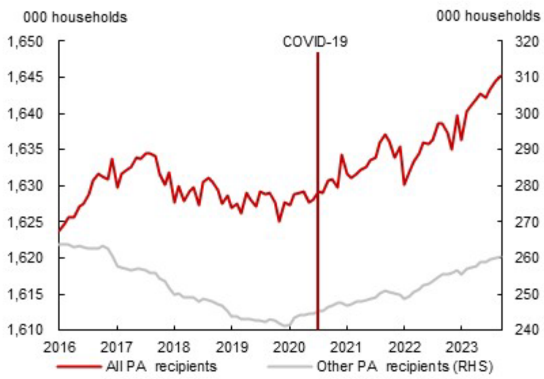
Source: Statistics Bureau of Japan

Figure 23. Monthly Individual Recipients of EI Benefits Before and After COVID-19



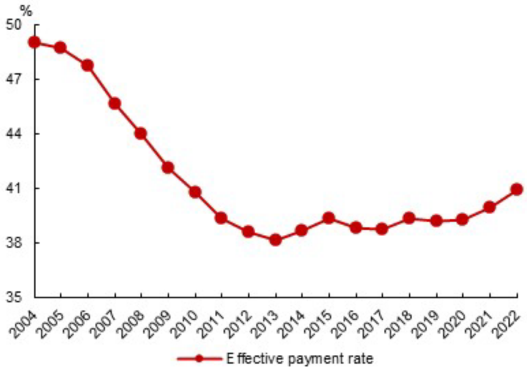
Source: Ministry of Health, Labour and Welfare

Figure 24. Monthly Household PA Recipients Before and After COVID-19



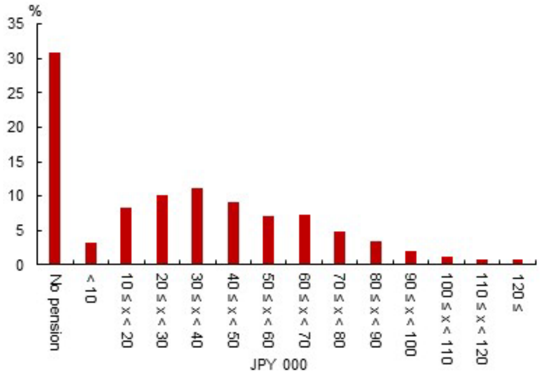
Source: Ministry of Health, Labour and Welfare

Figure 25. Basic Pension Coverage: Ratio of People who Paid Insurance Premiums



Source: Ministry of Health, Labour and Welfare; Author's calculation

Figure 26. Ratios of Individual PA Recipients by Public Pension Receipt



Source: Ministry of Health, Labour and Welfare

Appendix V.2. Selected Tables

Table 1. Share of Social Benefits Transferred by Government Sector (FY2022, %)

	(1) Central government	(2) Local government	(3) Social security fund		Local share (2)+(4)
				(4) Local (NHI+LTC)	
Social benefits (total)	0.9	10.8	88.3	16.4	27.2
Social security benefits	0.0	0.0	100.0	0.0	0.0
in cash	0.0	0.0	100.0	0.0	0.0
in kind	0.0	0.0	100.0	41.0	41.0
Social assistance benefits	4.8	95.2	0.0	0.0	95.2
in cash	6.1	93.9	0.0	0.0	93.9
in kind	1.2	98.8	0.0	0.0	98.8
Employment-related social benefits	21.4	77.9	0.8	0.0	77.9

Source: Cabinet Office

Table 2. Public Health Insurance in Japan

Age of Insured	Type	Insurers (their #)	Insured (their #)
Aged 74 years and below	Employees' Health Insurance (EHI)	Health insurance associations (1,388)[1)]	Employees of larger companies and their dependents (28.4 million)[1)]
		Japan Health Insurance Association	Employees of smaller companies and their dependents (40.3 million)[1)]
		Mutual aid associations (85)[1)]	Employees of schools, universities, the public sector and their dependents (8.7 million)[1)]
	National Health Insurance (NHI)	Municipal NHI (1,716)[1)]	Farmers, self-employed, unemployed, and retired (25.4 million)[1)]
		NHI associations (159)[2)]	Medical practitioners (independent doctors, dentists, pharmacists), construction workers, etc. (2.6 million)[2)]
Aged 75 years and above	Medical Care System for Elderly in the Latter Stage of Life (MCSE)	Prefecture-wise large-area unions (47)[1)]	Aged 75 years and above (18.4 million)[1)]

Source: Ministry of Health, Labor and Welfare

Note: 1) As of 2022/03. 2) As of 2023/04.

Table 3. Cost-sharing among Central Government, Local Government and Social Security Funds

	Taxes			Social contributions
	Central	Prefectural	Municipal	
National Pension Insurance (NPI)	50%	n. a.	n. a.	50%
EPI by Japan Health Insurance Association	16.4%	n. a.	n. a.	83.6%
Unemployment Insurance	25%	n. a.	n. a.	75%
National Health Insurance (NHI)	41%		9%	50%
Medical Care System for Elderly in the Latter Stage of Life (MCSE)	33.3%	8.3%	8.3%	50%
Long-term Care Insurance (LTCI)	25%	12.5%	12.5%	50%
Child Allowance (CA)	54.9%	13.7%	13.7%	17.6
Child-rearing Allowance (CRA)	33.3%	66.6%	n. a.	n. a.
Special Child-rearing Allowance (SCRA)	100%	n. a.	n. a.	n. a.
Welfare (child/handicapped)	50%	25%	25%	n. a.
Public Assistance (PA)	75%		25%	n. a.

Source: Konichi (2022) and author’s calculations.

Note: Figure 1 in Konishi (2022) was instrumental in compiling this table, although it does not contain information on SCRA.

Appendix V.3. Supplementary Tables

Table 4. GDP and Prices

Fiscal year	GDP (JPY trn)		GDP deflator (2009=100: Calendar year)	CPI (2020=100: Calendar year)		
	Current prices	2009 prices (Calendar year)		All	Excluding fresh food	Excluding fresh food and energy
2000	537.6	485.6	110.7	97.2	98.1	99.9
2001	527.4	482.1	109.4	96.3	97.3	99.1
2002	523.5	486.5	107.6	95.7	96.5	98.4
2003	526.2	495.9	106.1	95.5	96.3	98.2
2004	529.6	504.3	105.0	95.4	96.1	97.8
2005	534.1	515.1	103.7	95.2	96.1	97.3
2006	537.3	521.8	103.0	95.4	96.2	97.1
2007	538.5	527.3	102.1	95.8	96.5	97.1
2008	516.2	508.3	101.6	96.8	97.6	97.8
2009	497.4	495.9	100.3	95.2	96.1	97.1
2010	504.9	512.1	98.6	94.7	95.3	95.8
2011	500.0	514.7	97.2	94.6	95.2	95.2
2012	499.4	517.9	96.4	94.4	95.0	94.8
2013	512.7	532.1	96.4	95.2	95.8	95.0
2014	523.4	530.2	98.7	98.0	98.5	97.5
2015	540.7	539.4	100.2	98.2	98.5	98.4
2016	544.8	543.5	100.2	98.2	98.2	98.8
2017	555.7	553.2	100.5	98.9	98.9	99.0
2018	556.6	554.5	100.4	99.6	99.7	99.3
2019	556.8	550.2	101.2	100.1	100.3	100.0
2020	539.0	528.8	101.9	99.9	99.9	100.0
2021	553.6	543.6	101.8	100.0	99.9	99.2
2022	566.5	551.8	102.7	103.2	103.0	101.4

Source: Cabinet Office; National Institute of Population and Social Security Research; Statistics Bureau of Japan

Table 5. GDP Growth and Inflation

Fiscal year	GDP (JPY trn)		GDP deflator (2009=100: Calendar year)	CPI (2020=100: Calendar year)		
	Current prices	2009 prices (Calendar year)		All	Excluding fresh food	Excluding fresh food and energy
2000	1.4	2.6	-1.2	-0.6	-0.5	-0.7
2001	-1.9	-0.7	-1.2	-0.9	-0.8	-0.8
2002	-0.7	0.9	-1.6	-0.6	-0.8	-0.7
2003	0.5	1.9	-1.4	-0.2	-0.2	-0.2
2004	0.6	1.7	-1.0	-0.1	-0.2	-0.4
2005	0.8	2.2	-1.2	-0.2	0.0	-0.5
2006	0.6	1.3	-0.7	0.2	0.1	-0.2
2007	0.2	1.1	-0.9	0.4	0.3	0.0
2008	-4.1	-3.6	-0.5	1.0	1.1	0.7
2009	-3.6	-2.4	-1.3	-1.7	-1.5	-0.7
2010	1.5	3.3	-1.7	-0.5	-0.8	-1.3
2011	-1.0	0.5	-1.4	-0.1	-0.1	-0.6
2012	-0.1	0.6	-0.8	-0.2	-0.2	-0.4
2013	2.7	2.7	0.0	0.8	0.8	0.2
2014	2.1	-0.4	2.4	2.9	2.8	2.6
2015	3.3	1.7	1.5	0.2	0.0	0.9
2016	0.8	0.8	0.0	0.0	-0.3	0.4
2017	2.0	1.8	0.3	0.7	0.7	0.2
2018	0.2	0.2	-0.1	0.7	0.8	0.3
2019	0.0	-0.8	0.8	0.5	0.6	0.7
2020	-3.2	-3.9	0.7	-0.2	-0.4	0.0
2021	2.7	2.8	-0.1	0.1	0.0	-0.8
2022	2.3	1.5	0.9	3.2	3.1	2.2

Source: Cabinet Office; National Institute of Population and Social Security Research; Statistics Bureau of Japan

Table 6. Demographics

As of Oct.	Population (000 persons)				Share of total population (%)		
	Total	0-14	15-64	65+	0-14	15-64	65+
2000	126,926	18,505	86,380	22,041	14.6	68.1	17.4
2001	127,291	18,283	86,139	22,869	14.4	67.7	18.0
2002	127,435	18,102	85,706	23,628	14.2	67.3	18.5
2003	127,619	17,905	85,404	24,311	14.0	66.9	19.0
2004	127,687	17,734	85,077	24,876	13.9	66.6	19.5
2005	127,768	17,585	84,422	25,761	13.8	66.1	20.2
2006	127,770	17,435	83,731	26,604	13.6	65.5	20.8
2007	127,771	17,293	83,015	27,464	13.5	65.0	21.5
2008	127,692	17,176	82,300	28,216	13.5	64.5	22.1
2009	127,510	17,011	81,493	29,005	13.3	63.9	22.7
2010	128,057	16,839	81,735	29,484	13.1	63.8	23.0
2011	127,799	16,705	81,342	29,752	13.1	63.6	23.3
2012	127,515	16,547	80,175	30,793	13.0	62.9	24.1
2013	127,298	16,390	79,010	31,898	12.9	62.1	25.1
2014	127,083	16,233	77,850	33,000	12.8	61.3	26.0
2015	127,095	15,945	77,282	33,868	12.5	60.8	26.6
2016	127,042	15,809	76,673	34,560	12.4	60.4	27.2
2017	126,919	15,641	76,190	35,087	12.3	60.0	27.6
2018	126,749	15,473	75,796	35,479	12.2	59.8	28.0
2019	126,555	15,259	75,542	35,754	12.1	59.7	28.3
2020	126,146	15,032	75,088	36,027	11.9	59.5	28.6
2021	125,527	14,792	74,508	36,226	11.8	59.4	28.9
2022	124,978	14,515	74,196	36,266	11.6	59.4	29.0

Source: National Institute of Population and Social Security Research

Note: Projection for 2020 onwards.

Table7. Income Distribution

	Gini coefficient			Poverty rate	
	Before redistribution	After redistribution	Reduction	Previous method	New method
2000				15.3	
2001					
2002	0.498	0.381	0.117		
2003				14.9	
2004					
2005	0.526	0.387	0.139		
2006				15.7	
2007					
2008	0.532	0.376	0.156		
2009				16	
2010					
2011	0.554	0.379	0.175		
2012				16.1	
2013					
2014	0.570	0.376	0.195		
2015				15.6	
2016					
2017	0.559	0.372	0.187		
2018				15.4	15.7
2019					
2020	0.570	0.381	0.189		
2021					15.4
2022					

Source: Ministry of Health, Labour and Welfare

Table 8. General Government Expenditure Ratios to GDP (%)

	Compensa-tion of employees	Use of goods and services	Consump-tion of fixed capital	Interest	Subsidies	Grants	Social benefits	Other expenses
2000	5.98	2.98	3.01	3.10	0.75	0.1	14.7	2.6
2001	6.09	3.03	3.07	2.95	0.76	0.1	15.6	2.1
2002	6.04	3.02	3.09	2.75	0.74	0.1	16.0	2.2
2003	5.94	3.08	3.09	2.52	0.74	0.1	16.2	2.1
2004	5.85	2.92	3.09	2.33	0.63	0.2	16.4	1.7
2005	5.74	2.86	3.08	2.19	0.57	0.2	16.7	1.9
2006	5.71	2.76	3.09	2.24	0.56	0.2	16.9	1.7
2007	5.72	2.81	3.11	2.28	0.51	0.1	17.4	1.7
2008	5.85	2.84	3.26	2.35	0.53	0.1	18.5	2.5
2009	5.89	3.13	3.30	2.32	0.71	0.1	20.2	3.0
2010	5.70	3.22	3.24	2.28	0.70	0.1	20.6	2.3
2011	5.76	3.27	3.27	2.30	0.69	0.1	21.2	2.6
2012	5.66	3.28	3.27	2.26	0.69	0.1	21.6	2.4
2013	5.38	3.39	3.23	2.19	0.65	0.2	21.3	2.4
2014	5.44	3.36	3.27	2.12	0.63	0.1	21.2	2.2
2015	5.29	3.29	3.22	2.02	0.61	0.1	21.0	2.3
2016	5.26	3.33	3.22	1.93	0.56	0.1	21.0	2.3
2017	5.16	3.17	3.23	1.80	0.54	0.1	20.9	2.3
2018	5.17	3.21	3.28	1.73	0.54	0.1	21.0	2.1
2019	5.17	3.40	3.34	1.65	0.57	0.1	21.3	2.3
2020	5.34	4.01	3.52	1.63	0.60	0.1	22.0	8.5
2021	5.22	4.30	3.54	1.54	0.64	0.1	22.4	5.2
2022	5.11	4.43	3.62	1.48	1.24	0.2	21.8	4.2

Source: Cabinet Office

Table 9. Share in General Government Expenditure (%)

	Compensa-tion of employees	Use of goods and services	Consump-tion of fixed capital	Interest	Subsidies	Grants	Social benefits	Other expenses
2000	17.99	8.97	9.05	9.34	2.26	0.27	44.37	7.75
2001	18.11	9.02	9.12	8.78	2.26	0.29	46.27	6.15
2002	17.81	8.90	9.10	8.11	2.19	0.27	47.19	6.44
2003	17.61	9.12	9.15	7.47	2.19	0.36	47.91	6.20
2004	17.66	8.82	9.32	7.04	1.89	0.46	49.62	5.20
2005	17.29	8.61	9.28	6.58	1.71	0.60	50.24	5.69
2006	17.27	8.34	9.36	6.77	1.69	0.47	50.99	5.11
2007	17.02	8.36	9.26	6.80	1.52	0.32	51.75	4.96
2008	16.25	7.89	9.05	6.52	1.47	0.39	51.43	6.99
2009	15.26	8.10	8.53	6.00	1.83	0.34	52.17	7.76
2010	14.94	8.44	8.48	5.97	1.85	0.34	53.99	6.00
2011	14.68	8.34	8.33	5.86	1.76	0.33	54.11	6.60
2012	14.38	8.34	8.30	5.74	1.76	0.35	54.91	6.21
2013	13.89	8.76	8.34	5.65	1.69	0.43	55.11	6.14
2014	14.19	8.77	8.52	5.54	1.63	0.31	55.19	5.85
2015	13.98	8.70	8.51	5.34	1.62	0.31	55.39	6.14
2016	13.95	8.83	8.54	5.13	1.48	0.29	55.71	6.08
2017	13.88	8.54	8.69	4.84	1.45	0.28	56.16	6.17
2018	13.90	8.63	8.84	4.64	1.44	0.28	56.51	5.76
2019	13.67	9.00	8.84	4.37	1.50	0.26	56.38	5.98
2020	11.66	8.77	7.69	3.56	1.30	0.29	48.06	18.66
2021	12.14	10.00	8.24	3.58	1.48	0.27	52.17	12.12
2022	12.16	10.55	8.61	3.52	2.94	0.37	51.94	9.91

Source: Cabinet Office

Table 10. General Government Revenue

Fiscal year	Ratio to GDP (%)				Share of total revenue (%)		
	Revenues	Taxes	Social contributions	Others	Taxes	Social contributions	Others
2000	29.9	16.9	9.4	3.6	56.4	31.5	12.1
2001	30.1	16.7	9.8	3.6	55.3	32.7	11.9
2002	28.6	15.4	9.9	3.3	53.9	34.6	11.5
2003	28.6	15.0	9.9	3.7	52.6	34.5	12.9
2004	29.4	15.6	9.9	3.9	53.1	33.5	13.3
2005	30.4	16.5	10.0	3.8	54.4	33.0	12.7
2006	30.9	17.2	10.3	3.4	55.5	33.4	11.1
2007	31.3	17.5	10.6	3.3	55.9	33.7	10.5
2008	31.2	16.7	11.2	3.3	53.5	35.8	10.7
2009	29.5	15.2	11.2	3.1	51.6	37.9	10.5
2010	29.9	15.6	11.4	3.0	52.0	38.1	9.9
2011	30.9	16.1	11.9	3.0	52.0	38.4	9.6
2012	31.8	16.5	12.3	3.0	52.1	38.6	9.4
2013	32.4	17.1	12.2	3.1	52.8	37.7	9.5
2014	34.0	18.3	12.4	3.3	53.9	36.4	9.6
2015	34.8	18.5	12.4	3.9	53.2	35.6	11.2
2016	34.7	18.2	12.7	3.8	52.6	36.6	10.8
2017	34.8	18.6	12.8	3.4	53.6	36.7	9.7
2018	35.5	19.1	13.1	3.3	53.7	37.0	9.3
2019	35.4	18.9	13.4	3.2	53.3	37.7	9.0
2020	36.7	19.9	13.7	3.1	54.3	37.3	8.4
2021	37.8	21.0	13.7	3.1	55.6	36.3	8.1
2022	38.8	21.7	13.7	3.3	56.0	35.4	8.6

Source: Cabinet Office

Table 11. Fiscal Indicators (as a ratio to GDP)

	Net lending/net borrowing (%)			Primary balance (%)			Public debt (%)
	General government	Central government	Local government	General government	Central government	Local government	
2000	-6.4	-6.0	-0.9	-5.1	-4.5	0.1	135.6
2001	-6.3	-5.5	-0.9	-5.0	-4.1	0.0	145.1
2002	-7.8	-6.3	-1.3	-6.5	-5.0	-0.4	154.1
2003	-7.0	-6.0	-1.2	-5.8	-4.8	-0.4	160.0
2004	-5.1	-4.9	-0.7	-4.0	-3.9	0.1	169.5
2005	-4.0	-3.8	-0.2	-3.3	-3.1	0.5	174.6
2006	-3.1	-3.1	0.1	-2.4	-2.3	0.7	174.1
2007	-2.9	-2.6	-0.0	-2.2	-1.9	0.6	173.0
2008	-5.4	-5.1	0.3	-4.5	-4.2	0.8	180.9
2009	-10.1	-8.7	-0.2	-9.1	-7.7	0.4	198.8
2010	-8.8	-7.4	-0.4	-7.7	-6.3	0.1	205.9
2011	-8.9	-8.2	0.1	-7.6	-7.0	0.6	219.2
2012	-8.1	-7.4	-0.1	-6.9	-6.2	0.4	226.1
2013	-7.3	-6.7	-0.0	-6.2	-5.6	0.4	229.5
2014	-5.1	-5.2	-0.3	-4.0	-4.0	0.1	233.3
2015	-3.6	-4.4	-0.0	-2.5	-3.3	0.3	228.3
2016	-3.5	-4.4	-0.1	-2.4	-3.3	0.2	232.4
2017	-2.9	-3.5	-0.1	-2.0	-2.5	0.2	231.3
2018	-2.4	-3.2	-0.0	-1.6	-2.2	0.2	232.4
2019	-3.1	-3.8	-0.1	-2.5	-2.9	0.1	236.4
2020	-10.0	-10.3	-0.2	-9.4	-9.3	0.0	258.6
2021	-5.9	-7.2	0.6	-5.3	-6.3	0.8	255.1
2022	-3.6	-5.5	0.9	-3.2	-4.7	1.1	260.1

Source: Cabinet Office; International Monetary Fund

Table 12. Monthly Indicators: Unemployment Rate, EI Recipients and PA-receiving Households

	Rate (%)	Recipients (000 persons/households)			Year-on-year ratio with monthly data (%)			
	Unemploy ment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)	Unemploy ment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)
2016/ 04	3.4	369	1,624	264	94.4	91.1	100.6	96.0
2016/ 05	3.2	407	1,625	264	94.1	94.5	100.6	96.2
2016/ 06	3.1	433	1,626	264	91.2	92.5	100.5	96.3
2016/ 07	3.0	428	1,626	263	88.2	89.5	100.3	96.2
2016/ 08	3.2	462	1,627	263	94.1	96.3	100.4	96.4
2016/ 09	3.0	433	1,627	263	88.2	92.0	100.4	96.5
2016/ 10	2.9	412	1,629	263	93.5	90.7	100.3	96.4
2016/ 11	3.0	397	1,631	263	93.8	92.1	100.4	96.8
2016/ 12	2.9	377	1,632	263	93.5	90.7	100.4	96.9
2017/ 01	3.0	372	1,631	263	93.8	91.4	100.4	97.5
2017/ 02	2.8	359	1,631	263	87.5	90.5	100.4	97.8
2017/ 03	2.8	360	1,634	261	84.8	92.3	100.4	97.9
2017/ 04	2.9	338	1,630	258	85.3	91.5	100.4	97.6
2017/ 05	3.1	392	1,632	257	96.9	96.3	100.4	97.5
2017/ 06	2.8	399	1,632	257	90.3	92.2	100.4	97.5
2017/ 07	2.8	400	1,633	257	93.3	93.5	100.4	97.6
2017/ 08	2.8	430	1,634	257	87.5	93.2	100.4	97.6
2017/ 09	2.8	403	1,634	257	93.3	93.1	100.4	97.7
2017/ 10	2.7	401	1,634	256	93.1	97.4	100.3	97.6
2017/ 11	2.6	384	1,634	256	86.7	96.7	100.2	97.5
2017/ 12	2.6	360	1,634	256	89.7	95.3	100.1	97.4
2018/ 01	2.4	356	1,632	254	80.0	95.9	100.0	96.6
2018/ 02	2.5	340	1,630	254	89.3	94.6	100.0	96.5
2018/ 03	2.5	337	1,632	252	89.3	93.5	99.9	96.4
2018/ 04	2.6	326	1,628	250	89.7	96.5	99.9	97.0
2018/ 05	2.3	389	1,630	250	74.2	99.1	99.9	97.2
2018/ 06	2.5	378	1,628	249	89.3	94.8	99.7	96.9
2018/ 07	2.5	399	1,629	249	89.3	99.7	99.8	97.0
2018/ 08	2.5	421	1,630	249	89.3	97.7	99.7	96.8
2018/ 09	2.4	397	1,627	248	85.7	98.4	99.6	96.6
2018/ 10	2.4	405	1,631	249	88.9	100.8	99.8	96.9
2018/ 11	2.4	380	1,631	248	92.3	99.0	99.8	97.0
2018/ 12	2.3	357	1,631	248	88.5	99.3	99.8	96.9

	Rate (%)	Recipients (000 persons/households)			Year-on-year ratio with monthly data (%)			
	Unemployment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)	Unemployment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)
2019/01	2.4	361	1,629	247	100.0	101.4	99.9	97.3
2019/02	2.3	346	1,627	247	92.0	101.8	99.8	97.3
2019/03	2.5	339	1,629	245	100.0	100.8	99.8	97.5
2019/04	2.6	348	1,627	244	100.0	106.6	100.0	97.7
2019/05	2.4	388	1,627	244	104.3	99.7	99.8	97.5
2019/06	2.3	387	1,626	243	92.0	102.1	99.9	97.6
2019/07	2.3	418	1,629	243	92.0	104.8	100.0	97.7
2019/08	2.3	416	1,628	243	92.0	99.0	99.9	97.7
2019/09	2.4	409	1,627	243	100.0	103.3	100.0	97.8
2019/10	2.4	405	1,629	243	100.0	100.2	99.9	97.7
2019/11	2.2	386	1,629	242	91.7	101.5	99.9	97.6
2019/12	2.1	386	1,629	243	91.3	108.1	99.9	98.0
2020/01	2.3	384	1,628	243	95.8	106.2	99.9	98.2
2020/02	2.3	358	1,625	242	100.0	103.6	99.9	98.1
2020/03	2.6	362	1,628	241	104.0	106.7	99.9	98.3
2020/04	2.8	351	1,627	242	107.7	101.0	100.0	99.1
2020/05	2.9	399	1,629	243	120.8	103.0	100.1	99.8
2020/06	2.8	486	1,629	244	121.7	125.8	100.2	100.5
2020/07	2.9	533	1,629	244	126.1	127.6	100.0	100.4
2020/08	3.0	555	1,628	244	130.4	133.2	100.0	100.5
2020/09	3.0	556	1,628	245	125.0	135.8	100.0	100.8
2020/10	3.1	536	1,629	245	129.2	132.2	100.0	101.0
2020/11	2.8	491	1,629	245	127.3	127.4	100.0	101.2
2020/12	2.8	470	1,631	247	133.3	121.7	100.1	101.5
2021/01	2.9	449	1,631	247	126.1	116.9	100.2	101.7
2021/02	2.8	437	1,630	248	121.7	122.0	100.3	102.3
2021/03	2.7	446	1,634	248	103.8	123.1	100.4	102.7
2021/04	3.0	434	1,632	247	107.1	123.6	100.3	102.2
2021/05	3.1	433	1,631	247	106.9	108.4	100.1	101.7
2021/06	3.0	478	1,632	248	107.1	98.2	100.2	101.6
2021/07	2.8	485	1,632	248	96.6	91.0	100.2	101.6
2021/08	2.8	490	1,633	248	93.3	88.4	100.3	101.6
2021/09	2.8	467	1,634	249	93.3	84.0	100.3	101.6
2021/10	2.7	439	1,634	249	87.1	81.9	100.3	101.6

	Rate (%)	Recipients (000 persons/households)			Year-on-year ratio with monthly data (%)			
	Unemploy ment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)	Unemploy ment rate	Employment Insurance	Public Assistance (All)	Public Assistance (Others)
2021/ 11	2.7	427	1,636	250	96.4	86.8	100.4	102.0
2021/ 12	2.5	409	1,637	251	89.3	87.0	100.4	101.8
2022/ 01	2.7	396	1,636	250	93.1	88.4	100.3	101.5
2022/ 02	2.6	376	1,634	250	92.9	86.1	100.3	101.1
2022/ 03	2.6	378	1,635	250	96.3	84.8	100.1	100.9
2022/ 04	2.7	366	1,630	249	90.0	84.2	99.9	100.7
2022/ 05	2.8	387	1,632	250	90.3	89.3	100.1	100.9
2022/ 06	2.7	425	1,633	250	90.0	88.9	100.1	101.0
2022/ 07	2.5	439	1,634	251	89.3	90.4	100.1	101.3
2022/ 08	2.6	469	1,636	252	92.9	95.6	100.2	101.6
2022/ 09	2.7	441	1,636	253	96.4	94.5	100.1	101.7
2022/ 10	2.6	419	1,636	254	96.3	95.5	100.1	101.8
2022/ 11	2.4	402	1,639	255	88.9	94.2	100.2	101.8
2022/ 12	2.3	387	1,639	255	92.0	94.7	100.1	101.7
2023/ 01	2.4	385	1,637	255	88.9	97.1	100.1	101.9
2023/ 02	2.5	371	1,635	256	96.2	98.7	100.1	102.2
2023/ 03	2.8	374	1,640	257	107.7	99.0	100.3	102.7
2023/ 04	2.7	369	1,636	256	100.0	100.8	100.4	102.8
2023/ 05	2.7	413	1,640	257	96.4	106.9	100.5	102.9
2023/ 06	2.6	438	1,641	257	96.3	103.1	100.5	102.8
2023/ 07	2.6	465	1,642	258	104.0	106.0	100.5	102.6
2023/ 08	2.7	485	1,643	259	103.8	103.4	100.4	102.5
2023/ 09	2.6	453	1,642	259	96.3	102.6	100.4	102.4
2023/ 10	2.5	452	1,643	260	96.2	107.9	100.4	102.4
2023/ 11	2.4	426	1,644	260	100.0	106.0	100.4	102.1
2023/ 12	2.3	405	1,645	260	100.0	104.5	100.4	102.0
2024/ 01	2.4	407	n. a.	n. a.	100.0	105.6	n. a.	n. a.

Source: Statistics Bureau of Japan; Ministry of Health, Labour and Welfare

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VI. Korea[1]

Public social welfare expenditure in Korea has steadily increased due to the expansion of the social security system in line with economic development. The share of health and welfare in government spending has also continuously grown, reaching 29.9 percent of total expenditure in 2023. The largest expenditures on health and welfare were observed in public pensions and the elderly sector. In particular, expenditure on the elderly recorded a significant upward trend, such as in basic pensions and public pensions for retirees. However, the fiscal landscape for social protection is expected to become more challenging. While the expansion of social protection is necessary to address the deepening low birth rate and aging population, difficulties in securing funding will constrain the expansion of subsidies and services.

1. Overview of the Social Protection System

1.1. Basic structure and main features of social protection system

1.1.1. Classification of Social Protection and Key Legislation

1. Social protection in Korea is primarily outlined in the Framework Act on Social Security, established in 1995. According to this act, "social security" encompasses both income support and essential services. The goal, as stated in Article 2, is to build a welfare society that balances equity and efficiency. The support aims to protect citizens from challenges such as childbirth, childcare, unemployment, aging, disability, illness, poverty, and death, ultimately improving their quality of life.

2. The Framework Act on Social Security serves as the fundamental legal basis for social protection in Korea, specifying its extent and categories. The act divides the Korean social protection framework into three main categories: public aid systems based on national solidarity, social insurance systems relying on the solidarity of specific groups, and social service systems intended to support a standard social life for citizens.

3. Public aid, as outlined in the Medical Care Assistance Act and the National Basic Living Security Act, represents a government-supported mechanism to help individuals who cannot sustain themselves financially. This system, administered directly by the government, is noted for its significant redistributive impact compared to other social security systems. Unlike social insurance, which covers a broad swathe of the population, public aid

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targets those who fit specific government criteria. It includes nationwide basic livelihood security, medical care benefits, and disaster relief.

4.. **Social insurance in Korea operates as a comprehensive system of mandatory programs designed to ensure social stability and protection.** Social insurance in Korea operates as a comprehensive system of mandatory programs designed to ensure social stability and protection. The system encompasses five key components: National Pension provides regular payments for old age, disability, or death; Health Insurance covers medical expenses through the National Health Insurance Service (NHIS) which serves almost the entire population; Employment Insurance offers protection against job instability and supports job searching efforts; Workers' Compensation Insurance delivers welfare benefits for industrial injuries; and Long-Term Care (LTC) Insurance assists those facing age-related challenges or geriatric conditions. The implementation of these programs follows specific eligibility criteria and operational frameworks. National Health Insurance is universal, covering all Koreans who meet statutory requirements. National Pension enrolment is mandatory for employed individuals, while remaining voluntary for students and non-working individuals. Employment Insurance has been expanded to cover all working people, particularly in response to COVID-19's impact on employment. Workers' Compensation Insurance serves as mandatory protection for work-related injuries, while LTC benefits require specific approval through rating procedures and are not automatically available to all NHI subscribers.

5. The third category, social services, is designed to support citizens who need assistance from the government, local authorities, or the private sector. These services include counseling, rehabilitation, job placement, and access to social welfare facilities, all aimed at enabling a normal social life. A wide range of areas are covered, such as child welfare, elderly welfare, women’s welfare, family welfare, and disability welfare, forming a comprehensive social security system.

1.1.2. Development of the Framework Act on Social Security

6. In the Framework Act, Article 5 mandates that state and local governments develop a social security system which matches the level of national development and ensures the provision of necessary funding annually. This philosophy focuses on guaranteeing a minimum standard of living for all citizens, promoting a humane lifestyle, and developing systems and conditions to improve individual living standards.

7. In 2012, the Framework Act underwent a major update. The 2012 amendment is significant for expanding the concept of social security beyond ensuring a minimum standard of living. It now broadly includes health care, welfare, education, employment, housing, culture, and the environment. The amendment also obliges citizens to cooperate with the state in terms of bearing costs and providing information.

8. The most concrete changes introduced in the revised law pertain to the Social Security Basic Plan and the Social Security Commission. Under the amendment, the previous "Long-term Development Direction for Social Security" was renamed "Master Plan for Social Security." It takes precedence over social security-related plans that are set out under other laws and regulations. In addition, this update raised the stature of the Social Security Committee, which took over from the Social Security Deliberation Committee, and expanded its roles and responsibilities.

9. The Framework Act delegates the details of social security benefits and regulations to specific laws, rather than providing those details within the act itself. Article 10 says: "The State and local governments shall endeavor to improve the level of social security benefits for the maintenance of a healthy and civilized life of all citizens." (paragraph 1). The act requires the state to annually announce the minimum guaranteed levels and minimum wages in accordance with laws and regulations (paragraph 2) and stipulates that social security benefits should reflect these minimum standards (paragraph 3).

1.2. Master Plan for Social Security

10. The Master Plan for Social Security is an essential mechanism for achieving goals set forth in the Framework Act. This plan provides a road map for medium to long-term development, promotes synergy across different social security systems, secures necessary funding, and updates delivery structures. It is created every five years as per Article 16 of the Framework Act and stands as the primary guiding document in the field of social security. According to Article 16 Section 2 of the Framework Act, the Master Plan must include:

1. an analysis of changes and future expectations in the domestic and international social security environments;
2. the core goals of social security and its directions for the medium to long term;
3. key tasks and methods for implementation;
4. the scale and financing methods of necessary resources;
5. management strategies for social security-related funds;
6. the structure for delivering social security; and,
7. other important issues about implementing social security policy.

11. As stated above, the Framework Act requires that the Master Plan encompass considerations of the changing social security environment, both in Korea and globally (subparagraph 1), and estimates of the needed resources and methods for acquiring those resources (subparagraph 4). This requirement is significant, as it relies on medium to long-term assessments of economic, industrial, and labor market shifts as vital factors in determining the direction of social security development. Moreover, this approach helps calculate the scale of necessary resources for executing key initiatives, which would increase the overall effectiveness of the Master Plan's implementation.

12. The Korea Institute for Health and Social Affairs is responsible for the foundational research needed to create the Master Plan, with input from a wide range of experts in the economic and social sectors. The Social Security Committee develops the government's proposed Master Plan based on suggestions from the research team and integrates opinions from different ministries. This proposal is approved in a State Council meeting, and finally, by the Minister of Health and Welfare as the National Master Plan for Social Security.

1.3. Recent Developments in Social Protection System

13. The welfare state strategy of the Yoon Seok-yeol government aims to enhance citizens' quality of life under the vision of a sustainable welfare state, which was formed after the government's establishment in May 2022. This strategy seeks to bridge societal gaps and promote social integration. Its first key focus, "Welfare for the Weak," provides comprehensive support, especially for the socially weakest, who may struggle to voice their needs. The second focus, "Service Welfare", aims to protect all citizens' universal needs in areas such as care, safety, employment, and health. This includes enhancing public-private collaboration in social services and strengthening state responsibility for health and care. The third and final focus, "Welfare Fiscal Innovation," concentrates on improving the efficiency of generational equity systems. It aims to boost the sustainability of social insurance through health insurance and pension reforms, integrated management of the social security system, and higher efficiency of the social security delivery system. The strategic priorities of the Yoon government are reflected in its budget formulation guidelines, announced in March 2023. The guidelines highlight "structural innovation" and the "protection of socially weak and vulnerable groups" within a sound fiscal framework.

14. The welfare state strategy provides for measures to prevent moral hazards, such as repeated or excessive receipt of social security benefits, and to impose penalties on government subsidy projects involving misuse or fraud. Further, the government plans to bolster employment safety nets and expand tailored employment support services for groups vulnerable to unemployment, such as the disabled, youth, and elderly.

1.4. Statistics on Social Protection

15. According to the 2023 update of the OECD Social Expenditure (SOCX), Korea's public social welfare spending in 2019 was KRW235.9 trillion, amounting to 12.3 percent of its GDP. This figure stood at 61.2 percent of the OECD average and was 14.1 percent more than the previous year. The increase in public social welfare spending is attributed to several factors, including the broader use of medical and long-term care services, a rise in the number of public pension beneficiaries, expansion of the Basic Pension, and the introduction and extension of child allowances, along with a greater number of people covered by the National Basic Livelihood Security System.

16. Korea's average poverty rate is slightly higher than other OECD countries, with people aged 66 and above being about three times the OECD average poverty rate. This stark difference underscores the pressing issue of elderly poverty. Conversely, Korea's child poverty rate is lower than the OECD average, indicating a relatively favorable situation compared with other countries.

17. As regards public spending on disabilities, Korea allocates just 0.6 percent of its GDP per capita to public welfare for individuals with disabilities, which is less than half the OECD's average of 2 percent. In contrast, Nordic countries such as Sweden, Denmark, and Norway allocate about 4.0 percent, roughly twice the average, indicating higher expenditure on disability welfare.

18. Expenditure analysis by the OECD across nine major policy areas shows that Korea prioritizes spending on health, old age and family, in that order. Together, these areas represented 76 percent of total government expenditure as of 2019. Health spending is particularly notable, making up 40.7 percent of the total and ranking second only to the United States, at 45.7 percent. Korea's high expenditure in health is largely driven by the expanded coverage of national health insurance[2] (Figure 4) and rising medical costs due to the aging population.

19. In September 2023, the Ministry of Health and Welfare released Social Security Factbook 2022, a comprehensive collection of social security statistics. This collection

[2] In 2022, the population covered by health insurance totaled 51.41 million, accounting for 97.1 percent of the total medical protection population, which includes health insurance and medical aid.

contains not only nationally recognized statistics from central and local governments and public organizations, as mandated by the Framework Act, but also findings from various surveys and administrative data.

20. The Factbook reports that public social spending in 2022 reached 14.8 percent of Korea's GDP, a 4.7 percentage point increase from 2017, yet it was 6.3 percentage points below the OECD average of 21.1 percent. Coverage of the Basic Pension for individuals aged 65 and over stood at 66.9 percent, with the share of those receiving both the Basic and National pensions[3] posting 44.7 percent in 2021. The Factbook classifies social security statistics into four major categories – family and life cycle, work and income security, life and social services, and social finance – covering 51 policy areas with a total of 259 indicators. It also highlights key social trends and phenomena through 167 representative indicators, including children's health, youth employment, and housing safety. Accessible as an e-book, Social Security Factbook 2022 can be viewed on the websites of the Social Security Committee, the Ministry of Health and Welfare, and the Welfare Portal.

21. The Health and Welfare Statistical Yearbook 2023, published in December 2023 by the Ministry of Health and Welfare, is an annual compilation designed to aid in the application of scientific, data-driven policymaking. It contains fundamental statistics on health and welfare, key domestic and international data, and major policy indicators aimed at protecting vulnerable groups and managing health care to safeguard citizens' lives.

2. Fiscal Management of the Social Protection System

2.1. Introduction and modification of social protection programs

2.1.1. Key Procedures

22. The Framework Act on Social Security outlines specific protocols for discussion concerning the creation or alteration of social security programs. This act requires that, when introducing a new program or modifying an existing scheme, state and local governments must conduct comprehensive assessments. These assessments should cover how the changes would interact with current programs, their effects on the delivery of social security, financial aspects including the magnitude of resources needed and how to obtain them, and the distinct characteristics of different regions. It is a cooperative strategy designed

[3] The Basic Pension is a government-funded social security program designed to provide a fixed financial benefit to senior citizens aged 65 and older, particularly targeting low-income elderly individuals to alleviate poverty and ensure a basic standard of living. Eligibility is means-tested, and benefits are not tied to prior contributions. In contrast, the National Pension operates as a contributory public pension system where individuals make mandatory contributions during their working years. Benefits, which include old-age pensions, disability pensions, and survivors' pensions, are calculated based on the individual's contribution history and income, offering income replacement and long-term financial security.

to prevent duplication or omission of social security benefits, as specified in Article 26 (1) of the Framework Act. The goal of these discussions is to improve the efficiency of social security projects, bridge gaps in welfare, and avoid negatively affecting existing social security frameworks by ensuring a balanced distribution of responsibilities between state and local governments.[4]

23. The process for introducing or modifying a social security program is split into two stages: consultation and adjustment. The consultation stage is governed by a requirement for the heads of central administrative agencies and local governments to consult with the Minister of Health and Welfare, as outlined by the Presidential Decree of the Framework Act on Social Security Article 26 (2). If the initial consultation phase is inconclusive, the process advances to the adjustment stage, managed by the Social Security Committee. This committee is responsible for deliberating and making decisions on agenda items.

24. Introducing a new program is typically a clear-cut procedure, but the act of making changes demands a comprehensive description. Such changes include modifications to the criteria for selecting social security beneficiaries, updates in the financial obligations of local governments such as changes in the rates of national subsidies, revisions to the benefits offered, and transformations undertaken to deliver benefits under the Enforcement Decree of the Framework Act on Social Security Article 15 (2). Table 5 presents the main areas that require thorough examination during the consultation.

25. The Social Security Committee formulates annual "Operational Guidelines for Consultation on the Establishment and Modification of Social Security Systems.[5]" According to these guidelines, requests for consultation must contain the project plan, the reasons for establishing or changing a social security program, the anticipated outcomes, and the estimated budget. The guidelines outline a processing time frame: 60 days for straightforward cases and up to six months for more complex issues. Once the consultation process is concluded, the Minister of Health and Welfare summarizes the results for the Social Security Committee and informs the Minister of Economy and Finance. Alternatively, if a consultation does not take place, the matter is referred to the Social Security Committee for

[4] The division of responsibilities between central and local governments in the execution of social welfare projects, including those funded by national subsidies, is not clearly delineated. Explicit guidelines and principles on the distribution of tasks between central and local authorities are absent, complicating the decision-making process regarding who should implement and finance social welfare projects. The impact of national subsidy projects on the financial burden of local governments in the social welfare sector is increasing. Social welfare represents nearly half (49.1 percent) of these subsidy projects, and a significant majority (91.9 percent) of the social welfare initiatives undertaken by local governments are financed through national subsidies.

[5] When central administrative agencies or local governments intend to establish or modify a social security program, they must consult with the Minister of Health and Welfare regarding the validity of the program, its relationship with existing programs, its impact on the social security delivery system, and its operational plans. The results of this consultation must be reported to the committee and subsequently provided to the Ministry of Economy and Finance and the Ministry of the Interior and Safety.

more in-depth consideration and resolution. Decisions reached by the committee are communicated to the concerned agency, the Minister of Economy and Finance, and the Minister of the Interior and Safety. Procedures for consultations regarding the introduction and modification of a social security program are detailed in Table 6.

2.1.2. Legislative Proposal Process

26. Article 52 of the Constitution of Korea grants legislative powers to members of the National Assembly and the government. Legislative activities by National Assembly members are manifested in various forms. They may independently propose laws for legislation or amend or replace legislative proposals submitted by the government during parliamentary deliberation. Their legislative activities also extend to situations where the government intends to propose a bill but seeks to avoid interministerial conflicts or circumvent regulatory review procedures or complex legislative notice procedures by having National Assembly members initiate the submission of the bill for enactment.

27. Bills proposed by the government must undergo regulatory impact analysis to assess the social benefits and costs of the proposed regulations before submission to the National Assembly. However, according to Article 79 (1) of the National Assembly Act, legislative initiatives by members of the assembly require the support of only 10 members to submit a bill. Concerns have been raised regarding the repetitive pattern of legislators increasing the number of bills they propose, driven by the fact that the quantity of legislative proposals by members directly influences their party's nomination scores.

28. Despite expectations of significant financial implications associated with economic-related bills proposed by National Assembly members, flaws have emerged in the process, with either inadequate or a complete absence of cost estimations. The practice of estimating costs for proposed bills is a procedural requirement established through the National Assembly Act and rules, aimed at supporting the stable management of national finances.[6] According to this provision, all bills entailing financial costs should ideally include cost estimates upon submission. However, in cases where the nature of the bill makes cost estimation technically challenging, such as those with declarative or advisory content, the proposer is allowed to provide a rationale for non-inclusion in a supplementary statement. An analysis of the 1,983 economic-related bills proposed by members of the 21st National Assembly (2020-2024) revealed that only 836 bills, or 42.2 percent, were accompanied by

[6] The National Assembly Budget Office is tasked with estimating costs associated with legislative bills, including proposals that involve budgetary or financial measures related to the national budget, funds, and fiscal operations (National Assembly Budget Office Act, Article 3 (2)).

cost estimates, meaning that nearly half of the bills lacked such documentation (Dong-A Ilbo, 2023).

2.1.3. Other Channels of Proposal Submission

29. Key national research institutes affiliated with the government, such as the Korea Development Institute, Korea Institute for Health and Social Affairs, and Korean Women's Development Institute, function proactively as think tanks. They frequently propose innovative welfare programs, which are often incorporated by the relevant government bodies. Non-governmental organizations, which operate outside the public sector, tend to offer critical perspectives and proposals on social welfare policies.

2.2. Framework for Evaluating Medium to Long-Term Fiscal Resources

2.2.1. Legal Framework for National Fiscal Management Plan

30. With the establishment of the National Finance Act in 2006, a legal framework for a national fiscal management plan was created, emphasizing the importance of both soundness and efficiency of national budgeting. This plan is developed based on total income projections, setting goals for the fiscal balance and national debt, and planning total expenditures accordingly. For this purpose, the Ministry of Economy and Finance forms a support team comprising experts from various fields to assist in the plan's development.

31. A task force from the Ministry of Economy and Finance leads the development of a national fiscal management plan and holds strategy meetings to define the plan's direction. It then submits the draft plan to the National Assembly's Planning and Finance Committee. The ministry also organizes public forums and fiscal policy advisory meetings to gather input from private experts, local governments, and other ministries. Following this inclusive process, the finalized national fiscal management plan is presented to the National Assembly.

32. Importantly, the first national fiscal management plan under the new Yoon government closely aligns with the government's five-year national administration strategy. National policy tasks determined by the new government are assigned to designated ministries, which then develop medium to long-term plans for these tasks, coordinated by the Ministry of Economy and Finance. These ministries leverage statutory plans to secure budgets needed for implementing the national policy tasks over a five-year period. As of April 2022, the ministries had established 37 statutory plans in health and welfare, all based on legal regulations (Shin & Cheon, 2022). These include the five-year Basic Plan for Social Security, the basic LTC plan, and the basic child policy plan.

33. As outlined in Article 7 (2) 2 of the National Finance Act, the national fiscal management plan must include medium and long-term fiscal projections. In addition, Article 7 (4) mandates that the Minister of Economy and Finance conducts a long-term fiscal projection for a period exceeding 40 fiscal years every five years. The national fiscal management plan is formulated on a five-year basis to present the government's fiscal management strategy and goals from a medium-term perspective. It is subject to annual revisions and improvements to align with evolving circumstances.

34. In 2020, the government released long-term fiscal projections for the period from 2020 to 2060. It projected that, in the long term, the national debt-to-GDP ratio would expand to 81.1 percent by 2060 due to population decline and decreasing growth rates. As national debt was expected to rise sharply, the need for fiscal rules to simultaneously secure the role and sustainability of public finances was raised. Consequently, in October 2020, the government announced fiscal rules with a national debt-to-GDP ratio limit of 60 percent and an integrated fiscal balance deficit, including social security funds, capped at 3 percent (Kang, 2020). And in 2022, the government announced a revised fiscal rule with enhanced effectiveness, setting a managed fiscal balance deficit limit of 3 percent (2 percent if the national debt-to-GDP ratio exceeds 60 percent). The enactment of fiscal rules is under discussion in the National Assembly.

2.2.2. Long-term Fiscal Projections for Social Security

35. Social security fiscal projections aim to provide direction for the stable operation of social security from a long-term perspective. These projections serve as fundamental data for setting the medium and long-term operational directions of social security policies and enable an understanding of future fiscal capacity and sustainability by estimating the expected financial burden according to demographic changes and economic growth trends.

36. The Ministry of Health and Welfare is responsible for medium and long-term social security fiscal projections, which are reviewed by the Social Security Committee. Following this review, the results are incorporated into the government's long-term fiscal outlook and published. These medium and long-term social security fiscal projections are then submitted to the National Assembly as an attachment to the national fiscal management plan in accordance with the National Finance Act.

37. Article 5 (3) of the Framework Act stipulates that the national and local governments have the responsibility to proactively respond to socioeconomic changes, operate a sustainable social security system, and secure the necessary financial resources. According to Article 5 (4) of the Framework Act, the nation is mandated to conduct medium and long-term social security fiscal projections every two years and make them publicly available to ensure the stable operation of the social security system. Furthermore, according to Article 2 of the Enforcement Decree of the same Framework Act, the Minister of Health and Welfare must conduct fiscal projections in accordance with the detailed guidelines and notify the heads of relevant central administrative agencies.

38. Since 2013, Korea has conducted social security fiscal projections at government level. The projections were made in accordance with OECD SOCX standards to allow comparison of social security fiscal expenditures[7] by function, funding and scheme with OECD countries.[8]

39. According to the fourth medium and long-term social security fiscal estimate 2020-2060, drawn up in 2020, public social welfare expenditures are expected to more than double from 12.5 percent of national GDP in 2020 to 27.6 percent by 2060. The expenditure ratio of the eight major types of social insurance to GDP is forecast to nearly triple, increasing from 8.0 percent of national GDP in 2020 to 22.8 percent by 2060.

40. Article 9 of the Framework Act says: "All citizens have the right to receive social security benefits as defined by the relevant social security laws." While beneficiaries possess this right, the government determines the specifics, scope, and eligibility criteria of the benefits based on the law. In cases like public aid and social welfare services, which the government provides unilaterally, regulations are outlined in specific laws. An example is the National Basic Living Security Act, which defines eligibility for National Basic Livelihood Security, minimum living standards, and the minimum cost of living. Similarly, the Basic Pension Act regulates the scope of Basic Pension beneficiaries and the calculation of pension amounts. The Minister of Health and Welfare announces the standard pension amount annually under Basic Pension Act Article 5 (2).

41. The criteria for selecting welfare recipients differ based on the specific program. These criteria include the minimum cost of living, average national household income, average monthly income of urban workers' households, and income quantiles. In addition, the

[7] Social security fiscal expenditure is the only indicator that enables comparative analysis of the total social security expenditure levels and expenditure levels by sector between Korea and major OECD countries. The published expenditure calculation results have been widely used to assess the level of social security in Korea, establish standards for medium and long-term social security fiscal projections, and provide insights and developmental directions for future social security expenditure.

[8] To enable assessment of fiscal expenditure levels through international comparison, the projections were based on the nine major policy areas of the OECD SOCX standards. Public social welfare expenditure is composed of general finances (public assistance, social compensation, and social services by central and local governments) and eight social insurance (national, government employees, military, and private school pensions, health, LTC, industrial accidents, and employment insurance). The nine major policy areas are elderly, survivors, incapacity-related, health, family, active labor market, unemployment, housing, and other social policies. Source: 4th Medium- and Long-Term Social Security Fiscal Projections, Social Security Committee, 2020

processes and standards of asset investigation, including how assets are converted into income, are diverse. An analysis of projects registered in the Social Security Information System[9] reveals substantial variations in support and investigation criteria across different government bodies, projects, beneficiary groups, and support areas.

42. An income recognition system is prevalently used. In Korea, the public aid system is fundamentally based on the National Basic Livelihood Security System, which supplements income shortfalls below the policy-defined poverty line of minimum cost of living. This system is also commonly applied as a qualifying criterion for recipients of basic living assistance in various welfare projects (Choi, 2013). Other methods for selecting welfare recipients include focusing solely on income or health insurance premium payments, and the cut-off method, which requires meeting both asset and income criteria.

43. From an absolute perspective, the National Basic Livelihood Security System held the largest budget allocation among public assistance projects in the welfare sector as of 2020.[10] However, the biggest share is expected to go to the Basic Pension system soon.[11] Governed by the Basic Pension Act, the system targets individuals aged 65 and above who fall within the bottom 70 percent income bracket in the elderly population (Figure 3).

44. The Basic Pension amount, initially meant to be adjusted every five years in accordance with inflation rates, resurfaced as a topic of discussion during the 20th presidential election in 2022. Several candidates pledged to raise the monthly basic pension from around KRW200,000 to KRW300,000. Some people also floated the idea of delinking it from the National Pension Service and adjusting recipient eligibility criteria.

45. Funding for the Basic Pension is a joint responsibility of the national government and local authorities. Over time, as the proportion of the elderly increases, local authorities have displayed a discernible trend of declining financial autonomy. In response, the national government made adjustments starting from 2020 to raise the proportion of national support for local authorities that were incurring significant social welfare expenditure.

[9] The Social Security Information System, known as Haengbok e-Eum, plays a crucial role in supporting a range of social benefit programs designed to assist low-income and vulnerable individuals. These programs include the Basic Livelihood Allowance, Non-contribution Pension, Universal Children Allowance, and Disability Allowance. In addition, the system offers personalized welfare, with a particular focus on individuals residing in welfare blind spots and children from families facing a crisis. One notable feature of the system is its Welfare Program Beneficiary Screening System, which ensures a systematic and fair selection process for beneficiaries while also helping reduce the workload of local government officials.

[10] In 2023, the Ministry of Health and Welfare's total budget for social welfare amounted to KRW 92.2171 trillion, of which KRW 16.4059 trillion, representing about 17.79 percent, was allocated to Basic Livelihood Security.

[11] Basic Pension operates within the budget allocated for elderly welfare programs in the social welfare sector.

2.3. Annual Budget Allocation and Review Process

2.3.1. Budget Formulation

46. Historically, the budget formulation process has unfolded internally within the Ministry of Economy and Finance and various administrative ministries, leading to the confidentiality of ministry expenditure limits and budget requests. These ministries draft budget proposals based on a Ministries Expenditure Limit and Budget Formulation Guidelines provided by the Ministry of Economy and Finance. This stage involves making decisions about the expansion or reduction of project scope, budget and resource allocations, introduction of new initiatives, and possible mergers or abolitions at ministry level.

47. New projects typically originate in national policy objectives, shifts in economic and social environments, government-wide responses to emerging needs, and new societal challenges such as social isolation. Mergers and abolitions are influenced by a need to improve operational and managerial efficiency, adjust overlapping or similar projects, and respond to financial outcomes.

48. The government presents its budget proposal to the National Assembly, complemented by a policy speech that outlines the budget plan for the upcoming year. Once the budget proposal is submitted, the Speaker of the National Assembly assigns it to the appropriate standing committees for preliminary evaluation. These committees then report their results to the Speaker, who sends their preliminary reports, along with the budget proposal, to the Special Committee on Budget and Accounts for review, after which the budget proposal is put to a vote in the full assembly. Approval requires a majority presence of Finance Committee members and a majority vote among the attending assembly members. During the budget review, the National Assembly is authorized to alter the budget's scale and details, but any increases or new budget items must receive government approval.

2.3.2. Procedure for establishing National Fiscal Management Plan

50. The procedure for establishing a national fiscal management plan is as follows:

1. In the first phase, the Ministry of Economy and Finance notifies each ministry of the guidelines for establishing a national fiscal management plan.
2. Then, each ministry submits its medium-term project plans to the Ministry of Economy and Finance. This stage, combined with the initial development of the guidelines, constitutes a collaborative effort in which the central government and the ministries align on their medium to long-term strategic directions.

3. In the third phase, the Ministry of Economy and Finance provides more detailed budget compilation guidelines to each ministry after they have established their future directions. These guidelines are split into two types: general and specific. The general guidelines, usually around 30 pages, offer broad instructions for preparing the budget. The specific guidelines, crucial for actual budget creation, give details on project types, item classification, and standard pricing. These may also incorporate predetermined limits for a range of government expenditures, including social protection programs. The guidelines aim to establish a foundational direction and objectives for managing finances over the medium to long term, thereby ensuring fiscal health and sustainability. These guidelines are updated annually to reflect shifts in economic conditions and priorities of government policies and permit the adjustment of pre-determined spending limits on government expenditures, such as social protection programs, when necessary. The setting of these limits for social protection programs takes into account the program's importance, the economic climate, and fiscal conditions. The intention behind these limits is to distribute financial resources efficiently, ensuring the protection of vulnerable social groups and the reinforcement of the social safety net, all while maintaining fiscal sustainability.
4. The fourth phase involves each ministry submitting its budget requests.
5. In the fifth and final phase, the Ministry of Economy and Finance reviews and adjusts the proposal from each ministry to compile the national budget. This budget does not go straight to the National Assembly; it requires State Council deliberation and the President's approval. Included in the budget are the fundamental direction for its compilation, an overview of the total budget, key tasks, and investment strategies. The government then submits the budget to the National Assembly.

2.3.3. Statutory Program vs Ordinary Budget Program

51. In budgeting, statutory programs, which follow specific funding and expenditure rules set by law, might not adhere to the usual budget proposal and review processes applicable to discretionary spending. Instead, such programs often go through periodic legislative reviews or changes. Conversely, programs with designated revenues undergo a detailed budgeting process that includes thorough checks to ensure the revenue collected is correctly used for its intended purpose. This detailed process requires extra reporting and compliance efforts to ensure funds are spent precisely, as legally required.

52. Many social welfare programs are managed as national government subsidy projects. These projects are outlined in the Subsidy Management Act and funded through subsidies from the national government. The subsidies aim to provide supplementary support to local government and private-sector initiatives that make positive external impacts. As a result, Korea hosts a broad array of national government subsidy projects across various sectors, each with its own specific goals. In social welfare, the subsidies focus on maintaining a consistent level of welfare services across the country. By sector, social welfare forms the largest group of national government subsidy projects, comprising about 60 percent of all government subsidies.

2.3.4. Approaches to Addressing Budget Shortfalls

53. If the resources allocated are insufficient by the end of a fiscal year or within an allocation period, specific measures are implemented.

- Use of contingency funds: The government reserves contingency funds to cover inevitable or unexpected expenses. These funds are intended for emergencies or expenses not previously anticipated. When resources are found to be insufficient, these funds are mobilized to cover the shortfall. The government categorizes its reserves into two types: General Contingency Funds, which take care of unforeseen expenses in regular national activities, and Specific Contingency Funds, which are designated for specific purposes such as disaster management, personnel expenses, and preparation for currency exchange rate fluctuations.
- Budget adjustment: Within each government body, budgetary items can be internally adjusted. This involves reducing the budget for some projects or programs within a department and reallocating the funds to those more in need.
- Issuance of government bonds or budget cuts: As a long-term solution, the government can secure the necessary funds either by issuing additional government bonds or by cutting the budget from other budgetary items.

These procedures are applied differently depending on the situation and are determined by taking account of the government's fiscal status, economic conditions, and political considerations.

2.3.5. Management and Monitoring of Disbursements

54. Several strategies are used to control national budget overspending and enhance its management. For social welfare programs, an extensive set of management and monitoring measures is employed, which includes adjusting the roster of beneficiaries. This approach spans various stages, from initial budget planning to its implementation and evaluation, ensuring thorough oversight. A systematic process verifies regularly that beneficiaries meet the necessary eligibility criteria. This verification serves to reflect changes in the beneficiaries' financial status, assets, and family structure, aiming for a fair allocation of benefits. Moreover, the criteria for beneficiaries and the operational methods of the programs are periodically reviewed to enhance effectiveness. Through these practices, the Korean government seeks to prevent unnecessary expenditure of the national budget and to ensure that social welfare programs operate efficiently and achieve their goals.

55. The implementation of systematic subsidy management systems like e-NaRaDoUm represents a significant advancement in public financial management. The integration of e-NaRaDoUm and dBrain+ modernizes Korea's fiscal infrastructure, with e-NaRaDoUm managing government subsidies across agencies through automated eligibility verification, standardized processing, and compliance monitoring, while dBrain+ handles broader public financial operations including budget execution, accounting settlements, and performance-based resource allocation. This unified system enables real-time budget monitoring, automated financial settlements, enhanced transparency in public spending, and data-driven fiscal policy implementation through its centralized financial database and cross-agency information sharing capabilities.

2.4. Performance Assessment of Social Security Programs

2.4.1. Elements of Financial Management Evaluation

56. The performance assessment of social security programs in Korea incorporates a comprehensive focus on financial management. This dimension is crucial to ensure the programs' efficiency and effectiveness and appropriate usage of funds. The following elements are central to the financial management evaluation:

- Budget execution rate: Assessing the efficiency of budget use in social security programs is a key aspect of evaluation. An effective budget execution rate is indicative of the timely and appropriate allocation of resources.
- Achievement of performance goals: The evaluation emphasizes the importance of setting and achieving performance goals for each program. This measure is critical in ascertaining how well the program is meeting its intended objectives and aims.
- Cost efficiency: Analyzing the cost-effectiveness of the program forms an integral part of the evaluation. This analysis determines how effectively resources are used to achieve desired results, reflecting the judicious use of the budget.

- External audits and evaluations: Regular external audits and evaluations are essential for transparent and accountable financial management. Such practices play a significant role in preventing the misuse or waste of funds.
- System improvement: The assessment also includes a review of measures taken to improve systemic inefficiencies. These efforts aim to boost the management efficiency of the program and secure its long-term sustainability.
- Social value and budget savings: The program's capacity to create social value, along with efforts to economize the budget and enhance efficiency, is also a crucial factor. This dual approach is instrumental in ensuring the program's sustainability and effectiveness.

These evaluation methods collectively ensure financial prudence and effective administration of the program, ultimately focusing on delivering the best possible services to beneficiaries.

2.4.2. Key Performance Indicators

57. In assessing and managing its fiscal policies, Korea uses key performance indicators (KPIs) that are crucial in evaluating fiscal health and efficiency.

58. First, the general government debt to GDP ratio is an indicator that measures the government's debt relative to the country's GDP; **a higher ratio might indicate possible fiscal challenges**. Korea's current debt to GDP ratio stands at about 49 percent, a favorable figure compared with other major economies. By contrast, according to International Monetary Fund (IMF) standards, countries such as Germany, the United Kingdom, and France experience government debt ranging from 60-90 percent of their GDP.

59. Secondly, financial performance information is instrumental in evaluating the efficiency and effectiveness of each program. This involves analyzing if a program has achieved its objectives and whether the budget has been used effectively, thereby enabling the possible reallocation of resources to more needy sectors or more effective programs. Financial performance data also plays a crucial role in the budget decision-making process. Based on this information, the government can determine how to distribute future budgets and decide which programs should receive more resources or which should face budget cuts. In addition, financial performance information provides essential foundational data for the establishment of long-term fiscal plans. Through this data, the government can forecast future fiscal challenges and opportunities to help formulate an effective fiscal strategy.

60. Lastly, financial performance data aids the government in determining policy priorities. Such data plays a significant role in deciding which areas or programs are more effective and where additional investment is needed.

2.4.3. Performance assessment of fiscal projects

61. To evaluate the performance of fiscal projects, the government adopts a Fiscal Performance Goal Management System introduced in 2003. The Fiscal Performance Goal Management System assesses the attainment of performance goals for fiscal projects through performance indicators, and the results are reflected in budget allocations.

62. In 2021, the National Finance Act was amended to mandate the establishment of a Basic Plan for Performance Management of Fiscal Projects and annual Action Plans. The following year, the Ministry of Economy and Finance further improved the performance-based assessment system for fiscal projects to achieve efficient fiscal management based on performance. The ministry has been actively promoting these improvements as it recognizes the importance of micro-level performance management for improving fiscal soundness in addition to macro-level aggregate management through fiscal regulations.

63. The Performance Management of Fiscal Projects is outlined in Article 85 (2) of the National Finance Act. This evaluation process involves reviewing, analyzing, and assessing the planning and execution of fiscal projects and their outcomes. The Minister of Economy and Finance sets the criteria for selecting fiscal projects to undergo performance management, considering the cost-effectiveness of such oversight.

64. In the Enforcement Decree of the National Finance Act stipulated in Presidential Decree 32545, fiscal project assessments are categorized into two types. Firstly, the Minister of Economy and Finance may request self-evaluations of major fiscal projects from heads of central government agencies and fund management entities. This is known as autonomous evaluation of fiscal projects. Secondly, in-depth evaluations may be conducted for specific projects. These include projects where additional evaluation is deemed necessary based on the results of the autonomous evaluations, projects involving similar or overlapping activities among ministries or inefficient project execution leading to budget waste, projects that expect a significant increase in future fiscal expenditures necessitating efficiency verification through objective assessment, and other projects requiring comprehensive analysis and evaluation to examine project performance.

65. The Ministry of Economy and Finance concentrates on a broad fiscal oversight, covering the entire national budget, including social welfare spending, and

comprehensively assesses efficiency, effectiveness, and fiscal soundness; on the other hand, the Ministry of Health and Welfare and the Social Security Committee focus their evaluations on the specific content and effectiveness of social welfare policies. The Ministry of Health and Welfare, under the auspices of the Social Security Committee and in accordance with the Framework Act on Social Security, evaluates the Master Plan for Social Security. These evaluations influence the planning for the next year, ensuring that the strategy remains responsive to emerging needs and challenges. On the other hand, the Ministry of Economy and Finance, per the Basic Act on Government Performance Evaluation, undertakes a comprehensive evaluation of fiscal projects within central government departments. Should these evaluations uncover deficiencies, budgets for the affected departments and their projects may be reduced.

Box VI.A. Case Study: Evaluation of Social Protection Programs

In 2022, the performance assessment conducted by the Ministry of Health and Welfare listed four strategic goals, 25 programs, and 135 unit projects. In general, projects that come with performance management targets account for 43.9 percent of the Ministry of Health and Welfare's total budget, while the portion of its budget meant for unit projects not subject to performance management, such as personnel expenses, basic expenses, internal transactions, and preservation expenditures, makes up 56.1 percent. Most of the projects that fall outside the required performance management are internal transactions, taking up 53.7 percent. Of the major projects, most achieved their performance targets in 2021, but the "Together Care Project (temporary and emergency childcare services for children aged six to 12)," part-time childcare support, and expansion of elderly care facilities did not achieve their performance goals. In particular, the Together Care Project managed only 67.5 percent of its performance target in 2021, yet its 2022 budget increased by 33 percent compared with the previous year.

As for the Ministry of Employment and Labor, it evaluated the performance of 145 fiscal support job projects carried out in 2020 to enhance job performance and strengthen support for vulnerable groups. In this evaluation, performance indicators were established for each type of project. Individual projects were assessed based on comprehensive criteria including quantitative and qualitative indicators, satisfaction surveys, and execution rates. The assessment categorized the projects into four levels: excellent, good, improvement needed, and reduction. Fourteen projects were rated as excellent, 81 as good, 36 as needing improvement, and 14 as requiring reduction. The Ministry of Employment and Labor forwarded opinions on lowering the budgets of the 14 projects to the Ministry of Economy and Finance in the 2022 budget allocation. It also drew up improvement plans for each of the 36 projects.

2.4.4. Mechanism for Financing Social Protection Programs

66. Multiple official platforms facilitate discussions on the medium-term resource needs of social protection programs. These platforms typically take the form of meetings or forums, and involve government agencies, policymakers, and experts. The discussions primarily center on the efficiency, sustainability, and strategic resource allocation of social protection programs.

67. The Social Security Committee, under the Prime Minister's office, stands out as a significant platform hosting these discussions. The committee, established according to the Framework Act on Social Security, is responsible for deliberating on key social security policies. It operates directly under the Prime Minister and consists of up to 30 members, including the chairman, three vice-chairmen, and ministers from various ministries such as Interior and Safety, Employment and Labor, Gender Equality and Family, and Land, Infrastructure, and Transport. The Prime Minister acts as the chairman, with the Minister of Economy and Finance, Minister of Education, and Minister of Health and Welfare as vice-chairmen. Members, especially public officials, serve a two-year term that is extendable for the duration of their public service, as outlined in Article 21 of the Framework Act.

68. The committee's deliberations cover a wide array of issues. These include long-term development directions for promoting social security, enhancements to the social security system, adjustments following the introduction or expansion of a social security program, significant policies involving multiple departments, social security benefits and cost-sharing adjustments, and the definition of roles and responsibilities in sharing social security costs between the national and local governments.

69. In Korea, the responsibility for projecting the medium-term fiscal resource requirements of social protection programs primarily rests with government ministries, with central roles assigned to the Ministry of Health and Welfare and the Ministry of Economy and Finance. The Ministry of Health and Welfare, as the main department tasked with operating and managing social protection programs, assesses program necessity and effectiveness, along with forecasting their medium-term financial needs. These assessments identify the allocation of resources necessary to ensure the proper functioning and sustainability of the programs.

70. Simultaneously, the Ministry of Economy and Finance, responsible for overseeing the overall government budget and fiscal policies, collaborates closely with the Ministry of Health and Welfare. Together, they assess the medium-term financial needs of social protection programs and allocate the budget accordingly. This ministry also bears the responsibility of financial forecasting and securing the requisite funding. Both government bodies are charged with predicting the financial demands of social protection programs and formulating budget plans based on these projections, including exploring additional funding sources when necessary. Throughout the process, collaboration with other government bodies, experts, and stakeholders is integral.

2.4.5. Mechanism for Achieving Fiscal Sustainability

71. In May 2024, the National Fiscal Strategy Meeting discussed the 2025 budget proposal and the direction of mid-term fiscal management for 2024-2028; according to the Ministry of Economy and Finance, the entire increase in the 2025 budget pertains to mandatory expenditures, thereby limiting the capacity to allocate funds for new projects. The ministry plans to maintain the national debt to GDP ratio at a stable level in the low to mid-50 percent range during the mid-term planning period. To achieve this objective, strong expenditure restructuring will continue, reevaluating the feasibility and effectiveness of all fiscal projects, cutting or abolishing low-priority projects, and conducting assessments such as subsidy extension evaluations, autonomous evaluations of fiscal projects, and job project evaluations. Projects with low performance results will be significantly restructured.

72. Additionally, rigid expenditure will be managed to prevent moral hazards by rationalizing support standards for projects prone to such risks. Efficiency measures will continue, such as strengthening the inspection and recovery of fraudulent social insurance claims. To reduce discretionary spending, all discretionary expenditures, excluding essential needs for national projects, will be restructured by more than 10 percent. The savings from these reductions will be redirected to new or ongoing projects in priority investment areas, with incentives or penalties applied based on each government agency's restructuring performance. Similar or redundant projects will be consolidated around core projects, and when proposing new projects, interdepartmental verification of similarities and overlaps with other departments' projects will be reinforced. Projects with similar objectives that are currently operated in a fragmented manner by different government agencies will be integrated and coordinated to enhance the delivery system, focusing on the needs of the beneficiaries. For instance, government-backed care projects with a high proportion of elderly beneficiaries will be linked with elderly job programs that provide social services, to ensure a stable expansion of services to those beneficiaries.

2.4.6. Growing Concerns over National Pension Reform and Financial Sustainability

73. In May 2024, the National Assembly's Special Committee on Pension Reform failed to reach consensus on a proposal to increase the income replacement rate[12] of the National Pension. A public opinion poll conducted by the Citizen Representative Panel showed higher support for an income security plan, which advocated raising the National Pension contributory rate from 9 percent to 13 percent, and the income replacement rate from 40 percent to 50 percent. The alternative suggestion, a fiscal stability plan suggested raising the contributory rate to only 12 percent and received lower support. However, legislators tasked with National Pension reform failed to reach final agreement, raising concerns about missing the golden time for pension reform. According to the latest fiscal projection, the pension fund is expected to be depleted in 2056. Additionally, with the National Pension Fund likely to go into deficit by 2041 and the impacts of low birth rates and an aging population, concerns about the financial sustainability of the National Pension are growing.

3. COVID-19 Pandemic and Reform Priorities

3.1 COVID-19 stimulus package

74. In response to the public health crisis, Korea launched socioeconomic support policies by increasing fiscal spending, which played a pivotal role in managing COVID-19. The support was twofold: enhancement of existing income protection policies and implementation of temporary, short-term systems. These temporary systems, while initially effective, eventually stirred social debate and are no longer active (People's Solidarity for Participatory Democracy, 2023).

75. Key systems that significantly supported the poor and vulnerable during the COVID-19 period were the National Basic Livelihood Security System and the Emergency Aid and Support System, both part of the public assistance framework. The pandemic motivated improvements in the long-criticized selection criteria of the National Basic Livelihood Security System. Issues related to beneficiary coverage gaps, stemming from dependency and asset criteria, were improved through the Korean New Deal announcement in July 2020. This led to substantial increases in both the number of recipients and of recipient households between 2020 and 2021.

76. The Emergency Aid and Support System temporarily relaxed its criteria, thereby improving its ability to protect and assist households in crisis. The system's budget was

[12] Pension amount as a percentage of average lifetime income.

increased from an initial KRW165.6 billion to KRW410 billion, resulting in substantial support for those requiring help. However, it was limited by the shortage of local government staff responsible for its operation, which affected both the depth of case management for households in crisis and the system's integration with other programs.

77. The Emergency Disaster Relief Fund, a cash-based support initiative, began its first distribution nationwide in April 2020 through the second supplementary budget. The first round targeted 21.71 million households that were identified using household criteria from the health insurance system's "supporter-dependent" economic community concept.[13] The financial requirement was substantial, totaling KRW14.3 trillion, comprising KRW12.2 trillion from national funds and KRW2.1 trillion from local funds. The second round, part of the sixth supplementary budget for COVID-19 in July 2021, supported the lower 80 percent of the population based on household income. This round considered dual-income and single-person households, necessitating a total of KRW11 trillion, made up of KRW8.6 trillion from national funds and KRW2.4 trillion from local funds. These nationwide support funds were a novel initiative in Korea and sparked widespread social discussions that focused on conducting such an experiment on universal welfare by encompassing the entire population. The debate also talked about the financial impacts of such a broad approach, and its potential evolution into a basic income-type income protection system, which was a prominent social issue at the time.

3.2. Transition from the Pandemic

78. The 2023 budget serves as a clear representation of the Yoon government's dedication to switching from an expansionary fiscal policy toward fiscal consolidation, primarily through cost-cutting measures.' An in-depth analysis of welfare expenditures within the 2023 budget further underscores the government's determination to exercise fiscal prudence.

79. The new government has introduced a welfare model for vulnerable populations that is rooted in the self-sustaining welfare philosophy inherent to Korea's conservative parties. Under the Yoon government's leadership, cash welfare for vulnerable individuals has been expanded, with a substantial 13.4 percent increase in the income safety net budget and National Basic Livelihood Guarantee benefits.

[13] Under the government's eligibility criteria, up to KRW1 million from the emergency fund was provided to households in the bottom 70 percent income bracket, based on individual health insurance premium contributions. Households with four members qualified if their premiums were KRW237,000 or less. Eligibility was determined per household, based on resident registrations as of March 19, 2020. Spouses and children registered as dependents were included in the same household regardless of their address.

3.3 Key Challenges of a Sustainable Social Protection System

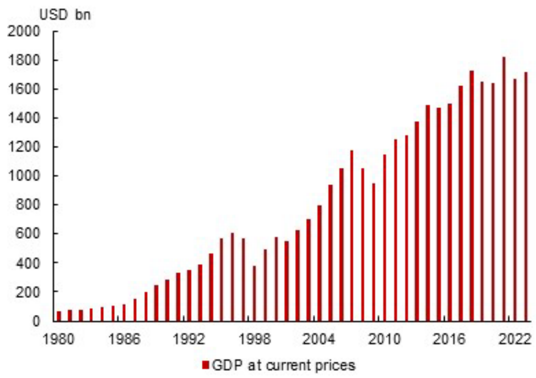
80. In the face of COVID-19, the Korean government adopted a forward-looking deficit-financing policy, focusing on preventing an economic downturn. Like other countries with comparable policies, Korea faced the unavoidable consequence of worsened fiscal soundness due to deficit-financing measures that sought to overcome the pandemic. COVID-19 exposed several vulnerabilities in Korea's welfare system and underscored a range of challenges needing attention. A key issue lies in requiring reliable income protection to shield against income risks. This involves shifting social insurance from an employment-based framework to an income-based version and establishing thorough social allowances to ensure a stable income throughout an individual's lifespan.

81. The COVID-19 crisis highlighted disaster inequality, or risk inequality, in society, demonstrating varied impacts across different groups segmented by industry, occupation, and social class. The crisis also revealed significant coverage gaps in the existing social security system, exposing a wide range of unmet needs. Economically, the hardest hit were vulnerable groups, including low-income temporary and day laborers, special contract workers, freelancers, platform workers, small business owners, and small-scale entrepreneurs.

82. The pandemic puts social relationships at risk, necessitating a transformative push toward a care state. This goal involves improving community care, broadening public care infrastructure, and initiating financial system reforms. It has become vital to upgrade the quality of social services and create service delivery models suitable for a non-face-to-face society. Introducing novel welfare benefits like the proposed Green Allowance is also critical. Such a move could see the provision of clean air and water, safe and energy-efficient housing, renewable energy, and other elements as universal benefits, paving the way toward an eco-social society. The changes would constitute a transformational drive that involves introducing previously non-existent welfare benefits.

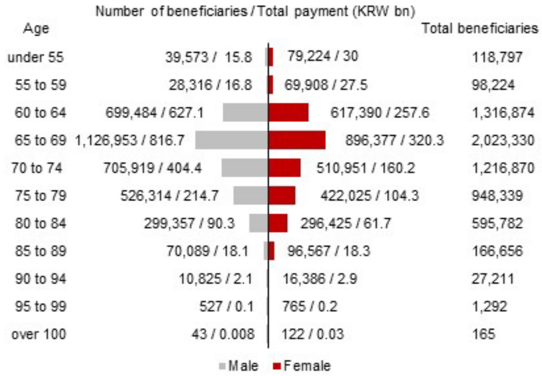
Appendix VI.1. Selected Figures

Figure 1. GDP at Current Prices



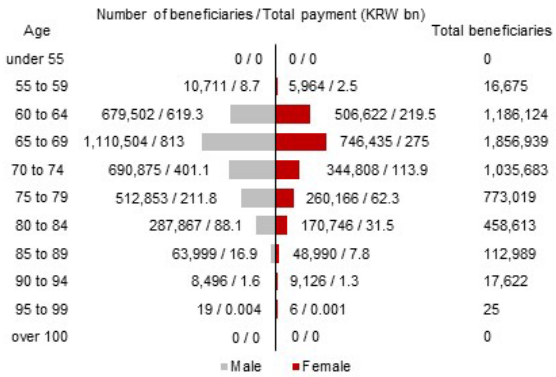
Source: IMF

Figure 2. Number of Beneficiaries and Total Payouts of National Pension, December 2023



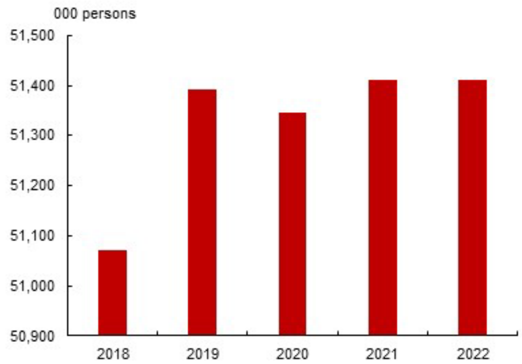
Source: National Pension Service

Figure 3. Number of Beneficiaries and Total Payouts of Basic Pension, December 2023



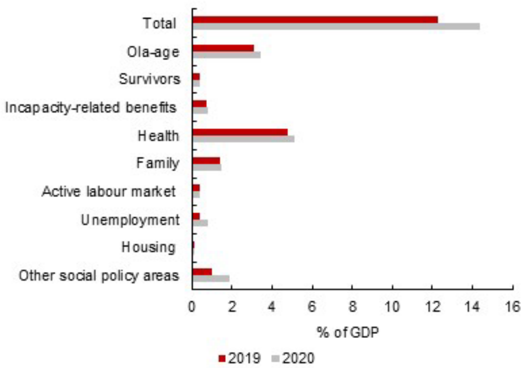
Source: National Pension Service

Figure 4. National Health Insurance Coverage Population



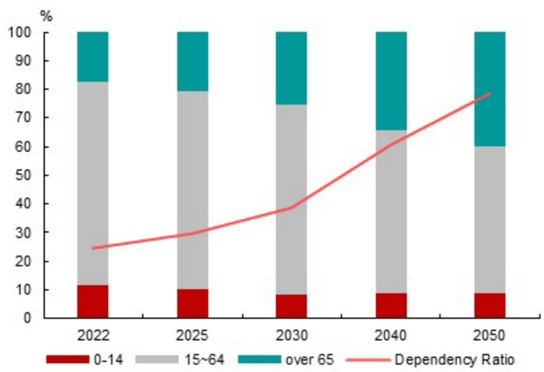
Source: 2023 Health and Welfare Statistics Yearbook

Figure 5. Social Protection Expenditure by 9 Major Functions



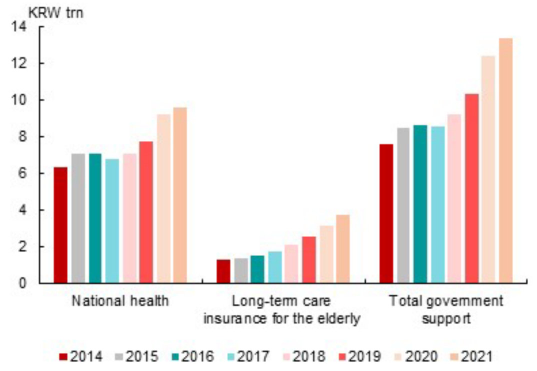
Source: 2023 Health and Welfare Statistics Yearbook

Figure 6. Population Structure and Dependency Ratio



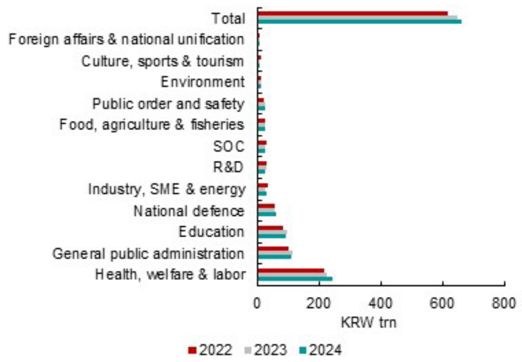
Source: Social Security Factbook 2022

Figure 7. Fiscal Balance of National Health and LTC Insurance for Elderly, 2014-2021



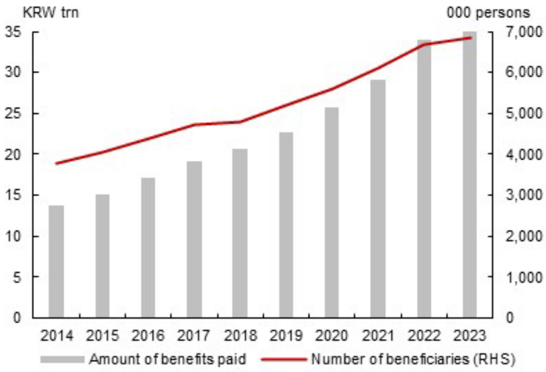
Source: Social Security Factbook 2022

Figure 8. Allocation of Resources by Sector, 2012-2022



Source: Social Security Factbook 2022

Figure 9. Number of National Pension Beneficiaries and Amount of Benefits Paid by Year



Source: National Pension Statistical Yearbook 2024

Appendix VI.2. Selected Tables

Table 1. Main Indicators of National Accounts

Classification	Unit	2018	2019	2020	2021	2022	2023
(GDP) Gross domestic production	Trillion won	1,898.2	1,924.5	1,940.7	2,080.2	2,161.8	2,236.3
	100 million U$	17,251.6	16,510.1	16,446.1	18,176.9	16,732.6	17,131.2
(GNI) Gross national income	Trillion won	1,905.8	1,941.1	1,957.7	2,103.6	2,193.5	2,277.9
	100 million U$	17,321.1	16,652.6	16,589.7	18,381.5	16,978.4	17,450.4
(PGDI) Personal gross disposable income	Trillion won	1,025.6	1,058.7	1,098.2	1,138.7	1,213.6	N.A
Per capita GDP	10,000 won	3,678.2	3,721.8	3,744.0	4,020.1	4,187.2	4,324.5
	U$	33,429.0	31,928.8	31,727.1	35,127.9	32,409.9	33,127.8
Per capita GNI	10,000 won	3,693.0	3,753.9	3,776.6	4,065.4	4,248.7	4,405.1
	U$	33,563.7	32,204.4	32,004.1	35,523.3	32,886.0	33,745.0
Per capita PGDI	10,000 won	1,987.4	2,047.4	2,118.5	2,200.7	2,350.6	N.A
	U$	18,062.5	17,564.6	17,953.0	19,229.5	18,193.9	N.A
GDP growth rate	%	2.9	2.2	-0.7	4.3	2.6	1.4
GDP deflator	2015=100	104.756	103.877	105.502	108.137	109.453	112.1

Source: Bank of Korea (BoK)

Note: Reference year 2015 and based on current prices.

Table 2. Social Welfare Expenditure by Financial Resources and Function (in KRW Million)

Financial Resources	Function	2019	2020
Total	Sub Summary	255,092,975.90	302,285,266.00
	Old-age	74,724,634.70	84,257,652.50
	Survivors	7,038,218.50	7,445,991.50
	Incapacity-related benefits	13,977,295.30	16,190,253.60
	Health	95,540,882.50	101,173,329.60
	Family	27,107,162.80	30,684,082.40
	Active labor market programs	7,086,752.00	7,290,995.90
	Unemployment	8,545,514.60	15,140,795.90
	Housing	1,762,549.40	2,186,169.50
	Other social policy areas	19,309,966.10	37,915,995.10
Public expenditure	Sub Summary	235,925,477.70	279,336,546.00
	Old-age	59,362,910.90	65,478,254.00
	Survivors	7,038,218.50	7,445,991.50
	Incapacity-related benefits	13,629,452.30	15,841,073.60
	Health	93,265,431.70	98,652,968.60
	Family	26,437,218.40	30,025,319.00
	Active labor market programmes	7,086,752.00	7,290,995.90
	Unemployment	8,545,514.60	15,140,795.90
	Housing	1,762,549.40	2,186,169.50
	Other social policy areas	18,797,430.00	37,274,978.00
Legal private expenditure	Sub Summary	19,167,498.20	22,948,720.00
	Old-age	15,361,723.90	18,779,398.50
	Survivors	0	0
	Incapacity-related benefits	347,843.10	349,180.00
	Health	2,275,450.80	2,520,361.00
	Family	669,944.40	658,763.40
	Active labor market programmes	0	0
	Unemployment	0	0
	Housing	0	0
	Other social policy areas	512,536.10	641,017.10

Source: Ministry of Health and Welfare

Table 3. Number of Total Recipients of National Basic Livelihood Security Payments

Year	No. of Recipients (in person)
2013	1,350,891
2014	1,328,713
2015	1,646,363
2016	1,630,614
2017	1,581,646
2018	1,743,690
2019	1,881,357
2020	2,134,186
2021	2,359,672
2022	2,451,458
2023	2,458,608

Source: Ministry of Health and Welfare

Table 4. Social Services Available at Different Life Stages

Category	Description
Pregnancy and Childbirth	• Support for infertility • Assistance for high-risk pregnant women • Health management for mothers and newborn babies
Infants and Toddlers	• Childcare • Babysitting
Children and Adolescents	• Community child centers • Dream Start program • After-school care • Recreational and cultural activities • Psychological counseling • Nutrition and physical activity programs
Middle-aged and Elderly	• Employment opportunities in social services, including programs for disabled individuals • Assistance with retirement planning • Health and fitness management
Elderly	• Long-term care • Elderly caregiving • Dementia care • Job opportunities for seniors • Community-based elderly care • Health management programs for the elderly
Death	• Hospice care • Funeral services

Source: Author's compilation

Table 5. Consultation Considerations for Introducing or Modifying Social Security Programs

Statutory Criteria	Key Evaluation Criteria
Project Feasibility	• Clarity of the basis for project initiation • Urgency of local issues, priorities within the region, and unique regional characteristics • Connection between the project's goals and objectives and its specifics • Need for public resource allocation
Compatibility with Existing Systems	• Consistency with medium to long-term strategies for social security development • Availability of similar benefits or services to intended beneficiaries • Impact of project implementation on duplication, gaps (resolution), and focus (resolution) • Achievement of complementarity through coordination between central and local government projects
Effects on Delivery Mechanism	• Inefficiencies due to overload or segmentation of delivery system • Beneficiary accessibility (convenience) and timeliness of benefit provision • Use of Social Security Information System
Financial Implications	• Sustainability of funding, including resource scope and planning • Financial management efficiency
Impact on Local Welfare Enhancement	• Creation of medium to long-term plans, such as community social security and local health care strategies • Engagement of local residents and consideration of welfare needs • Use and coordination of local resources
Other Aspects	• Development of plans for performance measurement, including use of indicators • Appropriateness of the program's planned implementation timeline

Source: Ministry of Health and Welfare; Author's compilation

Table 6. Consultation Process for Introducing or Modifying Social Security Programs

Stages	Procedures	Detailed Overview
1	**Initial Consultation** **(Consultation Support Team)**	• The requesting agency may engage in initial consultation from the project planning and consultation request drafting stage as required.
2	**Submission of Consultation Request** **(Requesting Agency à Ministry of Health and Welfare)**	• Submission deadlines: Central administrative bodies by April 30 (with a possible extension to end-May), and local government entities by June 30. • Documentation requirements: Consultation request letter, consultation request form, and supporting material. For basic local government units, documents must be simultaneously submitted to the relevant city or province and the Ministry of Health and Welfare.
3	**Supplementing Documents**	• Should any essential documents for consultation be missing or require further details, amendments and supplements are to be provided. The period for submitting these additional documents is excluded from the consultation timeline.
4	**Gathering Opinions from Relevant Departments**	• Opinions are sought from the departments responsible for the areas relevant to the requested consultation project.
5	**Expert Opinion Collection**	• Opinions from expert groups (Consultation Support Team) related to the project area are collected.
6	**Review and Dialogue by Special Committee for System Adjustment**	• The Special Committee for System Adjustment conducts a thorough review of issues that require expert evaluation, such as disputes in consultation or the introduction of new programs. • When necessary, project managers from the requesting agency are allowed to participate and present their perspectives.
7	**Outcome Notification** **(Ministry of Health and Welfare à Requesting Agency)**	• Standard items: To be processed within 60 days. • Items with disputes: To be processed within a maximum of six months. The time taken for the requested institution to supplement documents, etc., does not count toward the consultation period. • Notifications are simultaneously sent to the requesting agency, the coordinating government body for consultation (for central governments – Ministry of Strategy and Finance and respective departmental finance units; for local governments – the competent city or province), and the local assembly secretariat (applicable to local government projects).

Source: Ministry of Health and Welfare; Author's compilation

Table 7. Total National Expenditure and Current State of Budget, 2022-2024

Field	2022	2023	2024
Social welfare	195.0	206.0	224.1
General and local administration	98.1	112.2	110.5
Education	84.2	96.3	89.8
National defense	53.0	55.3	57.4
Industrial, small and medium enterprises and energy	31.3	26.0	28.0
Agriculture, forestry and fisheries	23.7	24.4	25.4
Public order and safety	22.3	22.9	24.4
Transportation and logistics	22.8	20.8	22.1
Health	22.7	20.0	18.8
Environment	11.9	12.2	12.5
Communication	9.0	9.0	9.4
Science and technology	9.6	9.9	9.3
Culture and tourism	9.1	8.6	8.7
Unification and diplomacy	6.0	6.4	7.5
Land and regional development	5.1	4.2	4.4
Reserve funds	3.9	4.6	4.2
Sum	607.7	638.8	656.5

Source: Ministry of Economy and Finance

Table 8. Proportion and Composition of Social Insurance and General Fiscal Expenditures (in % of GDP, %)

Category		2020	2030	2040	2050	2060
General Fiscal	Expenditure	4.5	4.8	5.1	5.1	4.8
	Composition Ratio	36.1	30.6	25.6	20.8	17.4
Social Insurance	Expenditure	8.0	11.0	14.9	19.4	22.8
	Composition Ratio	63.9	69.4	74.4	79.2	82.6
Public Social Welfare Fiscal Expenditure		12.5	15.8	20.1	24.5	27.6

Source: Social Security Committee

Table 9. Composition of In-kind and Cash Benefits for Public Social Welfare Expenditures (in % of GDP, %)

Category	2020	2030	2040	2050	2060
In-kind Benefits	6.1	7.7	10.0	12.4	13.8
Cash Benefits	5.3	7.0	8.9	10.9	12.6

Source: Social Security Committee

Note: This is the result of excluding local business expenses and ALMP.

Table 10. Dependency Ratio (in per 100 working-age population)

	2012	2013	2014	2015	2016
Dependency Ratio	36.2	36.2	36.2	36.2	36.2
Youth Dependency Ratio	20.6	20.0	19.4	18.8	18.3
Elderly Dependency Ratio	15.6	16.3	16.8	17.5	18.0

Source: Statistics Korea

Note: Dependency Ratio = {(Population under 15 years + Population over 65 years) ÷ (Population of 15-64 years)} × 100. Youth Dependency Ratio = (Population under 15 years ÷ Population of 15-64 years) × 100. Elderly Dependency Ratio = (Population over 65 years ÷ Population of 15-64 years) × 100.

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VII. Malaysia[1 2]

This report offers a comprehensive analysis of fiscal management strategies employed within the social protection systems of selected ASEAN+3 economies, paying particular attention to Malaysia. It elucidates the budget allocation process, the establishment and adaptation of social protection initiatives, and the mechanisms for assessing medium-term financial adequacy. It also provides detailed insights into the stages of budget planning, including the submission and review of proposals, alongside outlining the roles of various government entities in the approval and execution of budgets. Noteworthy features such as outcome-based budgeting and the medium-term fiscal framework are highlighted for their roles in forecasting macro-fiscal trends. Additionally, the report underscores the significance of stakeholder engagement, encompassing ministries, other government agencies, the private sector, and civil society organizations, in the formulation of plans and budget proposals. The role of pivotal entities, such as the Implementation and Coordination Unit (ICU), in overseeing and evaluating national development plans is emphasized. Furthermore, the document stresses the importance of commitment, consistency, and political determination in rationalizing social protection programs to ensure their sustainability and effectiveness. While the primary focus is on Malaysia, the insights provided hold relevance for understanding the broader fiscal dynamics within the ASEAN+3 region.

1. Overview of the Social Protection System

1.1 Basic Structure and Main Features of Social Protection System

1.1.1. Institutional Arrangements

1. The social protection system in Malaysia has been in place since the days before independence, with the primary focus of providing support to vulnerable citizens. Initially, social assistance programs targeted basic needs such as education, health care, sanitation and poverty alleviation regardless of race, as outlined in the New Economic Policy (1971-1990). Over time, the system expanded to include better protection for workers and to initiate responses to economic crises.

Social Assistance

[1] Prepared by Professor Norma Mansor, norma@um.edu.my, Social Wellbeing Research Centre Universiti Malaya.
[2] The author is thankful of the contributions gathered through interview with government officials: Tan Sri Sulaiman Mahbob, Former Director General, Economic Planning Unit (EPU); Dr Khalid Abdul Hamid, Former Director, Services Industry Division (SID), Economic Planning Unit (EPU); Muhammad Farqani Bin Mohd Noor, Special Officer, Social Security Organisation (SOCSO) Group Chief Executive Officer Office; Fatimah Zuraidah Binti Haji Salleh, Principal Assistant Secretary, Corporate Social Responsibility Unit, Ministry of Women, Family and Community Development (KPWKM).

- The main form of social assistance focuses on targeted cash transfers, which provide safety nets through non-contributory schemes primarily for the low-income population. The programs are often tax-funded and administered by government agencies such as the Ministry of Women, Family, and Community Development (KPWKM) and the Ministry of Finance (MOF). Examples include Sumbangan Tunai Rahmah (STR), formerly known as Bantuan Rakyat 1 Malaysia, Bantuan Sara Hidup (BSH) and Bantuan Prihatin Rakyat (BPR).
- The Department of Social Welfare (JKM) under the KPWKM also provides social assistance to vulnerable groups such as the disabled, poor families and older adults.[3]
- Malaysia's social assistance system includes subsidies for fuel and essential food items, with fuel subsidies being a significant component. These subsidies aim to support the low-income population and ensure access to essential goods and services.

Social Insurance

- Social insurance programs are administered by government agencies and protect workers against different risks. Examples include the Employees Provident Fund (EPF) for old-age income security, the Social Security Organisation (SOCSO) for working-age associated risks, and the Employment Insurance System (EIS) for cash benefits against unemployment, work injury, invalidity/disability, survivorship, sickness and medical care.

Labor Market Programs

- Labor market policies encompass active and passive programs such as training, job matching and entrepreneurial initiatives provided by government bodies including the Human Resource Development Fund (HRDF), the Ministry of Youth and Sports (KBS), the Ministry of Human Resources (MOHR) and the Ministry of Higher Education (MOHE), on top of the EIS.

2. In addition, the social protection system involves key government entities such as the Ministry of Economy (MOE, formerly Economic Planning Unit), the Ministry of Finance (MOF), and the Implementation and Coordination Unit (ICU) under the Prime Minister's Department. These entities monitor policies, programs and projects at various administrative levels, ensuring alignment with national development plans and overall strategies. Moreover, interagency planning groups, technical working groups, and focus

[3] A person aged 60 years old and above.

groups are invited to take part in stakeholder discussions and give feedback, thus reflecting a multi-stakeholder approach to policy development and budgeting. This institutional arrangement underscores the coordinated efforts of government bodies and stakeholders in shaping and implementing social protection policies and programs in Malaysia.

1.1.2. Financial Liabilities of the Government

3. In the 2024 fiscal outlook, the government's financial liabilities are of critical importance and are therefore the central focus of its fiscal planning. As at end-June 2024, Malaysia was facing significant financial commitments, with total debt and liabilities of MYR1,227.5 billion, equivalent to 63.1 percent of GDP. These financial obligations encompass the federal government's debt, committed guarantees, and other commitments related to public-private partnership (PPP) and private finance initiative (PFI) projects.

4. The elevated debt poses fiscal management challenges, particularly in terms of debt service charges (DSCs). In 2023, with the DSC-to-revenue ratio above the previous year, the federal government allocated MYR46.1 billion, or 15.2 percent of revenue, to settling DSCs. These charges primarily cover domestic issuances, including maturing Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), Treasury bills, Government Housing Sukuk (SPK), and offshore borrowings.

5. The government's debt and liabilities exposure are a significant concern, necessitating continuous funding over the long term. The debt-to-GDP ratio, along with financing requirements under the 12th Malaysia Plan 2021-2025, has maintained the statutory debt limit at 65 percent of GDP. The government's capacity to generate revenue or incur debt directly influences its ability to support social protection initiatives effectively, highlighting the interplay between government finances and social safety nets. Revenue collection, at about 12 percent of GDP in recent years, was mainly reliant on direct taxes, reflecting a low-income, rather than high-income, country. As a consequence of very low rates of indirect taxation, Malaysia collects much less revenue compared with middle-income countries. The rate, of 20 percent, is among the lowest in the region, considerably below the upper-middle income country (UMIC) average of about 25 percent.

6. There are social protection programs that are not solely financed by the government budget. Outside tax-funded social assistance programs, sources of funding include zakat, in which the Islamic welfare institution collects and distributes cash and in-kind assistance to specific needy categories at state level. Additionally, non-governmental organizations (NGOs) and charities also provide social assistance, albeit with narrower coverage than government programs.

7. That being said, tax-funded social assistance programs already tend to have narrow targets, helping only 4 percent of the older population, and lack sustainable financial and legal frameworks. The absence of a robust legal framework means the programs are not legally binding on the government. Moreover, the current revenue system is insufficient to adequately fund comprehensive social protection. Malaysia's public spending as a percentage of GDP is 20.8 percent, lower than the 21.69 percent average of sub-Saharan Africa. This narrow tax base and low tax-to-GDP ratio constrain the government's ability to allocate resources to critical areas, such as health care, education, and social welfare. To address these shortcomings and ensure the long-term sustainability of social assistance programs, the government should explore alternative funding mechanisms. This could involve establishing a legally binding social protection framework, increasing public revenues through progressive taxation, and leveraging PPPs or innovative financing models to supplement government funding.

8. On the upside, Malaysia's comprehensive disclosure of debt and liabilities since 2019 aligns with international standards and statistical treatment. The government's liability exposure includes federal government debt, committed guarantees, and other financial commitments related to PPP and PFI projects. Measures are being implemented to moderate other liabilities, including reevaluating the PPP approach through PPP 3.0 and enhancing policy frameworks to ensure sufficient allocations so as to repay obligations and commitments (MOF, 2024).[4]

1.2 Key Strategic Documents and Laws

9. The strategic direction for social protection is outlined in key documents and laws that form the backbone of the country's development programs. These documents play a crucial role in shaping policies, programs, and resource allocation to ensure the well-being and inclusion of all Malaysians.

National Strategic Documents

At national level, the five-year Malaysia Plan serves as a main document that defines the goals and objectives of the social protection system, just as it does for other sectors. This plan sets economic growth targets and allocates resources to public-sector development programs. Each Malaysia Plan undergoes a review to assess goal achievement and to establish new targets for subsequent plans.

[4] Section 5 Fiscal Risk and Liability.

12th Malaysia Plan 2021-2025

The 12th Malaysia Plan outlines the government's plan to strengthen the social protection system. It sets out to focus on strategies including strengthening health protection, narrowing income inequality, and empowering the labor market support system. Additionally, themes such as security, well-being, and inclusivity are mentioned as part of the aim to address poverty and lift living standards.

Ekonomi MADANI Framework

Under the current Prime Minister, the Ekonomi MADANI framework was launched in 2023 to restructure the economy and improve Malaysians' quality of life. This framework sets targets for infrastructure upgrades, poverty eradication, and economic prosperity within 10 years. It envisions propelling Malaysia's economic development and promoting wealth distribution and inclusivity.

Social Protection Laws and Policies

Altogether 16 acts and laws are related to social protection, along with several policies addressing social issues such as women's rights, older people, disabilities, and children. These laws are to provide social security benefits for different groups and align with international commitments such as the United Nations conventions on child rights, women's rights, disabilities, and human rights. However, there is no overarching policy on social protection. Gaps in coverage mean vulnerable groups do not have specific legislation or policies addressing their rights or guaranteeing their protection. The laws are not structured to institutionalize individual programs or groups of programs. Instead, they provide the legal framework for specific aspects of social protection, such as the Employees Provident Fund Act (1991), the Employment Act (1955), the Employees' Social Security Act (1969) for the formal sector, and the Persons with Disabilities Act (2008).

Implementation and Resource Allocation

The strategic documents are intricately linked to resource allocation through annual budgets that are tied to the five-year Malaysia Plan's expenditure ceilings. These documents contain information about fiscal resource needs for the implementation of social protection programs. They link the execution of social protection programs to medium-term and annual resource allocation processes, ensuring that annual budgets are tied to the spending ceilings set in the Malaysia Plan. The MOE determines sectoral development expenditure ceilings based on a general development expenditure allocation, ensuring alignment with the Malaysia Plan. Social protection programs are part of the overall development expenditure allocation and are subject to the spending ceilings determined in each five-year Malaysia Plan. Adherence to these spending ceilings is crucial for fiscal discipline, effective resource allocation and the overall success of social protection programs within the Malaysia Plan. The execution of social protection programs, however, relies on budget disbursements and medium-term plans. The ICU is the agency tasked with overseeing policy monitoring at all levels to ensure effective implementation of social protection programs.

1.3 Recent Developments and Trends

10. Recent developments in social protection have shown some progress in poverty reduction and in the enhancement of overall population well-being. Over the years, Malaysia has experienced a remarkable decline in poverty rates, lowering the incidence from 49.3 percent in 1970 to 6.2 percent in 2022. Relative poverty, however, remains a concern as 17 percent of households, equivalent to 1.3 million out of 7.9 million households, experience relative poverty. Particularly alarming is the situation among households headed by older people, where a staggering 42 percent are living in relative poverty.

11. The integration of social protection initiatives into national development plans, such as the 12th Malaysia Plan 2021-2025 and Ekonomi MADANI, underscores the country's commitment to fostering equitable economic growth and achieving sustainable development goals (SDGs). Efforts are aimed at extending coverage to include informal workers, housewives, foreign workers, and domestic workers. The Self-Employed Social Security Scheme (SESS) and the Housewives Social Security Scheme (SKSSR) are among initiatives introduced to provide social security to these groups. Initiatives that aim to increase coverage among women, such as i-Saraan, i-Suri and i-Sayang, fall under the purview of the Employees Provident Fund (EPF). The government also introduced an eKasih systesm in 2022, to strengthen the safety net for low-income families by offering financial support in times of income loss due to unforeseen circumstances. It is crucial to note that cash transfer programs such as the e-Kasih, which is means-tested, exclusively cater to the poor, leaving other vulnerable segments of society, who may not fall under the "poor" category but still face financial risks, without similar support. Moreover, a one-off cash transfer contrasts with a more developmental approach of addressing life-cycle vulnerabilities such as childhood, maternity and old age in addition to disability and orphanhood, raising concerns about the sustainability and inclusivity of the assistance provided. Coverage is narrow and inadequate, encompassing only 9.1 percent of intended beneficiaries versus an average of 55.1 percent for Asia and 12.8 percent for the world.

12. Malaysia's social protection system continues to face significant challenges. Fragmentation, low coverage rates, targeting errors, inefficient resource allocation, and data silos among agencies providing social protection hinder the system's effectiveness. In response to these challenges, the National Utility Database (PADU) and other initiatives have been launched to improve data integration and coordination among social protection providers, and to enhance the efficiency and impact of social protection programs across the country.

2. Fiscal Management of the Social Protection System

2.1 Fiscal Considerations in Introducing a New Program or Modifying Existing Programs

13. The introduction or modification of social protection programs involves a series of processes guided by fiscal considerations to ensure effective resource allocation and sustainability. These processes encompass various channels, institutional frameworks, and stakeholder engagements to foster broad-based support and coherence with national development objectives.

2.1.1. Channels to Start a New Social Protection Program

14. The initiation of social protection programs involves several key channels. Annual budget dialogues serve as pivotal platforms to hold discussions among government officials, corporate leaders, academics, think tanks, and NGOs, guided by the Minister of Finance. These dialogues enable comprehensive deliberations on the introduction of policies relevant to social protection. Input from diverse sources, including ministries and other government agencies, are combined into a comprehensive "Cabinet Paper" that is presented to the Cabinet for deliberation and decision-making. Additionally, stakeholders from the private sector, academia, think tanks, and NGOs contribute valuable insights, ensuring a holistic understanding of the landscape and the identification of potential shortcomings. Proposals on social protection reforms or new programs can be channeled to MySPC, chaired by the Prime Minister. MySPC is another body that should play a critical role in evaluating the need for reforms in the social protection system.

2.1.2. Considerations for Institutionalizing Social Protection Programs

15. The institutionalization of social protection programs requires careful assessment of their effectiveness, sustainability, and alignment with national development goals. This process involves extensive stakeholder engagement to gather broad-based support and incorporate diverse perspectives into policy formulation. To reduce income inequality and strengthen the labor market support system, it is essential to expand coverage to include diverse vulnerable groups such as gig workers and marginalized individuals and to align social protection policies with strategic national plans like the Five-Year Malaysia Plan. Initiatives such as PADU play a pivotal role in improving data management and coordination among social protection providers, facilitating targeted interventions and impact evaluation. At the same time, addressing challenges such as program fragmentation, low coverage, targeting errors, and inefficient resource allocation is important in optimizing the effectiveness and sustainability of social protection efforts. Institutionalization provides a platform for Malaysia to strengthen its social protection system, promote inclusivity, and safeguard the well-being of its population through comprehensive and sustainable social protection programs.

2.1.3. Role of Fiscal Authorities

16. Fiscal authorities, including the finance minister and relevant government departments, play a central role in guiding the fiscal aspects of social protection programs. They oversee the allocation of financial resources, participate in budget dialogues, and conduct assessments of the fiscal implications of proposed policy changes. Their involvement ensures prudent fiscal management, alignment with broader fiscal objectives, and the optimization of resource allocation to maximize societal welfare. Moreover, fiscal authorities collaborate with other stakeholders to address funding gaps, explore innovative financing mechanisms, and enhance the efficiency of resource usage.

2.1.4. Assessment of Medium and Long-term Fiscal Resource Needs

17. The government uses a medium-term fiscal framework (MTFF) to provide macro-fiscal projections over a three-year period, suggesting that fiscal resource needs are assessed in the form of a three-year horizon at least. Additionally, the Malaysia Plan serves as the main document for implementing the government's development programs, including social protection initiatives whose fiscal resource needs are projected for the duration of each five-year plan. The MOE is responsible for assessing fiscal resource needs and developing the macroeconomic framework for the Malaysia Plan. It collaborates with other central agencies, such as the Treasury and the central bank, to examine economic performance, assess the country's prospects and potential, and evaluate the impacts of growth targets on public-sector development spending.

18. Although social protection programs and their associated fiscal resource needs are included in the Malaysia Plan, annual budget allocations are not automatically guaranteed. The annual budget request and review process follow a separate procedure. Each ministry drafts its budget plan and submits it to the MOF annually. The proposed budget of each government body is scrutinized and examined, and adjustments are made to align with the ceilings set in the five-year plan. The MOF then presents the national budget proposal to the Cabinet for approval before tabling it in Parliament. The MOE, the MOF and the

Department of Statistics Malaysia (DOSM) make collective decisions about the assessment of fiscal resource needs and development of the macroeconomic framework. The MOF prepares the operating expenditure for the annual budget. This process ensures that resource constraints are considered, and allocations are made within available financial resources, with sectoral development expenditure ceilings helping manage constraints and maintain fiscal discipline.

2.2 Budgetary Processes for social protection programs

2.2.1. Budget Request and Review Process and Key Players

19. The annual budget request and review process for social protection programs are integral components of the broader budgetary framework. Spearheaded by the MOE and the MOF, this process unfolds through multiple stages. While the MOE takes charge of development expenditure, focusing on development planning, the MOF manages operating expenditure, ensuring operational efficiency. The process begins with the Treasury's issuance of call circulars in January for all ministries and other government agencies to submit new budget proposals for the forthcoming year. These circulars outline expenditure ceilings and maximum percentage increases, aligning proposals with the five-year Malaysia Plan allocations. The National Budget Office (NBO) holds discussions in March with government agencies regarding their budget proposals. In April, the budget examination process begins, involving preliminary and actual budget hearings that are attended by central agencies such as the MOE and the Public Service Department (JPA).

20. Despite the absence of specific procedures for social protection programs, key players, including ministries, other government agencies and central departments, collaborate throughout the process to ensure alignment with broader developmental objectives. The annual budget process covers a wide range of sectors related to social protection. Line ministries and agencies draft individual program projections and submit budget proposals to the MOF. Ultimately, the line ministries and agencies play a crucial role in projecting expenditure for their programs, with the Treasury finalizing the national budget based on these proposals. The Treasury, in collaboration with other central agencies such as the MOE, determines the ceilings for sectoral development expenditure based on a general development expenditure allocation. This process involves ensuring that projects proposed by ministries, departments and other government entities align with the Malaysia Plan and fall within the project ceilings. While line ministries provide input and submit their budget plans annually to the MOF, the Treasury, in coordination with central agencies, plays a significant role in setting these sectoral development expenditure ceilings based on the overall framework and objectives outlined in the Malaysia Plan. The Treasury's role is crucial in overseeing the financial aspects and ensuring that resource allocations are in line with the broader economic and development goals of the country.

21. No specific procedures are in place for the annual budget request and review process for social protection programs. Their annual budget request and review process follows the standard practice for development expenditure and operating expenditure, similar to other projects and programs.

2.2.2. System to Ensure Sufficiency of Appropriated Resources

22. To ensure the adequacy of resources, Malaysia employs various mechanisms. A portion of the annual budget is allocated to a Contingency reserve, serving as a buffer for unforeseen expenditures. In instances where projected resources fall short, supplementary budgets may be approved, subject to parliamentary endorsement. These supplementary expenditures are financed from the Consolidated Fund, as stipulated by the Federal Constitution. The existence of earmarked revenues for specific programs, such as SOCSO and other social insurance programs, ensures dedicated funding sources, strengthening financial sustainability. Each year, the government will allocate a portion of the annual budget to the Contingency reserves. Extra expenditure is funded by the Contingency reserves. A supplemental budget is approved only after the Contingency reserves are largely/fully expended, and only in case of emergency or unforeseen circumstances. However, it must go through the same approval process. Supplementary expenditure is provided for in Article 101 of the Federal Constitution, which states:

- *A supplementary estimate showing the sums required or spent has to be laid before the House of Representatives in the event of amount appropriated by the Supply Act is insufficient or for expenditure in which no amount has been appropriated.*

2.2.3. Implementation Monitoring System

23. Implementation of social protection programs is rigorously monitored to ensure effective usage of resources and attainment of program objectives. Internal and external audits, conducted by the Internal Audit Unit (IAU) and the Auditor General's office respectively, serve as checks on financial compliance and accountability. Additionally, the ICU uses a project monitoring system (SPP II) to oversee project execution and to assess outcomes. Through these monitoring mechanisms, the government maintains oversight of program implementation, fostering transparency and accountability in resource management.

24. A system is in place to monitor disbursements to program beneficiaries. The IAU within each ministry oversees the financial operations and ensures that policies, laws, and regulations are followed. It conducts internal and external audits to review and evaluate the government agency's operations in terms of adequacy, efficiency, effectiveness and economy. The IAU also makes recommendations for improvement and submits independent reports to the government agency's head to assess the usage of public funds and the efficiency of resource allocation. This monitoring mechanism helps ensure that benefit disbursements are managed properly and that resources are allocated efficiently within the social protection programs.

2.2.4. Performance Assessment

25. The importance of fiscal resource management is underscored in the performance assessment of social protection programs. Through an outcome-based budgeting (OBB) approach, accountability for achieving outcomes is established across various levels of a ministry. The Ministry Results Framework (MRF) aligns programs with national development goals, ensuring strategic planning coherence.

26. Performance results, transparently presented in annual budget documents, serve as benchmarks for future resource allocations, guiding decision-making processes and enhancing program effectiveness; however, budget disbursement faces challenges in preventing cost overruns, with limited mechanisms to control spending within allocated amounts. The role of internal and external audits is crucial, yet the effectiveness of these failed measures in curbing financial mismanagement must be investigated. The shift toward OBB is a positive step, but implementation complexities and the need for comprehensive stakeholder engagement raise concerns about the system's adaptability and responsiveness to changing social needs.

27. In conclusion, while Malaysia has made improvements in enhancing its social protection programs, a critical evaluation reveals gaps in inclusivity, transparency, and long-term sustainability. Addressing these issues requires a more robust framework for performance assessment, budget allocation, and fiscal management to ensure the effective delivery of social services and equitable economic development.

2.3 Medium and long-term considerations

2.3.1. System to Regularly (Re)Assess Medium-term Resource Needs

28. In Malaysia, the government has established a robust mechanism to regularly assess the medium-term resource needs of social protection programs. This mechanism primarily revolves around the MTFF, a comprehensive tool that provides macro-fiscal projections spanning a three-year period. Through the MTFF, the government delineates targets for both revenue generation and expenditure allocation, using it as a pivotal guide for shaping the nation's medium-term fiscal trajectory.

29. The MTFF encompasses a multifaceted approach, incorporating projections of medium-term revenue, expenditure, and crucial macroeconomic indicators. These projections are meticulously analyzed to identify fiscal space or constraints, allowing for nuanced adjustments in resource allocation across ministries and sectors. Furthermore, the Medium-term Revenue Strategy, which operates in tandem with the MTFF, underscores the government's commitment to enhancing revenue mobilization and expanding the tax base to meet the burgeoning expenditure demands stemming from socioeconomic objectives.

30. Amid the annual budget cycles and midterm reviews, the MTFF serves as a cornerstone for policy formulation and adaptation. It provides a dynamic platform for evaluating fiscal performance, identifying emerging challenges, and recalibrating strategic priorities if necessary. When exigencies arise, swift policy responses are orchestrated, with proposals being deliberated by key decision-making bodies, such as the National Development Planning Committee (NDPC) and the Cabinet.

31. The annual budget process involves line ministries and agencies drafting individual program projections and submitting budget proposals to the MOF. This process starts in January with the Treasury's issuance of call circulars to identify new projects and request budget submissions for the following year. Ministries are guided to be prudent in their submissions and to align with the five-year Malaysia Plan allocations. In March, the Treasury's NBO conducts budget discussions with government agencies, scrutinizing and adjusting proposed budgets to meet fixed ceilings. Ultimately, the line ministries and agencies play a crucial role in projecting expenditure for their programs, with the Treasury finalizing the national budget based on these proposals.

2.3.2. System to Regularly (Re)Assess Long-term Resource Needs and Ensure System Sustainability

32. The sustainability and long-term resource needs of the social protection system are subject to meticulous scrutiny, facilitated through a multifaceted framework integrated into the broader national development planning apparatus. As the nation charts its developmental path, the Malaysia Plan, spanning five years, serves as a set of guiding parameters, intricately balancing out sustainable economic growth, equitable wealth distribution, and environmental stewardship in its policy framework.

33. Embedded within the Malaysia Plan are periodic midterm reviews, scheduled upfront at the beginning of the plan's period and conducted at the plan's midpoint. These reviews constitute a critical juncture for self-analysis, enabling stakeholders to evaluate implementation progress, recalibrate sectoral strategies, and align developmental trajectories with macroeconomic imperatives. Consequently, strategic adjustments are made to ensure harmonious integration with the targets set earlier and the developmental timelines.

34. All of these are responsibilities that MySPC is supposed to fulfill, but unfortunately, it falls short of fully executing them. Alongside cyclical reviews of the Malaysia Plan, MySPC is expected to play a pivotal role in reinforcing long-term sustainability of the social protection system. It is tasked with empowering service delivery, optimizing resource management, determining programmatic imperatives, streamlining implementation modalities, and diversifying funding sources within the social protection domain. The council is meant to foster innovation and efficiency in the social protection landscape to significantly contribute to the enduring sustainability of the nation's welfare infrastructure. Despite these expectations, MySPC is not meeting the desired level of performance in fulfilling these crucial functions, thereby hindering Malaysia's strong commitment to continuously evaluate and enhance its social protection framework to be in line with international benchmarks and sustainable development paradigms.

35. Responsibility for assessing the financial sustainability of the social protection system lies with the MOF's Fiscal and Economics Division; however, this mandate is implicit rather than clearly defined. The division is tasked with updating the MTFF to align future budget allocations with estimated expenditures, ensuring the long-term financial viability of the social protection system. However, the lack of a specific mandate for MySPC to address financial sustainability issues may lead to fragmentation and suboptimal coordination in managing financial aspects of the social protection system. MySPC's role is to look at the overall sustainable social protection system of Malaysia. Currently, coordination on financial sustainability matters falls to the line ministries and the MOF. Expanding MySPC's mandate to include financial sustainability assessments and reporting could strengthen coordination and alignment of the social protection system's financial aspects across different government agencies.

36. All social insurance programs are contributory. These programs, such as those under the SOCSO and the EIS, are funded through contributions from employees and employers. The government plays a supervisory role at the policy level and has limited involvement as a co-contributor, maintaining a balance between employer and employee interests within these schemes

3. COVID-19 Pandemic and Reform Priorities

3.1. COVID-19 Pandemic and Role of Social Protection System

37. The onset of the pandemic presented unprecedented challenges to Malaysia's social protection system, revealing its inherent limitations in adequately addressing the multifaceted socioeconomic repercussions of the crisis. The existing framework, though robust, was not fully equipped to contend with the scale and urgency of the pandemic-induced adversities, necessitating swift and decisive interventions to mitigate distress and safeguard livelihoods.

38. In response, the government orchestrated a comprehensive array of temporary measures and reforms to bolster the resilience of the social protection architecture and provide immediate relief to vulnerable segments of society. Central to these efforts was the enactment of the Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020, which facilitated the establishment of the COVID-19 Fund, a dedicated trust fund expressly designed to channel fiscal injections into critical stimulus initiatives and economic recovery endeavors. The COVID-19 Fund consisted of a substantial allocation of MYR45 billion spanning three years. It became a vital conduit for expeditiously implementing a slew of targeted interventions under various stimulus packages. These initiatives, meticulously monitored by the Economic Stimulus Implementation and Coordination Unit Between National Agencies (LAKSANA), encompassed diverse programs such as wage subsidies, cash assistance, small infrastructure projects, and food security.

39. Moreover, the government's strategic response to the pandemic extended beyond immediate relief measures to encompass comprehensive stimulus packages aimed at revitalizing the economy and strengthening social resilience. Noteworthy among these undertakings were the Economic Stimulus Package (PRE), Prihatin Rakyat Economic Stimulus Package (PRIHATIN), Additional Prihatin SME Economic Stimulus Package (PRIHATIN SME+), and National Economic Recovery Plan (PENJANA), which collectively amounted to MYR45 billion in fiscal injections. These stimulus packages, while bolstering economic recovery efforts, also served to augment and adapt the existing social protection framework to better address the emergent needs of the populace. Key initiatives, including wage subsidies, cash assistance, and targeted grants for microenterprises and self-employed individuals, underscored the government's commitment to shoring up societal resilience and mitigating the adverse impacts of the pandemic on vulnerable segments of the population.

3.2. Reform Priorities for Sustainable Development of Social Protection System

40. The exigencies caused by the pandemic have highlighted the imperative for reforms within the social protection system to ensure its long-term sustainability and efficacy. As the nation navigates the post-pandemic landscape, several reform priorities have emerged as critical imperatives for fostering a resilient and inclusive social protection architecture conducive to sustainable development.

41. Foremost among these priorities is the imperative to strengthen the institutional capacity and regulatory framework governing social protection initiatives, thereby enhancing responsiveness, efficiency, and transparency in program delivery. Strengthening coordination mechanisms among stakeholders, streamlining administrative processes, and strengthening monitoring and evaluation frameworks will be vital in optimizing resource allocation and maximizing the impacts of social protection interventions.

42. Furthermore, there is a pressing need to augment the coverage and adequacy of social protection schemes to encompass marginalized and vulnerable segments of society comprehensively. Embracing a holistic approach that integrates income support mechanisms, employment facilitation programs, health care provisions, and social assistance initiatives will be instrumental in fostering social cohesion and resilience, particularly in preparing for future crises.

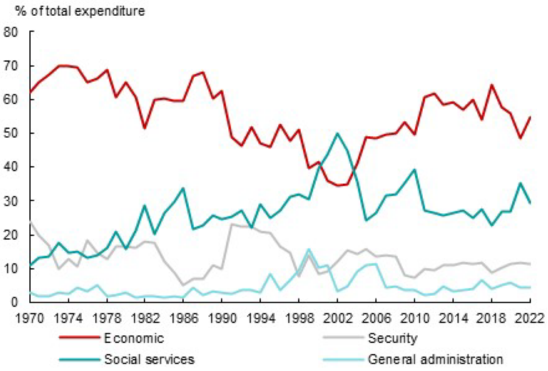
43. Moreover, efforts to enhance financial sustainability of the social protection system must be prioritized, necessitating prudent fiscal management, resource mobilization, and diversification of funding sources. Exploring innovative financing mechanisms, leveraging PPPs, and promoting inclusive growth strategies will be pivotal in ensuring the long-term viability and efficacy of social protection initiatives.

44. Additionally, a compelling need has arisen to support social protection mechanisms to address emerging challenges such as digitalization, climate change, and demographic shifts. Investing in technological infrastructure, enhancing digital literacy, and mainstreaming climate resilience considerations into social protection policies will be imperative to future-proof the system and safeguard against evolving threats to societal well-being.

45. Ultimately, the reform agenda for Malaysia's social protection system must be underpinned by a commitment to equity, social justice, and sustainable development, ensuring that no individual or community is left behind in the pursuit of inclusive prosperity and human dignity. By adopting a universally proven life-cycle approach, Malaysia can strengthen its social protection system to withstand future shocks and propel the nation toward a more resilient and equitable future.

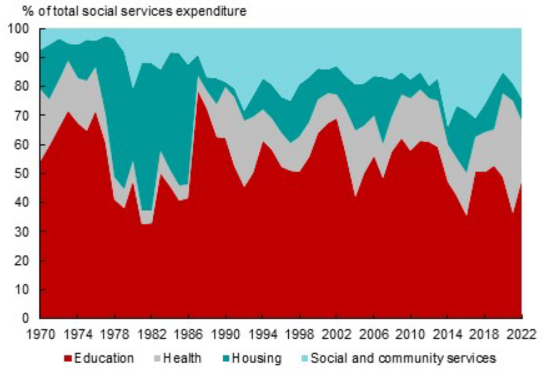
Appendix VII.1. Selected Figures

Figure 1. Developmental Expenditure



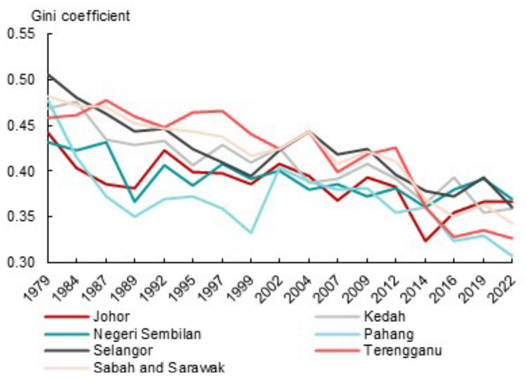
Source: Bank Negara Malaysia

Figure 2. Allocation for Social Services by Group



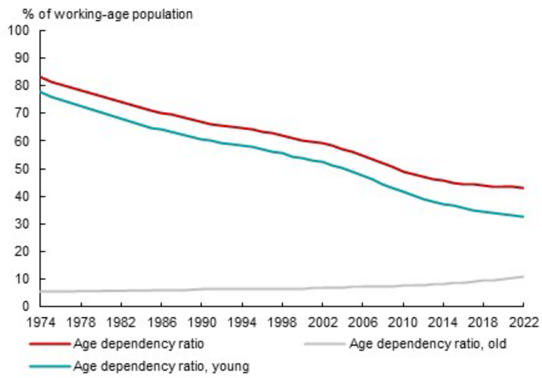
Source: Bank Negara Malaysia

Figure 3. Gini Coefficient in Selected States



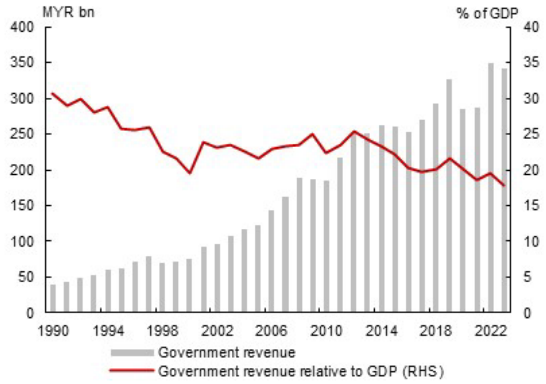
Source: Department of Statistics Malaysia

Figure 4. Age Dependency Ratio



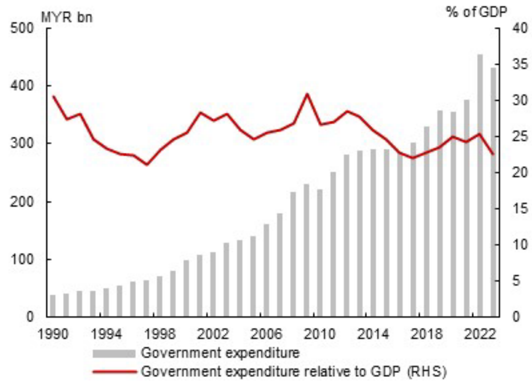
Source: World Development Indicators

Figure 5. General Government Revenue



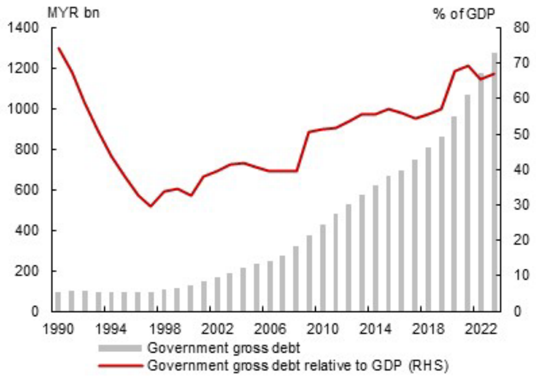
Source: International Monetary Fund

Figure 6. General Government Expenditure



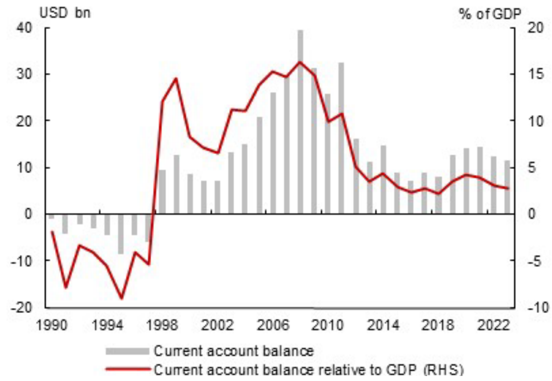
Source: International Monetary Fund

Figure 7. General Government Gross Debt



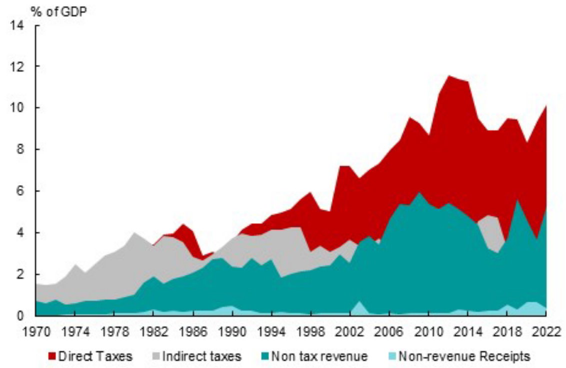
Source: International Monetary Fund

Figure 8. Current Account Balance



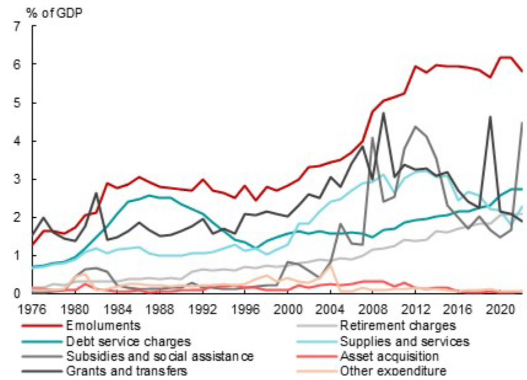
Source: International Monetary Fund

Figure 9. Government Revenue relative to GDP by Components



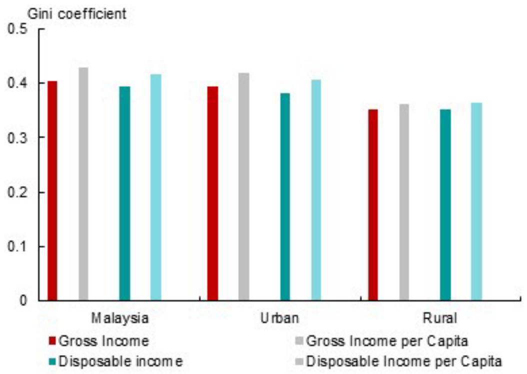
Source: Bank Negara Malaysia

Figure 10. Government Expenditure relative to GDP by Components



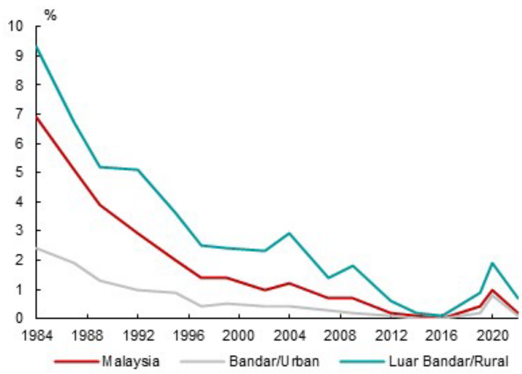
Source: Bank Negara Malaysia

Figure 11. Gini Coefficient by Strata and Type of Income



Source: Department of Statistics Malaysia

Figure 12. Malaysia Incidence of Hardcore Poverty by Strata



Source: Department of Statistics Malaysia

Appendix VII.2. Selected Tables

Table 1. Key Documents and Laws

Key Documents and Laws	Description
Five-Year Malaysia Plan	Defines social protection system goals and economic growth targets at national level.
12th Malaysia Plan 2021-2025	Outlines strategies to strengthen social protection, focusing on health protection, income inequality, and labor market support.
Ekonomi MADANI Framework	Long-term plan focusing on economic restructuring and improving Malaysians' quality of life.
Malaysian Social Protection Council (MySPC) Handbook	Reference guide for implementing social protection policies.
Acts/Laws	Employees' Social Security Act, Employees Provident Fund Act, Persons with Disabilities Act, Child Act, Pensions Act, Employment Insurance System Act, and others.
Policies	National Social Policy, National Policy on Women, National Policy for Older Persons, National Policy for Persons with Disabilities.
International Commitments	UN Convention on the Rights of the Child (CRC), UN Convention on the Elimination of Discrimination Against Women (CEDAW), UN Convention on the Rights of Persons with Disabilities, Universal Declaration of Human Rights.

Source: Author's compilation

Table 2. Selected Economic/Fiscal Indicators

Category		Units
GDP		
Private Consumption	281,425	Mil. MYR, NSA
Real Private Consumption	241,464	Mil. 2015 MYR, NSA
Government Consumption	69,164	Mil. MYR, NSA
Nominal Gross Domestic Product	476,404	Mil. MYR, NSA
Nominal Fixed Investment	88,778	Mil. MYR, NSA
Real Fixed Investment	79,672	Mil. 2015 MYR, NSA
Real Government Consumption	65,121	Mil. 2015 MYR, NSA
Real Gross Domestic Product	409,977	Mil. 2015 MYR, NSA
Real Investment	298,783,000,000	NCU
Investment	344,369,000,000	NCU
Price		
Consumer Price Index (CPI)	132.1	2010=100, NSA
Producer Price Index (PPI)	104.69	2010=100, NSA
Labor		
Wage & Salaries	8,350	Mil. MYR, NSA
Labor Force Employment	16,483	000 #, NSA
Unemployment	567.3	000 #, NSA
Unemployment Rate	3.3	%, NSA
Labor Force	17,050	000 #, NSA
Agriculture Employment	1,700,710	#
Demographics		
Population	33,379	000 #
Birth Rate	13.5	# per 000 pop

Source: economy.com

Note: NCU= National Currency Unit, NSA= Not seasonally adjusted, 000 = thousands, # per 000 pop = Number per Thousand Population, Mil= Million. The reference dates span from 2016 to February 2024, encompassing 4th quarter of 2023, January 2024, and various specific dates including March 27, 2024, and February 2018, with an outlier in 2021 and 2017.

Table 3. Selected Indicators for Social Protection

Indicators	Description
Gini Coefficient	2022 = 0.404
Theil Index	2022 = 0.282
Atkinson index	2022 A(0.5) = 0.126 A(1) = 0.23 A(2) = 0.395
Malaysian Wellbeing Index (2000 = 100)	Social Wellbeing (2021) = 114.7

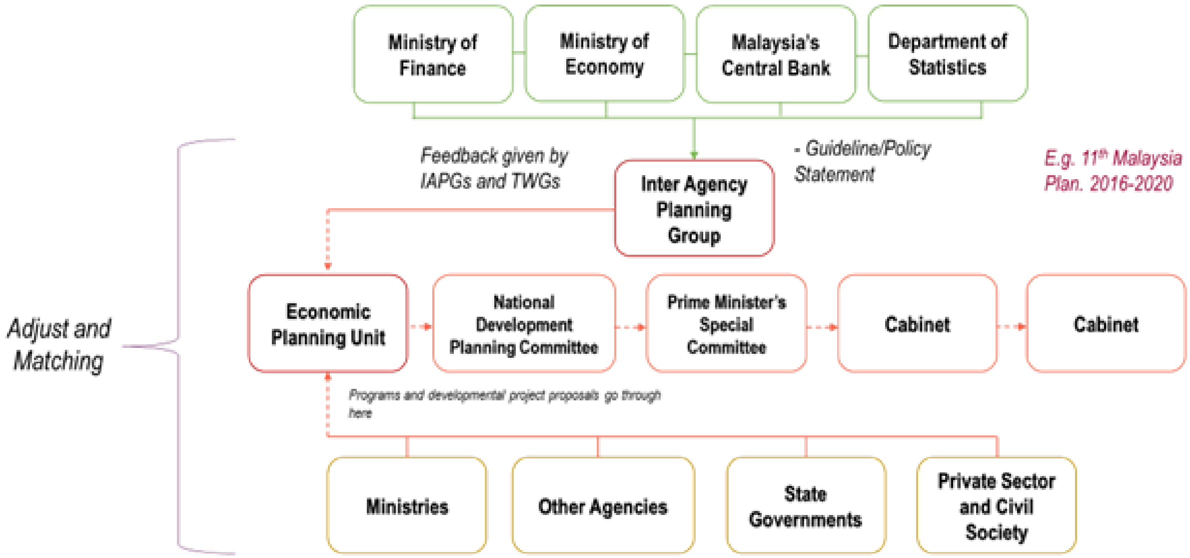
Source: Department of Statistics Malaysia; Ministry of Economy

Table 4. ADB Social Protection Indicator (SPI) (%), 2018

Indicator	Overall	Social Insurance	Social Assistance
SPI	3.7	3.6	0.1
Depth	43.5	58.7	2.9
Breadth	8.5	6.2	2.3
SPI poor	0.36	0.3	0.06
SPI nonpoor	3.33	3.31	0.01
SPI women	1.7	1.7	0.0
SPI men	2.0	1.9	0.1
SPI persons with disabilities	0.8	0.7	0.04
SPI persons without disabilities	2.9	2.9	0.03

Source: Asian Development Bank

Appendix VII.3. Institutional Arrangements



Source: Ministry of Economy

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VIII. Philippines[1][2]

The Philippine government sees the important role of social protection in reducing poverty, inequality and vulnerability in the country. Aside from implementing programs, it has institutionalized social protection by adopting an official definition, operational framework, and coordinating mechanisms. However, its social protection system remains fragmented, and gaps such as possible overlaps of national and local social protection programs, the low coverage of social insurance programs, and operational weaknesses lead to inefficiencies and prevent the rapid provision of assistance, especially during covariate shocks. As highlighted in the country's planning documents, such concerns will be addressed by increasing its investment in the sector, rationalizing and modernizing the social protection system, and ensuring its shock-responsiveness. To ensure fiscal sustainability, these strategies will be pursued amid continued implementation of fiscal and public financial management reforms.

1. Overview of the Social Protection System

1.1. Basic Structure and Main Features of the Social Protection System

1. The Philippine government explicitly relays its intent to promote the well-being of Filipinos through its social protection system. In 2007, the country defined social protection as a set of "policies and programs that seek to reduce poverty, inequality and vulnerability to risks and enhance the social status and rights of the marginalized by promoting and protecting livelihood and employment, protecting against hazards and sudden loss of income, and improving people's capacity to manage risks," according to the National Economic and Development Authority's Social Development Committee (NEDA-SDC, 2007). The country also adopted a Social Protection Operational Framework in 2012 and enhanced it in 2019 to harmonize the various social protection components and clarify the government's role in helping Filipinos manage shocks and improving quality of life (Appendix VIII.3; NEDA-SDC, 2012; NEDA-SDC, 2019). These components include: (a) labor market interventions that enhance employment opportunities and protect the rights and welfare of workers; (b) social insurance, consisting of programs that seek to mitigate income risks by pooling resources and spread risks across time and classes; (c) social assistance programs, which are preventive and developmental interventions that address basic needs and socioeconomic

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[2] The author is thankful of the contributions gathered through interviews with government officials: Rhodora G. Alday, Director, Department of Social Welfare and Development-Policy Development and Planning Bureau, Secretariat, Social Development Committee-Subcommittee on Social Protection (SDC-SCSP) with Ms. Pamela Marie Pascua, Ms. Sylvia Alegre, and Rizza Jane Francisco-Azucena; Mary Joy O. De Leon, Acting Director IV, Department of Budget and Management-Fiscal Planning and Reforms Bureau, with Ms. Gillian Servida and Mr. Jason Trabuco.

risks;[3] and (d) social safety nets, which are stop-gap mechanisms that address effects of economic shocks, disasters, and calamities on specific vulnerable groups.

2. Both national and local government units (LGUs) carry out social protection programs according to mechanisms that coordinate their implementation. In 2009, the SDC Subcommittee on Social Protection (SDC-SCSP) was established to develop and ensure the implementation of the five-year Social Protection Plan, advise the NEDA-SDC[4] on social protection matters and recommend policies and strategies, and coordinate the preparation of regular assessments and accomplishment reports for the President and the Cabinet (NEDA-SDC, 2009). The subcommittee is chaired by the Department of Social Welfare and Development (DSWD), with members coming from implementing and oversight agencies, government-owned and controlled corporations, representatives from leagues of LGUs, and two non-governmental organizations (NGOs; see Appendix VIII.4 for the list of SDC-SCSP member organizations). At regional level, social protection initiatives are discussed in the Regional Social Development Committee (RSDC),[5] which is composed of representatives from the regional offices of government agencies, provincial governments, and the private sector. The NEDA holds an SDC National-Regional Meeting every semester to discuss social development concerns, including social protection. This is a great platform to surface policy and program implementation issues, as well as development challenges in local communities.

3. The SDC-SCSP incorporates fiscal considerations in the discussion of social protection policies and programs. Among members of this subcommittee are the NEDA and the Department of Budget and Management (DBM), who also sit on the Development Budget Coordination Committee (DBCC), which develops the country's fiscal policy and program. Such a setup allows fiscal considerations to be incorporated in the discussion of social protection policies and programs, and facilitates the integration of such measures in medium-term and annual budget documents.

4. However, the practice of adopting policies per area of concern or sector leads to fragmentation within the social protection system (Alday, 2023; World Bank, 2018). This practice may cause inefficiencies, such as program overlaps in the form of multiple and

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[3] Specifically, social assistance seeks to support the minimum basic requirements of the poor, and reduce risks associated with unemployment, resettlement, marginalization, illness, disability, old age and loss of family care.

[4] The NEDA-SDC is a multisectoral body that: (a) Advises the President and the NEDA Board on matters concerning social development, including education, manpower, health and nutrition, population and family planning, housing, human settlements, and the delivery of other social services; (b) Coordinates the activities of government agencies concerned with social development; and (c) Recommends appropriate policies, programs and projects consistent with the national development objectives. Directly lifted from https://neda.gov.ph/neda-board/

[5] RSDCs are under the Regional Development Council (RDC), the counterpart of the NEDA Board at subnational level. NEDA regional offices serve as the technical and administrative secretariat of the RDC (NEDA, n.d.).

disjointed social assistance and livelihood programs, and fragmented databases and targeting mechanisms. These concerns are discussed below.

5. The national government implements a wide array of preventive, protective, promotive, and transformative social protection programs, many of which are stipulated by law. These programs include: (a) social insurance: Philippine Health Insurance Corporation (PhilHealth), Social Security System (SSS), Government Service Insurance System (GSIS), Employees' Compensation Program; (b) labor market intervention: Sustainable Livelihood Program, Department of Labor and Employment (DOLE) Integrated Livelihood Program; (c) social assistance: Pantawid Pamilyang Pilipino Program (4Ps), Social Pension Program, Feeding Programs; and (d) social safety nets: Assistance to Individuals in Crisis Situation (AICS), Cash-for-Work, DOLE Tulong Panghanapbuhay sa Ating Disadvantaged Workers (TUPAD). Coverage of the GSIS and SSS is mandatory for government and private-sector workers, respectively (Table 1).

6. LGUs implement their own social protection programs, but no aggregate information has been compiled on their initiatives. Republic Act 7160, also known as the Local Government Code, mandates LGUs to implement social welfare services,[6] which may include social protection. Many if not all LGUs have their own version of initiatives, such as feeding programs, cash transfers, and other social assistance programs. Data from the Bureau of Local Government Finance shows that LGU spending on social services and social welfare was PHP35.11 billion in 2019 and PHP55.91 billion in 2020. As a percentage of total LGU expenditures, the share of social welfare services was on an upward trend from 3.82 percent in 2009 to 6.19 percent in 2019 and 8.44 percent in 2020 (Figure 1). Between 2015 and 2019, social welfare services averaged 5.88 percent of total LGU expenditures. However, the availability, responsiveness and sufficiency of LGUs' social protection programs are yet to be fully determined. Unfortunately, this may lead to duplication of services between national and local government units, and inefficient spending, at least due to redundant administrative costs.

7. Coordinating social protection programs with LGUs is critical since they receive 40 percent of the national internal revenue taxes and the country has limited fiscal space. It is important that resources are efficiently used since the national government has been operating with budget deficits and the country's debts are already at the internationally

[6] The second edition of the Local Treasury Operations Manual (DOF-BLGF, 2020) describes social welfare services thus: (a) in barangays, "social welfare services include maintenance of day-care center" (p. 90); (b) municipalities "include programs and projects on child and youth welfare, welfare of the elderly and disabled persons, community-based rehabilitation programs for vagrants, beggars, street children, scavengers, juvenile delinquents, and victims of drug abuse, livelihood and other pro-poor projects, nutrition services, and family planning services (p. 91); and (c) provinces "include programs and projects on rebel returnees and evacuees, relief operations, and population development services" (p. 92).

recommended ceiling of 60 percent of GDP (Table 2; Figure 2; Cordero, 2023). However, aside from having limited informations' social protection programs, the Senate Economic Planning Office (SEPO, 2022) noted that, in 2019, LGUs did not completely spend their collected revenues, with provinces, cities and municipalities registering an average budget surplus of 26 percent, 22 percent, and 17 percent, respectively. In the same year, the national average utilization rate of the Local Development Fund[7] (LDF) was 73.84 percent, with only 21.30 percent of LGUs registering a 100 percent utilization rate, and 25.90 percent of LGUs, excluding barangays,[8] spending less than half of their allotment from the fund. Reasons for the poor budget spending included LGUs' "(a) limited implementation capacity, (b) inadequate planning and program prioritization, (c) weak competencies in public financial management, (d) lack of human resources, and (e) process bottlenecks such as in procurement" (SEPO, 2022, p. 3).[9] These issues must be addressed because, in FY2022, LGUs started receiving a bigger share of national taxes due to the Supreme Court's ruling on the Mandanas-Garcia case.[10] To illustrate, SEPO (2022) said that LGUs' National Tax Allotment (NTA)[11] increased by PHP185.24 billion in 2022 – wherein they were allocated PHP959.04 billion, or 19.09 percent of the national budget, up from the budget estimate of PHP773.80 billion (15.40 percent of the national budget) before the ruling was passed. SEPO also noted that allocation for NTA increased by 37.89 percent between 2021 and 2022 (Figure 3).

8. National government agencies are building the capacities of LGUs to ensure their delivery of social protection initiatives. As LGUs have autonomy over their fiscal resources,[12] the national government provides them with guidance and technical know-how on the implementation of critical development strategies. In this regard, the DSWD is working on mainstreaming and institutionalizing social protection in LGUs by helping incorporate these measures in LGU Comprehensive Development Plans and building the capacities of local stakeholders (DSWD, 2020). Specifically, the DSWD ensures the functionality of Local Social Welfare and Development Offices by conducting Service Delivery Capacity Assessments

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[7] Section 287 of the Local Government Code mandates at least 20 percent of the LGUs' NTA to fund development projects they have listed in local development plans and annual investment programs (SEPO, 2022).

[8] 'Barangay' is the smallest political unit in the country.

[9] SEPO (2022) also noted that "with regard to investment programming, LGUs tend to prioritize the implementation of programs funded by the National Government than their own local development programs" (p. 3).

[10] The Supreme Court held with finality on April 10, 2019 (General Registry 199802 and 208488) that "all collections of national taxes, except those accruing to special purpose funds and special allotments for the utilization and development of the national wealth, should be included in the computation of the base of the just share of LGUs" (SEPO, 2022, p. 1). Previously, certain taxes collected by the Bureau of Customs were excluded from the computation of the Internal Revenue Allotment, now called National Tax Allotment (SEPO, 2022).

[11] Formerly called Internal Revenue Allotment.

[12] Aside from the NTA, the Local Government Code also mandates LGUs to first use the NTA to fund and implement the social services and facilities listed under Section 17 of the law.

(SDCAs) on LGUs and providing needed technical assistance (DSWD, 2018). For its part, the DBM is implementing the Public Financial Management Competency Program to promote good governance, financial accountability, and effective resource management among local government institutions.

9. While the country has several population registries, there are concerns on their utility in providing accurate information and in identifying affected individuals during covariate shocks. Current registries include the National Household Targeting System for Poverty Reduction (NHTS-PR, also called *Listahanan*), which identifies the poor through household enumeration and the application of a proxy means test; the Community-Based Monitoring System (CBMS), a census of households within LGUs that collects socioeconomic data in accordance with Republic Act 11315; the Registry System for Basic Sectors in Agriculture, a database of farmers, farmworkers, and fisherfolk (Republic Act 11901; Reyes and Gloria, 2017); and the Philippine Registry for Persons with Disability. Further, specific social protection programs and LGUs may also have their own registries. However, while the Listahanan was updated in 2022, many of these databases have long remained outdated, which may lead to exclusion and inclusion errors (see Cho and Johnson, 2022). Further, the registries are not comprehensive; for example, Listahanan may have very limited information on the nonpoor, or not all LGUs collect or regularly collect CBMS data. Therefore, the government has to resort to manual beneficiary registration during covariate shocks,[13] as happened in the pandemic. The lack of interoperability among the registries and the unavailability of a comprehensive and digital identification system may also prolong the eligibility verification process and lead to delays and non-observation of deduplication processes (see Cho and Johnson, 2022; Development Pathways, 2020). All these issues increase inefficiencies in social protection spending as they result in leakages and added administrative costs.

1.2. Key Strategic Documents

10. Medium-term implementation and development of the country's social protection system is guided by Philippine Development Plan (PDP) 2023-2028, and Philippine Social Protection Plan (PSPP) 2023-2028. Both documents were produced through multi-stakeholder consultations with government agencies, NGOs, the private sector, the academe and development partners. PDP 2023-2028 serves as the country's blueprint for development

[13] Walcott et al. (2021) noted that "covariate shocks are shocks that occur at the macro-level (e.g. natural disasters, disease outbreaks, conflict, and economic crisis) and may affect many households simultaneously" (p. 4).[14] AmBisyon Natin 2040 is the country's long-term vision formulated through public consultations, national household surveys, and technical studies (NEDA, 2022).

planning and integrates the President's Socioeconomic Agenda, the Sustainable Development Goals, and AmBisyon Natin 2040.[14] In the medium term, its goal is to achieve "economic and social transformation for a prosperous, inclusive, and resilient society" (NEDA, 2023a, p. 17). This national agenda necessitates the strengthening of the social protection system, which is the focus of PDP chapter 3.2. The chapter enumerates the sector objectives and targets, major strategies, and legislative agenda to reduce the vulnerability of Filipinos and enhance their capacity to manage shocks – specifically those stemming from individual and life-cycle risks, economic shocks, natural, health, climate and human-induced hazards, and governance and political risks (NEDA, 2023a). The PDP is accompanied by the Public Investment Program (PIP), which lists the programs, projects and activities that will help achieve the PDP targets; and the PDP Results Matrix, which lists the development targets and indicators of the PDP chapters.

11. On the other hand, PSPP 2023-2028 provides more detailed information on how the country will strengthen its social protection system. PSPP 2023-2028 has three strategic foci, which are consistent with the PDP and determined through consultations with stakeholders. First, it calls for the implementation of Social Protection Floor Recommendations as approved by the NEDA Board. This is a menu of programs that will help provide universal health care, and basic income security for children, people in active age (especially those who are unable to earn sufficient income due to sickness, unemployment, maternity or disability), and older persons of at least 60 years of age, also known as senior citizens. Second, the plan highlights the need for an adaptive and shock-responsive social protection system. This will enable the country to quickly expand the coverage and benefits of certain social protection programs to rapidly provide aid and help affected families and communities manage covariate shocks. Third, it advocates for the modernization, rationalization and digitalization of the social protection system. This means implementing support mechanisms such as dynamic social registries, a unified beneficiary list, and a digital payment platform to ensure efficient delivery of social protection services. Both the PDP and PSPP call for a universal and better coordinated social protection system through the adoption of an integrated legal framework.

1.3. Recent Developments and Trends

12. While the country has made strides in advancing its social poverty system and reducing poverty and vulnerability, gaps remain. Many individuals and families are still prone

[14] AmBisyon Natin 2040 is the country's long-term vision formulated through public consultations, national household surveys, and technical studies (NEDA, 2022).

to socioeconomic shocks, as highlighted by the COVID-19 crisis. The poverty rate[15] among families dropped from 18 percent in 2015 to 12.1 percent in 2018 but rose to 13.2 percent in 2021 (Figure 4). All basic sectors[16] monitored by the Philippine Statistics Authority (PSA) experienced an increase in poverty rates between 2018 and 2021 except for farmers (Figure 5). Still, fisherfolks, farmers, children, and rural residents registered the highest poverty incidence in 2021 (Figure 5; PSA, 2023). Such an increase in poverty may lead to detrimental behaviors and coping mechanisms, such as engaging in child labor to augment family income. The number of children engaged in child labor fell from more than a million in 2017 to around 597,000 in 2020 (NEDA, 2022),[17] but then increased to 935,000 in 2021 (PSA, 2023). Fortunately, the statistic is again on the decline, registering around 828,090 in 2022 (Figure 6; PSA, 2023; NEDA, 2024). Furthermore, many raised concerns on violence against women and children (VAWC) during the pandemic, given the mounting psychological pressure due to hunger and poverty, “the proximity of the abuser to the victim, and the disruption of preventive services and support systems” (NEDA, 2021, p. 206). Valdez et al. (2022) noted that mobility restrictions **hindered** people’s ability to seek help. While reported cases of VAW dropped by 27.2 percent between 2019 and 2020 (Gomez and Robredillo as cited in Valdez et al., 2022), internet queries related to VAW increased by 63 percent from October 2019 to September 2020 (UNFPA, UN Women and Quilt.AI, 2021; Valdez et al., 2022).

13. Social protection programs can address risks faced by Filipinos, but not everyone has ready access to these initiatives (NEDA, 2023). Citing data from the merged Labor Force Survey-Annual Poverty Indicators Survey, PDP 2023-2028 (NEDA, 2023) notes that the bottom 40 percent of households had lower social protection coverage than the general population in 2017, 2019 and 2020, excluding the provision of the Social Amelioration Program (SAP; Table 3). The coverage of the bottom poor overtook all households only when the SAP was implemented in 2020 to address the impacts of the pandemic. The consistently lower social protection coverage of the bottom poor stems from their lack of access to social insurance programs (Figure 7; see also Aldaba and Geronimo, 2024). Due to awareness and affordability concerns, only 37 percent of the economically active population contributed to SSS in 2021,

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[15] The poor “refers to individuals and families whose income fall below the poverty threshold as defined by the NEDA and/or cannot afford in a sustained manner to provide their minimum basic need of food, health, education, housing and other essential amenities of life” (Republic Act 8425).

[16] Republic Act 11291 defines “basic sectors” as disadvantaged sectors of Philippine society, including farmer-peasants, fisherfolk, workers in the formal sector including migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, persons with disability, senior citizens, victims of calamities or natural and human-induced disasters, youth and students, children, urban poor and members of cooperatives. The PSA generates poverty data on fisherfolks, farmers, children, rural residents, self-employed and unpaid family workers, women, persons aged 15 years and above with disability, youth, urban residents, senior citizens, and migrant and formal workers.

[17] NEDA notes, however, that the 2017 and 2019 data was based on 2010 population projections, while the 2020 and 2021 data was based on 2015 population projections. Given this difference, 2017 and 2019 data may need to be adjusted.

while about 86.8 percent of Filipino families had social insurance coverage in 2022. Note that the latter included PhilHealth, which should be universally accessible.

14. Social assistance to poor and vulnerable groups must also improve. In 2019, only 64.52 percent of qualified households benefited from the 4Ps, while in 2021, just 60.27 percent of senior citizens – those 60 years old and above – received a pension (NEDA, 2023). And as earlier mentioned, child labor continues to persist.

15. To address such outcomes, continuous enhancement of the social protection system is being pursued, including technology-driven solutions. The DSWD introduced electronic platforms in its delivery system and converted the cash cards of 4Ps beneficiaries to transactional accounts, measures that aligned with the Digital Payments Transformation Roadmap of Bangko Sentral ng Pilipinas (BSP). This allows the beneficiaries to receive cash transfers, deposit savings, and access other services in the country's move toward financial inclusion. Further, beneficiary registration is undergoing improvements through the updating of the Listahanan, PSA rollout of the CBMS, and use of the National ID for identity verification.

16. New strategies are being adopted to improve the accessibility and responsiveness of social protection programs. The NEDA Board approved the Social Protection Floor Recommendations on April 20, 2023 (NEDA, 2024). As mentioned above, the recommendations include a menu of interventions to provide universal health care and basic income, especially to vulnerable groups. New programs have also been introduced. For example, to alleviate hunger, food insecurity and malnutrition, the DSWD has piloted the Food Stamp Program, wherein beneficiaries get subsidies through their Electronic Benefits Transfer (EBT) card so that they can buy a list of commodities from registered local retailers.

17. Adaptive and shock-responsive social protection mechanisms are also under development to address covariate shocks. Through a partnership with the Food and Agriculture Organization (FAO) of the UN, the DSWD is piloting a project called Building on Social Protection for Anticipatory Action and Response in Emergencies and Disasters (B-SPARED). The project explores the provision of interventions before a disaster starts, to mitigate risks and shocks and prevent beneficiaries from sliding into poverty.

1.4. SP Spending Commitments

18. The Philippine government is committed to greater investments in social protection, but the declared spending on the sector remains below the average of middle-income countries. The Social Protection Operational Framework declares that social protection "is a human capital investment that should be supported by adequate fiscal resources in order to empower people to meet their basic needs in a sustainable manner" (DSWD and SDC-SCSP, 2019, p. 19). The national government spent around PHP665 billion on social protection in 2022 and allocated about PHP717 billion in 2023 (Table 4). From 2019 to 2023, the average share of social protection in the General Appropriations Act (GAA) was around 13.31 percent[18] (Figure 8). While social protection spending as a percentage of GDP is generally increasing (Figure 9), its 2022 figure of 3.02 percent was noticeably lower than the average spending of middle-income countries on social protection, which was at 5.25 percent (Figure 9; NEDA, 2023; NEDA, 2020). However, it must be noted that the said social protection spending does not include LGU expenditure since they do not yet report data in accordance with the Unified Accounts Code Structure (discussed below). Nevertheless, the Philippine government, through PDP 2023-2028, has expressed its commitment to strengthen the social protection system by gradually increasing its annual investment in the sector until it reaches 5.25 percent of GDP in 2028 (Figure 9).

2. Fiscal Management of the Social Protection System

2.1. Macroeconomic and Fiscal Environment

19. The December 2023 DBCC Joint Statement (DBCC, 2023) notes that the Philippine government's GDP growth target for 2024 is 6.5 to 7.5 percent in 2024, and 6.5 to 8.0 percent for 2025-2028 (Table 6). These targets are based on the assumption that domestic demand and expansion in major sectors will continue as experienced in 2023. Other macroeconomic assumptions are as follows (Table 5): the inflation rate is at 2.0 percent to 4.0 percent for 2024-2028; Dubai crude oil is at USD70 to USD90 per barrel in 2024, and USD65 to USD85 per barrel in 2025-2028; the peso-U.S. dollar exchange rate is at PHP55 to PHP58 against the U.S. dollar from 2024-2028; exports of goods to grow by 5 percent in 2024, and 6 percent in 2025-2028; and imports of good to grow by 5 percent in 2024, and 8 percent in 2025-2028.

20. With the projected economic growth and the tax reform measures to be implemented in the medium term, the government expects revenues to post about PHP4,235.3 billion in 2024, equivalent to 15.5 percent of GDP, and PHP6,622.2 billion (16.9 percent of GDP) in 2028 (Table 2). This will lower the deficit from PHP1,614.1 billion in 2022, equivalent to 7.3 percent of GDP (DBM, 2023a), to PHP1,394.7 billion (5.1 percent

[18] The social protection component in the national government's allocations includes appropriation for PhilHealth, which is considered part of social insurance and is reflected in NEDA reports on social protection spending. Without appropriations for PhilHealth, the share of social protection averages around 11.58 percent.

of GDP) in 2024, and further to PHP1,174.9 billion (3 percent of GDP) in 2028 (DBCC, 2023; Figures 3, 4).

21. Securing and sustaining funds for the social protection system hinges on the government's continued implementation of measures and reforms to increase revenues and improve bureaucratic efficiency. Aside from implementing the Comprehensive Tax Reform Program[19] and ramping up its tax compliance and enforcement initiatives,[20] the government has also been adopting public financial management reforms to promote fiscal discipline, efficiency, transparency, and stakeholder participation toward achieving the country's fiscal and development targets (DBM, 2016a; DBM, 2016b; DBM, 2023h). These reforms include a Cash-Based Budgeting System, wherein the appropriated budget must be spent within the fiscal year. Other measures are discussed below, such as the development of budgeting frameworks, Two-Tier Budgeting, and Program Convergence Budgeting (Appendix VIII.5).

2.2. Planning, Programming and Budgeting Toward Sustainably Financing the Social Protection System

22. The country's medium-term and annual budgeting frameworks support the PDP and PSPP objectives of reducing poverty and strengthening the social protection system. The medium-term fiscal framework (MTFF) serves as the government's blueprint to achieve macro-fiscal stability in the short term, and robust economic growth and fiscal sustainability in the medium term. One of its targets is to reduce poverty to a single-digit rate by 2028.[21] On the other hand, an annual Budget Priorities Framework (BPF) has been developed to reflect the dimensions[22] of the proposed national budget as approved by the DBCC.[23] The annual BPF highlights fiscal targets consistent with the MTFF (DBM, 2023f), and the expenditure priorities per sector to address development challenges and achieve PDP objectives (DBM,

[19] The tax reform program generated a total of PHP709.9 billion in incremental revenues from 2018-2022, according to the Department of Finance (DOF, n.d.).

[20] In November 2023, the Bureau of Internal Revenue collected PHP2.34 trillion, 8.6 percent more than the previous year. Tax enforcement activities include programs of the Bureau of Internal Revenue, named Run After Fake Transactions and Run After Tax Evaders (DOF, 2024).

[21] The MTFF, adopted by both Houses of Congress under Concurrent Resolution 4 dated September 14, 2022, identifies the following medium-term macroeconomic and fiscal targets: 6.5-8 percent real GDP growth annually between 2023 and 2028; 9 percent or single-digit poverty rate by 2028; 3 percent national government deficit-to-GDP ratio by 2028; less than 60 percent national government debt-to-GDP ratio by 2025 (Figure 2); and at least USD4,256 in gross national income (GNI) per capita to achieve upper middle-income status (Figure 10).

[22] The dimensions indicate the sectors and programs that should be prioritized in the proposed budget and define the challenges and strategies that government bodies should consider in preparing their budget proposals. They also spell out macroeconomic parameters and the fiscal program, as well as the government bodies' budget ceilings based on their forward estimates.

[23] The DBCC is composed of the DBM, which handles resource allocation and management, the DOF (revenue generation and debt management), the NEDA (overall macroeconomic policy), the BSP (monetary policy), and the Office of the President (presidential oversight). The body recommends to the President the annual government expenditure program and the ceiling of government spending (Executive Order 232).

2023b). These priorities guide government agencies' tier 2 [24] budget proposals and deliberations. For example, the 2024 BPF priority strategies for social protection include: "(a) strengthen the digitalization of services and facilities in the delivery of SP assistance; (b) promote the use of digital wallets and other innovative financial platforms for effective and efficient distribution of SP programs; (c) establish a standard menu of anticipatory and shock-responsive SP programs to address human-induced disasters and natural calamities; and (d) reduce shocks to household incomes and casualties due to disasters/calamities" (DBM, 2023b, p. 2).

23. All measures implemented by the government, including social protection programs, undergo the usual DBM budgeting process and congressional authorization (De Leon, 2023). The budgeting process and congressional approval take into account the availability of resources, estimated funding requirements vis-à-vis the expected outputs and outcomes, sustainability of budgetary support, and the abovementioned annual budgetary framework and priorities of the government. The DBM instructs government bodies to identify performance indicators and conduct performance assessments and stakeholder consultations to inform budget formulation and discussions during the budgeting process (Appendix VIII.5).

24. The DBM encourages program convergence budgeting (PCB), which fosters collaboration among government agencies in attaining common targets (DBM, 2023c). PCB helps said agencies to synergize their proposed budgets. For example, several agencies contribute to the DSWD-led Zero Hunger Program. One initiative aligned with this program is the Gatasang Kalabaw Convergence Project, which provides beneficiaries with agriculture-related livelihood interventions to improve their socioeconomic conditions and boost the supply of milk in their localities (Luci-Atienza, 2021; DSWD, 2022a).

25. To ensure the continued funding of ongoing programs, the country is observing a two-tier budgeting approach (2TBA), which includes formulating forward estimates (FEs). This strategy streamlines the budgeting process by separating the deliberation of funding requirements of ongoing policies and programs from new spending proposals (DBM, 2016b). Tier 1 discussions center on the cash requirement estimates to continually implement ongoing initiatives at the same scope and quality. During this phase, three-year FEs are formulated, which consider the future costs of implementing the policies, programs, projects and activities; the government agencies' overhead expenses; and their budget usage rate and physical accomplishments. When preparing the FEs, the DBM discusses with other government agencies their financial and physical accomplishments during the fiscal year, as

[24] Proposals for new and expanded spending.

well as sectoral targets for the succeeding years, to determine the need to continue program implementation and possible adjustments to the implementation parameters, such as physical targets. This procedure helps ensure sufficient funding for ongoing programs, while possibly freeing up[25] and consolidating resources for the implementation of new programs and the expansion of existing ones, which will be discussed at tier 2. Prioritized programs, projects, and activities during tier 2 deliberations are those needing expansion in terms of scope, beneficiaries, time frame, or output. If funds are still available, proposed ready-to-implement measures consistent with the BPF and the PDP are also considered.

2.3. Introducing New Programs

26. To operationalize strategies enumerated in PDP 2023-2028 and PSPP 2023-2028, new programs may need to be introduced by executive offices or through legislation. Implementing agencies may conceptualize programs to address prevailing or emerging development challenges. Usually, proposed programs are tested for up to three years. When a pilot program helps resolve identified problems effectively, the concerned government agency will prepare its institutionalization with participating LGUs. Social protection programs can also be mandated by law. Line agencies and lawmakers may refer to studies and policy papers and include desired programs in their legislative agenda. In both cases, stakeholders are often consulted to ensure program responsiveness. Sometimes, ongoing programs are institutionalized through legislation, as in the case of the 4Ps. The government has been carrying out the program since 2012, and in 2019 it passed Republic Act 11310, also known as the 4Ps Act, to ensure its continued implementation. As mentioned above, the budgets for new programs are discussed at tier 2, which require the preparation of FEs.

27. Some initiatives introduced through legislation come with a funding mechanism to ensure their sustained implementation. For example, Republic Act 11310 and Republic Act 10645 provide for the automatic PhilHealth coverage of 4P[26] beneficiaries and senior citizens, respectively, funded by revenue generated from implementation of Republic Act 10351, which is the Sin Tax Reform Act of 2012.

28. Reform **programs also integrate safety nets to cushion their impact (NEDA, 2023).** For example, Republic Act 11203, which is the Rice Tariffication Law, includes Rice Farmer

[25] Resources may become available when ineffective programs are canceled or their implementation parameters are adjusted.

[26] Institutionalized through RA 11310, the Pantawid Pamilyang Pilipino Program (4Ps) is the national poverty reduction strategy and a human capital investment program that provides conditional cash transfer to poor households for a maximum period of seven years, to improve the health, nutrition and education aspect of their lives.

Financial Assistance, while Republic Act 10963, the Tax Reform for Acceleration and Inclusion Law, provides for unconditional cash transfers.

29. Legislating social protection initiatives may help secure program funding, but it also has its drawbacks. Statutory programs, like many of the social protection initiatives (Appendix VIII.2), are prioritized during the budgeting process. This helps secure funds for the program and ensure continuous implementation.[27] However, since laws are tedious to amend, program parameters may be hard to adjust when needed. For example, it took more than a decade to raise the social pension for indigent senior citizens,[28] and the definition of "indigent senior citizens" as provided by Republic Act 9994[29] may lead to inclusion and exclusion errors (see Albert, Monje and Muñoz, 2021). Further, addressing specific concerns through legislation may lead to fragmentation of the social protection system, as mentioned earlier.

2.4. Fund Augmentation and Contingencies

30. Several provisions in the GAA may be useful in funding deficiencies or urgent interventions. First, the GAA specifies rules for a government office to use savings to cover deficiencies in any existing item of appropriation in the current fiscal year. This includes the definition of savings, authority to use savings, and rules on augmentation. Only activities and projects stated in the GAA may receive fund augmentation (2024 GAA, 2023). Second, the law provides for a Contingent Fund that is to be used exclusively for new and/or urgent projects and activities that need to be implemented during the year.[30] Third, the law includes Unprogrammed Appropriations, which provide standby authority to incur additional agency obligations for priority programs or projects when the revenue source has exceeded the corresponding revenue collection target, and when additional grants or foreign funds are generated.[31] And fourth, several government agencies[32] have a Quick Response Fund (QRF), which serves as a standby fund to address certain contingencies during emergencies.

[27] However, some laws have not been fully implemented due to budgetary and administrative concerns. The DBM noted that there were 205 laws across all sectors with funding deficiency as of November 2023, according to the Congressional Policy and Budget Research Department (CPBRD, 2023). One of these was Republic Act 11598, which provides direct cash assistance to farmers tilling two hectares and below.

[28] From PHP500 (USD8.65) per month as provided by Republic Act 9994 in 2010 to PHP1,000 (USD17.29) as provided by Republic Act 11916 in 2022.

[29] "Indigent senior citizen" refers to any elderly person who is frail, sickly, or with disabilities, and without a pension or regular source of income, compensation or financial assistance from relatives to support basic needs, as determined by the DSWD in consultation with the National Coordinating and Monitoring Board (NCMB).

[30] Except for the purchase of motor vehicles, including any improvements thereon.

[31] "Unprogrammed New General Appropriations will only be available when there are excess revenues, new revenue sources, or approved new loans for foreign-assisted projects (FAPs)" (DBM, 2023d).

[32] These include the DSWD, Department of Public Works and Highways, Department of National Defense, Department of Education, and Department of Agriculture (DBM, 2017).

For example, in 2023, the DSWD's QRF as provided by the GAA was PHP1.75 billion and served as a standby fund for rehabilitation and relief programs, including the prepositioning of goods and equipment, to quickly normalize the living conditions of disaster-affected families and communities (2023 GAA, 2022). The use of such resources may also be considered in providing social protection services during covariate shocks.

31. The government also works with domestic and international development partners, including the private sector, to implement needed interventions. Such partnerships include funding for social protection programs, such as the World Bank's support to 4Ps (WB, 2019); pilot studies, such as the Asian Development Bank's (ADB) technical assistance to the DSWD in piloting a food voucher program (ADB, 2023); and cash assistance during emergencies (Aldaba and Geronimo, 2024). During the pandemic, many private-sector groups and individuals stepped up and offered help, such as soup kitchens and community pantries (NEDA, 2022). The government is also pursuing partnerships with the private sector to enhance social insurance coverage. For instance, Grab Philippines, SSS, PhilHealth and the Pag-IBIG Fund (Home Development Mutual Fund) forged a partnership to educate Grab drivers and link them to government social protection services (MB Technews, 2022). Both the PDP and PSPP encourage forming partnerships with international donors and the private sector to pool resources and broaden the reach of social protection. Aside from mobilizing resources, such partnerships may also facilitate the transfer of knowledge and technologies that can ultimately build a more inclusive, effective and efficient social protection system.

2.5. Monitoring of Program Implementation and Performance Assessment

32. Performance monitoring and assessment is done at national and local levels. At national level, government agencies submit regular financial reports: Quarterly Budget and Financial Accountability Reports by program, activity or project; Monthly Report of Disbursement; and Agency Performance Reviews covering the Current Year, which evaluate the first semester and the full year (DBM, 2023i). The DBM publishes a monthly National Government Disbursement Report, which gauges the financial performance of government agencies and identifies possible measures to avoid underspending or overspending, as necessary. Likewise, the DBM publishes the DBCC Annual Fiscal Report (AFR) and DBCC Mid-Year Report to measure their financial performance vis-à-vis their physical accomplishments. At local level, the process is similar, wherein local department and office heads prepare and submit to the Local Finance Committee[33] (LFC) the Quarterly Physical

[33] The LFC is composed of the Local Planning and Development Coordinator, Local Budget Officer, and Local Treasurer (DBM, 2023g).

Report of Operations that shows the actual performance of programs, projects, and activities vis-à-vis their target output. The Local Budget Officer prepares the Quarterly Financial Report of Operations, which shows the budget utilization rates of local departments and offices. Based on the information, the LFC conducts “a semi-annual review and general examination of expenditures and actual accomplishments against performance standards in undertaking development projects” (DBM, 2023g, p. 198). The report from this review is posted publicly and provided to the Local Chief Executive and the local legislative body (DBM, 2023g).

33. As mentioned above, both the financial and physical performance of government agencies are considered in preparing the budget for all initiatives, including statutory programs. The financial performance or the budget usage rate of government agencies and their programs, projects and activities are monitored vis-à-vis the achievement of their performance indicators, as identified in the GAA.

34. Third-party assessments are conducted as well. The Commission on Audit (COA) conducts annual financial audits of government agencies, and performance audits on selected priority programs and projects. For example, it released a performance audit of the 4Ps in 2022 (COA, 2022). The Philippine Institute for Development Studies also publishes discussion papers on development programs, including social protection initiatives. These studies usually revisit program design and implementation processes to determine gaps and recommend improvements. For instance, the institute evaluated the process of the DSWD’s Social Pension Program for Indigent Senior Citizens in 2021 (Albert, Monje and Munoz, 2021). Such assessments are considered during budget deliberations.

3. COVID-19 Pandemic and Reform Priorities

3.1. Success and Failure of Social Protection in Responding to the Pandemic

35. The pandemic caused havoc to Filipino lives and communities. From January 2020 to February 2022, the severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) infected about three million Filipinos and killed around 56,000 individuals (WHO, 2023). Efforts to manage the spread of the virus limited mobility and economic activities, which then reduced the productivity of individuals and firms and led to a -9.6 percent real GDP growth in 2020 (Debuque-Gonzales, 2021).

36. The government responded to help Filipinos manage the pandemic (Aldaba and Geronimo, 2024). Republic Act 11469 and Republic Act 11494 were passed to strengthen the health system, provide economic relief, and bolster social protection measures. Among the distribution mechanisms to provide cash and in-kind support were: the Social Amelioration

Program-Emergency Subsidy Program (SAP-ESP), which channeled cash grants to qualified households; Small Business Wage Subsidy Program (SBWSP), which offered financial aid to help small enterprises keep their businesses and employees; Abot Kamay ang Pagtulong (AKAP) Program, which gave a one-time cash grant to affected overseas Filipino workers (OFWs); TUPAD, which assigned temporary employment to displaced informal-sector workers; COVID-19 Adjustment Measures Program (CAMP), which supplied cash assistance to private-sector workers; and LGU support in cash and kind to households.

37. Such interventions helped cushion the impact of the pandemic, but gaps in the social protection system left many reeling. Virtually all households received help, and the government prevented about four million Filipinos from falling into poverty (Albert, Abrigo, Quimba and Vizmanos, 2020; Cho and Johnson, 2022; Aldaba and Geronimo, 2024). However, the unraveling health and economic crisis subjected many individuals and families to job and income loss, hunger, stress and anxiety, especially during the first half of 2020 (see Cho and Johnson, 2022). The impact of government interventions during the pandemic may have been undermined by delays in the receipt of support, and the magnitude and duration of the shock (see Aldaba and Geronimo, 2024). Ultimately, as mentioned in the first section of this paper, the pandemic led to an increase in poverty rates, and possibly exposed children to child labor and women to violence.

38. Several factors impeded the timely and efficient provision of aid (Cho and Johnson, 2022; Aldaba and Geronimo, 2024). First, no comprehensive database was available to identify beneficiaries, which led to delays and inefficiencies. People who were not under the registries of programs such as the 4Ps or the Social Pension Program for Indigent Senior Citizens must manually register with their respective LGU. This requirement took up significant time and resources, especially amid community quarantines and mobility restrictions. To quickly release aid, many households were also enrolled without deduplication and some received cash transfers twice (see DSWD, 2022). Second, the scale and complexity of the crisis led to coordination issues between the DSWD central and field offices (see Gudmalin et al., 2021), confusion about key implementation concerns, namely the definition of “households” (see Cho and Johnson, 2022), and possibly the omission of more than five million low-income, non-4P families during the first and second tranches of the SAP (DSWD, 2022). Third, the funding mechanism may have to be revisited to address covariate shocks since the government needed to pass laws to finance the necessary social protection measures.

39. Providing timely aid makes a lot of difference during such crises (Cho and Johnson; 2022). Households under the program 4Ps quickly received their top-ups due to existing databases and payout systems, while non-4P households encountered registration-related delays. Thus, the authors noted that while 4P and non-4P households experienced similar labor market shocks, data from the April 2020 World Bank House Panel and Economic Survey suggests that 4P households were, at 53 percent, less likely to report food insecurity than other households, which recorded 60 percent, at least during the surveyed period of the crisis.

3.2. Reform Priorities in Fiscal Management for Sustainable Development of Social Protection

40. The pandemic revealed that unimaginable things could happen and that the country must be prepared for any eventualities (Ghosh, 2020). Thus, the Philippine government highlights a need for social and economic transformation through "targeted measures, structural reforms, and strategies that will create a sustainable and future-proof economy" and significantly improve the "quality of life of Filipinos" (DBCC, 2023). Aside from pursuing tax reforms to expand its fiscal space,[34] the government also continues to espouse fiscal prudence to maximize its limited resources. Efforts include ongoing public financial management reforms (DBM, 2023c); empowering and guiding LGUs so they may implement social protection programs effectively; and rationalizing the social protection system. The government also aims to improve the shock-responsiveness of its social protection system to ensure the rapid provision of aid during covariate shocks (Alday, 2023). These strategies may be integrated in the proposed social protection legal framework.

41. The government is pushing for public financial management reforms to improve agency budget usage. These initiatives include early procurement activities, the early release of allotments through the GAA as the Allotment Order,[35] and a cash budgeting system (Nicolas, 2022).

42. In light of the fiscal impact of the Mandanas-Garcia ruling,[36] the government is working towards the full implementation of the devolution of functions and services provided for under Section 17(b) of Republic Act 7160.[37] There needs to be a clear delineation of roles and responsibilities between the national and local governments (SEPO, 2022), which should allow for the determination of resource sharing in delivering comprehensive social protection programs. This can include the development and updating of

[34] "These measures aim to broaden the tax base, improve tax administration, enhance the fairness and efficiency of the tax system, and promote environmental sustainability to address climate change" (DBCC, 2023).

[35] For specific expenditure items which no longer require further details, additional documentary support or compliance with certain conditions or approvals.

[36] https://www.dbm.gov.ph/wp-content/uploads/Mandanas-Garcia-Case/IEC-Materials/FAQs-Mandanas-Garcia-Ruling.pdf

[37] Executive Order 13837 was issued on June 1, 2021, directing the full devolution of certain functions of the Executive Branch and the creation of a Committee on Devolution (ComDev), among other provisions.

registries, given LGUs' lead role in collecting and managing CBMS data (Republic Act 11315), and the implementation of key social protection programs that can be more efficiently implemented by LGUs, a study on which should be undertaken. Amid these changes, national government agencies will continue to provide technical assistance to LGUs, given the latter's varying expertise and capabilities. The aim is to further strengthen local autonomy, ensure fiscal sustainability, and put an end to the long-standing problem of unnecessary duplication of responsibilities between national and local government offices. For example, the Public Financial Management Competency Program of the DBM promotes good governance, financial accountability, and effective resource management among local government institutions. Similarly, the DSWD will also continue to implement the SDCA initiative, which looks at the different components of social development programming, including administration and organization, program management, and institutional mechanisms. The SDCA helps the government agency determine each LGU's level of service delivery every three years, and informs the agency of technical assistance needed. Further, the NEDA, DBM, DOF and Department of the Interior and Local Government (DILG) are conducting a study on the full devolution of functions and services to LGUs based on their respective absorptive capacities. In line with such efforts, it may be beneficial for the national government to adopt a mechanism to monitor the responsiveness of LGUs' social protection programs and the resources allocated to these initiatives. This will enable stakeholders to track the availability of support and government investment in social protection.

43. The social protection system must be rationalized, modernized and integrated to ensure its responsiveness in empowering Filipinos and helping them manage idiosyncratic and covariate shocks. PDP 2023-2028 (NEDA, 2023) calls for a review of ongoing social protection programs to ensure their relevance and avoid duplication and overlaps, so as to achieve spending efficiency and broader coverage. It also advocates for an enhanced use of resources by fostering greater collaboration among program implementers, including LGUs, civil society and the private sector. Furthermore, the PDP aims to improve the efficiency of beneficiary targeting and service delivery by establishing social registries and strengthening digital payment schemes. Such strategies are also highlighted in the BPF, as mentioned in the previous section.

44. Another strategy highlighted in PDP 2023-2028 that may have significant impact on both the responsiveness of social protection and its fiscal sustainability is the enhancement and promotion of social insurance products to encourage coverage of all

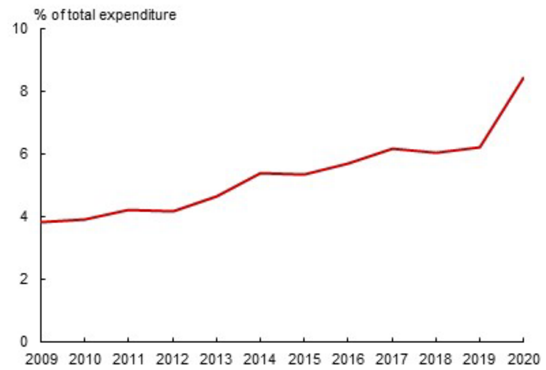
Filipinos[38] (NEDA, 2022; see also Ortiz and Cummins, 2022). Providing affordable and flexible products may allow people with low and irregular income to receive social insurance coverage and benefits. As mentioned in Section 1 of this paper, only 37 percent of the economically active population contributed to SSS in 2021. Ensuring that all Filipinos have social insurance coverage can guarantee their access to emergency support when needed and pensions when they retire, possibly decreasing the financial resources necessary for social assistance and social safety nets. This is one area where partnerships with the private sector can be very instrumental. For example, partnering with gig economy platforms can help with the SSS enrolment of individuals who engage in such work.

45. PSPP 2023-2028 (DSWD, 2023) intends to enhance the flexibility of the social protection system in responding to covariate shocks. This means having programs that may be expanded and adjusted to quickly provide aid to affected households, as well as securing ready funds for large emergencies. Ensuring financial availability may require covariate shocks to be considered during development planning, programming and budgeting, and the expanded use of emergency response funds such as the QRF (Aldaba and Geronimo, 2024).

[38] PDP Chapter 3.2, Outcome 1, p. 93 of NEDA (2022)

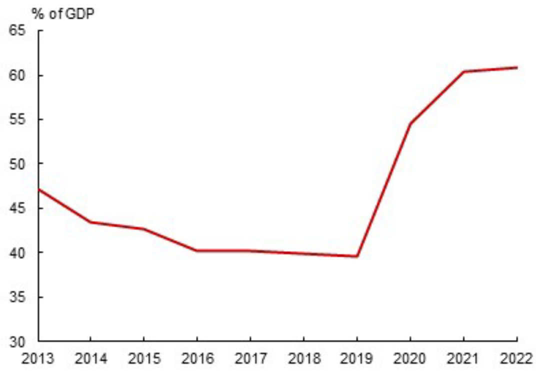
Appendix VIII.1. Selected Figures

Figure 1. Local Government Expenditure on Social Services and Welfare



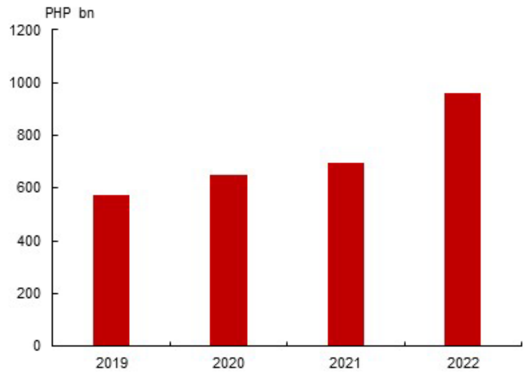
Source: DOF-BLGF; Sicat

Figure 2. Debt-to-GDP Ratio



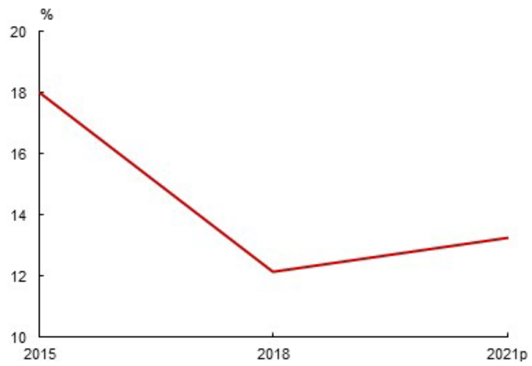
Source: DBCC

Figure 3. Program Allocation for NTA



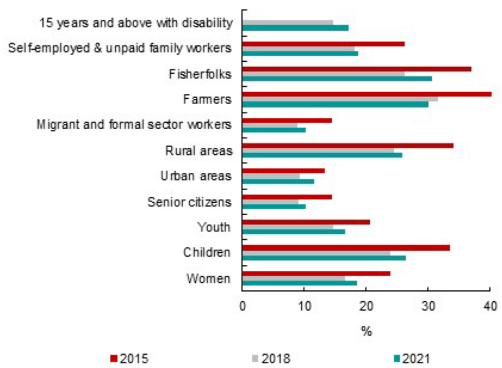
Source: SEPO

Figure 4. Poverty Incident among Families



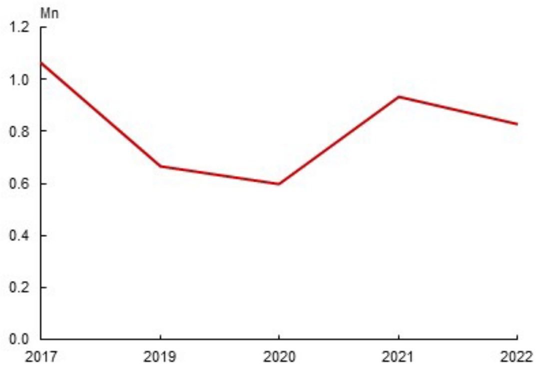
Source: PSA

Figure 5. Poverty Incidence among Basic Sectors



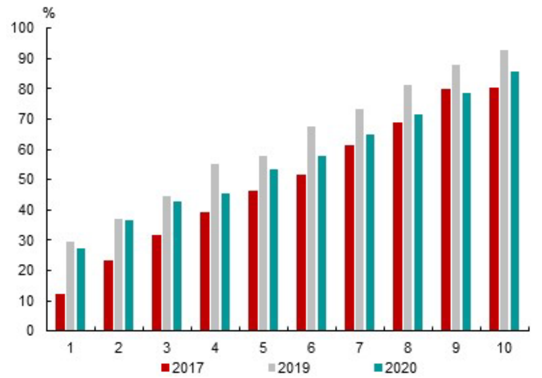
Source: PSA

Figure 6. Number of Children Engaged in Child Labor



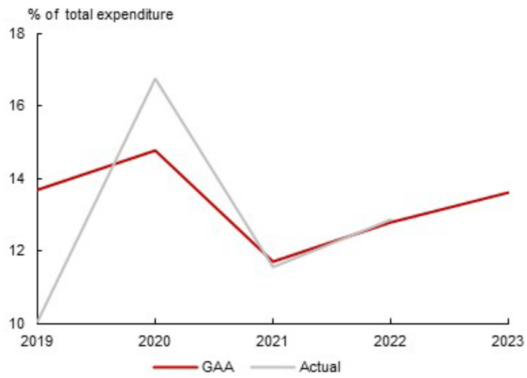
Source: PSA; NEDA

Figure 7. Households with at Least One Member Covered by SSS, GSIS, Private Life Insurance, and/or HMPs per Income Decile



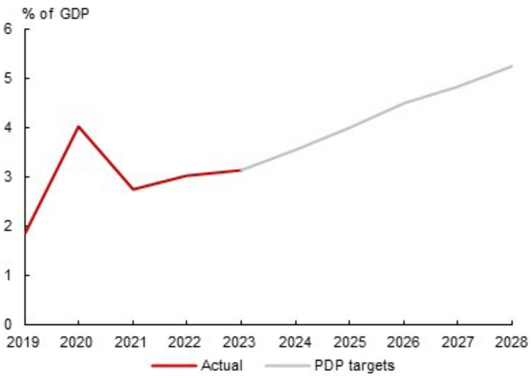
Source: NEDA

Figure 8. SP Spending Relative to Total Expenditure



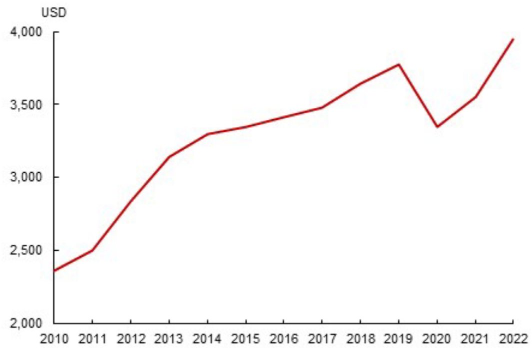
Source: DBM

Figure 9. SP Spending Relative to GDP



Source: NEDA

Figure 10. GNI per Capita in Current Prices



Source: World Bank

Appendix VIII.2. Selected Tables

Table 1. Major Social Protection Programs

Program	Description	Implementing Agency	Policy / Guidelines
Social Insurance			
Philippine Health Insurance (PhilHealth)	Provides universal health insurance coverage for all Filipinos toward having accessible, available, and affordable health care. There are individuals whose contributions are paid by the government, including indigents identified by the DSWD, 4P beneficiaries, senior citizens, and persons with disabilities (PhilHealth, n.d.)	Philippine Health Insurance Corporation	Republic Act 10606
Social Security System (SSS)	Mandatory for private-sector workers. Provides sickness, unemployment, maternity, disability, retirement, funeral and death benefits to voluntary members and private-sector workers	SSS	Republic Act 11199
Government Service Insurance System (GSIS)	Mandatory for government workers. Provides life insurance, separation, unemployment, disability, survivorship and funeral benefits to government workers	GSIS	Presidential Decree 1146, as amended by Republic Act 8291
Employees' Compensation Program	An employer-based contributory benefit that provides a compensation package for public and private-sector employees and their dependents in the event of work-related sickness, injury, disability or death (GSIS, n.d.)	Employees' Compensation Commission	Presidential Decree 626
Labor Market Intervention			
Sustainable Livelihood Program	Helps qualified members of poor households get jobs or set up microenterprises	Department of Social Welfare and Development (DSWD)	DSWD Memorandum Circular 22, s. 2019
Department of Labor and Employment's (DOLE) Integrated Livelihood Program (Kabuhayan Program)	Provides grants to workers in the informal sector. Offers livelihood opportunities and training support to vulnerable workers, such as the self-employed, landless farmers, unpaid family workers, displaced workers, parents of child laborers and low-wage seasonal workers (Artajo, 2021)	DOLE	DOLE Order 173, s. 2017
Social Assistance Programs			
Pantawid Pamilyang Pilipino Program (4Ps)	Provides conditional cash grants to poor families with children 0-18 years old and pregnant women to ensure the health and education of children	DSWD	Republic Act 11310
Social Pension Program	Grants additional monthly stipend to augment daily subsistence and medical needs of indigent senior citizens	DSWD	Republic Act 9994
Supplementary Feeding Program	Provides nutritious food to children in child development centers	DSWD	DSWD Memorandum Circular 3, s. 2019
School-based Feeding Program	Provides nutritious food to underweight children in schools	Department of Education (DepEd)	DepEd Order 31, s. 2021
Social Safety Nets			

Program	Description	Implementing Agency	Policy / Guidelines
Assistance to Individuals in Crisis Situation (AICS)	Provides medical, burial, educational, food and non-food assistance to individuals and families in crisis or difficult situations	DSWD	DSWD Memorandum Circular 16, s. 2022
Cash-for-Work Program	Provides temporary employment to distressed or displaced individuals	DSWD	
Tulong Panghanapbuhay sa Ating Disadvantaged Workers (TUPAD)	Provides emergency employment to displaced workers, underemployed and seasonal workers for 10 to 30 days	DOLE	DOLE Order 173, s. 2017

Source: DBM; DBCC; Author's compilation

Table 2. National Government Fiscal Operations

	Actual							Outlook	Projection				
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Revenue (in billion pesos)	2,196	2,473	2,850	3138	2,856	3,006	3,546	3,847	4,235	4,699	5,283	5,904	6,622
Revenue as % of GDP	14.5	14.9	15.6	16.1	15.9	15.5	16.1	15.7	15.5	15.7	16.1	16.5	16.9
Disbursement (in billion pesos)	2,549	2,824	3,408	3,798	4,227	4,676	5,160	5,340	5,630	5,926	6,429	7,050	7,797
Disbursement as % of GDP	16.8	17.1	18.7	19.5	23.5	24.1	23.4	21.8	20.6	19.8	19.6	19.7	19.9
Deficit (in billion pesos)	353.4	350.6	558.3	660.2	1,371	1,670	1,614	1,494	1,395	1,227	1,145	1,146	1,175
Deficit as % of GDP	2.3	2.1	3.1	3.4	7.6	8.6	7.3	6.1	5.1	4.1	3.5	3.2	3.0

Source: DBM; DBCC

Table 3. Estimate of Social Protection Coverage among Households 2017, 2019 and 2020

Households	2017 (%)	2019 (%)	2020 (without SAP, %)	2020 (with SAP, %)
Bottom 40%	57.29	61.79	66.09	91.05
All Households	65.78	72.85	73.14	90.69

Source: NEDA

Table 4. Social Protection Appropriation/Expenditure

Year	GAA	As % of total expenditures	Actual	As % of total expenditures
	(In thousand pesos)		(In thousand pesos)	
2019	501,099,402	13.69	362,804,373	10.05
2020	605,687,552	14.77	722,134,801	16.76
2021	527,884,818	11.72	531,083,656	11.54
2022	641,329,812	12.77	664,843,209	12.85
2023	717,021,006	13.61	not yet available	not yet available

Source: DBM

Table 5. Macroeconomic Assumptions

Indicator	2023	2024	2025-2028
Inflation (%)	6	2.0 - 4.0	2.0 - 4.0
Dubai crude oil (USD/bbl)	82 - 85	70 - 90	65 - 85
Forex (PHP/USD)	55.50 - 56.00	55.00 - 58.00	55.00 - 58.00
Exports of goods, BPM6 (%)	-4	5	6
Imports of goods, BPM6 (%)	-3	7	8

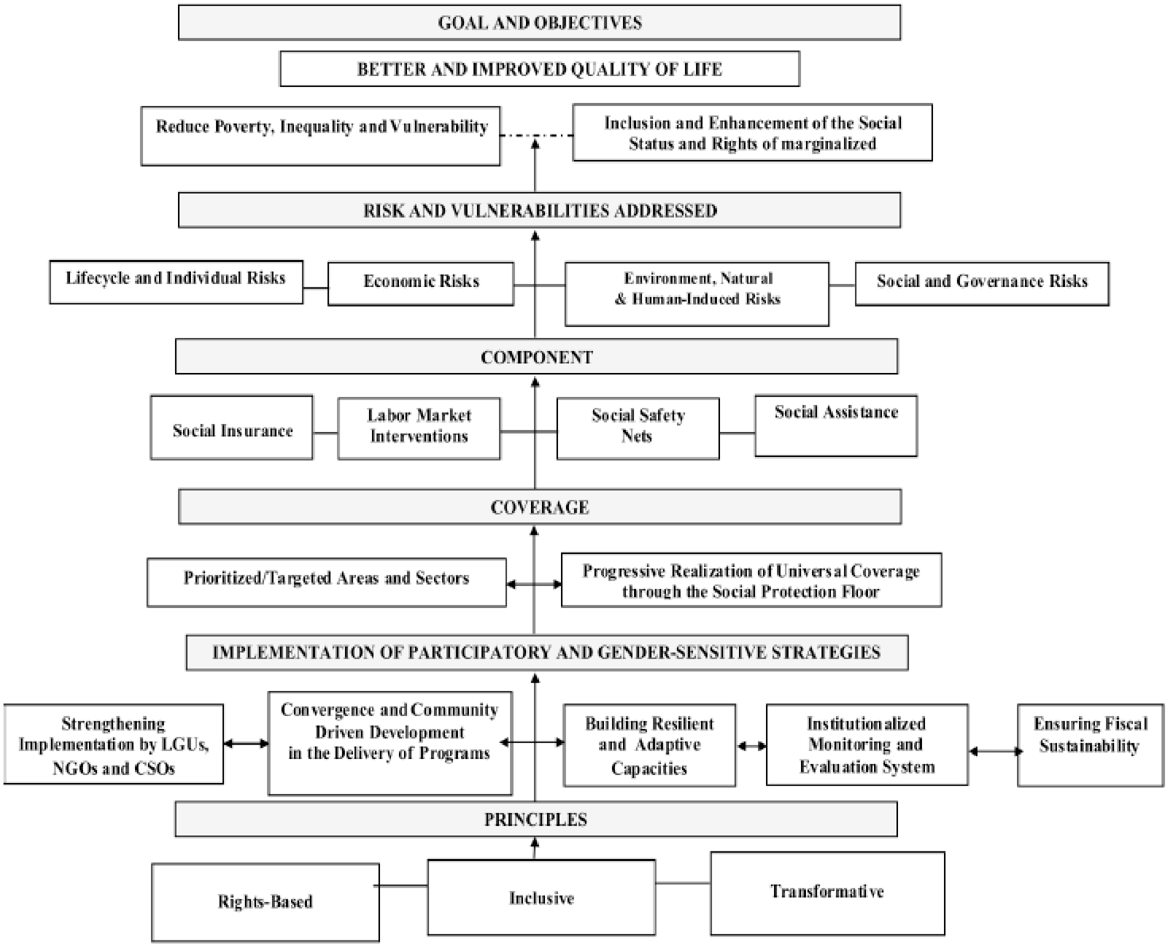
Source: DBCC

Table 6. Growth Assumptions

Year	Growth Assumptions (%)
2023	6.0 - 7.0
2024	6.5 - 7.5
2025-2028	6.5 - 8.0

Source: DBCC

Appendix VIII.3. Philippine Social Protection Operational Framework



Source: NEDA-SDC

Appendix VIII.4. List of SDC Subcommittee on SP Member Organizations

Chair: Department of Social Welfare and Development (DSWD)

Vice-Chair: National Economic and Development Authority (NEDA)

Government Agencies

Department of Agriculture (DA)

Department of Agrarian Reform (DAR)

Department of Budget and Management (DBM)

Department of Education (DepEd)

Department of Health (DOH)

Department of Human Settlements and Urban Development (DHSUD)

Department of the Interior and Local Government (DILG)

Department of Labor and Employment (DOLE)

Department of Trade and Industry (DTI)

Commission on Higher Education (CHED)

National Anti-Poverty Commission (NAPC)

National Nutrition Council (NNC)

Technical Education and Skills Development Authority (TESDA)

Government-Owned and Controlled Corporations

Government Service Insurance System (GSIS)

People's Credit and Finance Corporation (PCFC)

Philippine Health Insurance Corporation (PhilHealth)

Social Security System (SSS)

Leagues of Local Government Units (LGUs)

League of Provinces of the Philippines (LPP)

League of Municipalities of the Philippines (LMP)

League of Cities of the Philippines (LCP)

Non-Governmental Organizations (NGOs)

Social Watch Philippines (SWP)

Pambansang Kalipunan ng mga Manggagawang Impormal sa Pilipinas (PATAMABA)

Appendix VIII.5. Budgeting Timeline and Other Elements of Public Financial Management Reform Program

Activity [39]	Schedule	Responsible Agency/Entity
Budget Call		DBM
Conduct of Budget Forums for DBM, NGAs, Government-Owned and/or Controlled Corporations (GOCC), and other stakeholders	January	DBM
Consultations with Regional Development Councils (RDCs), civil society organizations (CSOs), and student and faculty associations, among others	February	DBM
BPF Issuance	April	DBM
Submission of Budget Proposals to DBM	April to May	Implementing Agencies
Technical Budget Hearings (TBH) and Executive Review Board (ERB) Hearings	April to June	DBM
Finalization of National Expenditure Program (NEP), Budget of Expenditure and Sources of Financing (BESF) Tables, Staffing Summary, and President's Budget Message	June to July	DBM
Submission of Budget Documents to President	July	DBM
Submission of NEP to Congress	July	DBM

Source: DBM

A. Performance-informed Budgeting (PIB)

PIB is practiced to demonstrate the relationship between agencies' proposed budgets and their committed outputs and outcomes. Their performance information and targets are presented together with financial allocations in budget documents such as the GAA. This is supported by the Program Expenditure Classification (PREXC) system, which requires government agencies to group all recurring activities and projects under programs to clearly show how investments will help attain desired sectoral and socioeconomic results (DBM, 2016c). The following example lists some of the DSWD's performance indicators:

Sectoral Outcome	Achieved universal and transformative social protection for all
Organizational Outcome	Improved well-being of poor families
Performance Information	**Promotive Social Welfare Program** Outcome Indicator Percentage of Pantawid households with improved well-being Output Indicators 1. Percentage of compliant households provided with cash grants

[39] DBM Budget Cycle https://www.dbm.gov.ph/wp-content/uploads/Executive%20Summary/2016/Budget%20Cycle.pdf

	2. Number of poor households assisted through the Sustainable Livelihood Program 3. Number of households that benefited from completed KC-NCDDP sub-projects

Source: GAA

B. Unified Accounts Code Structure

To help generate financial and physical performance reports, the government also adopted a United Accounts Code Structure (UACS), which harmonized and simplified the budgetary, treasury and code classification structure (GOP, 2014). These practices are important in explaining proposed development measures and their budgets, as well as monitoring and evaluating their effectiveness. However, the UACS is currently limited to the national government, and LGUs are not yet required to apply the system (UACS, 2014). This restricts the available information on LGU budget allocation and spending, as well as the determination of whole-of-government spending on a particular sector, such as aggregate spending on social protection.

C. Agency Strategic and Operations Plans

Before government agencies start requesting their respective budgets, they review and update their Agency Strategic and Operational Plans to integrate recent developments. During the fourth quarter of the current fiscal year, agencies also assess their physical outputs and actual expenditures in implementing their programs. They use this information to prepare forward estimates in readiness for the tier 1 budget deliberations (DBM, 2016a).

D. Budget Call

The annual budget preparation starts when the DBM issues a National Budget Memorandum (NBM) for the Budget Call. The NBM contains an expenditure management framework, which will guide the preparation of the budget. It also includes the budget preparation calendar, which details the timelines of budget preparatory activities. After issuing the NBM, the DBM meets NGAs, GOCCs and other stakeholders to familiarize them with the details of the budgeting process.

E. Citizen Engagement and Multisectoral Dialogues

Consultations with the RDCs, CSOs and other stakeholders are undertaken early in the budget preparation process so that the development priorities of the different regions and sectors are considered and included in the budget proposal of national government agencies. Moreover, these consultations strengthen the linkage between national and local plans and budgets, and ensure a more inclusive and responsive national budget.

F. Budget Approval and Legislation

It is important to note that there are specific approving authorities for certain proposed initiatives. Big-ticket projects that cost PHP2.5 billion and up are approved by the NEDA-Investment Coordination Committee (ICC), with some exceptions.[40] Projects above PHP300 million but below PHP2.5 billion, and those of PHP2.5 billion and above which need not pass the ICC, will be reviewed by a joint oversight committee, the Sub-Committee on Programs and Project Appraisal (SCPPA), which is composed of Undersecretaries from the DBM, NEDA and Department of Finance. Proposals costing less than PHP300 million are reviewed by the DBM through Budget Technical Hearings, and by the Executive Review Board, which consists of DBM officials (DBM, 2016a). Further, infrastructure projects are reviewed by the NEDA Board Committee on Infrastructure, and Information Systems Strategic Plans are reviewed by the Department of Information and Communications Technology. "Only proposals that pass the respective review process/es shall be considered for funding under the FY2024 Budget" (DBM, 2023, p. 11).

After the DBM Executive Review Board reviews and finalizes the budget proposals, agencies will be informed of the tier 1 and tier 2 budget levels. The Budget Documents including the National Expenditure Program (NEP) are then presented to the President and the Cabinet for finalization, after which they are printed and submitted to the President. The President's Budget will then be submitted to Congress for deliberation. Section 22(1) Article VII of the Constitution identifies the deadline and requirements for the submission of the NEP to Congress, which is to be done within 30 days from the opening of each regular session of Congress. Legislation of the Budget requires the deliberation and approval of both the upper and lower houses of Congress. The House of Representatives first tackles the proposed budget, that is, the General Appropriations Bill. Upon approval, it will go to the Senate for deliberations. The House and Senate versions will then be harmonized during the Bicameral Deliberations. After both Houses ratify the harmonized version, this will be submitted to the President for enactment or signing into law.

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[40] The ICC comprises the Secretaries from the Departments of Finance, Agriculture, Trade and Industry, Budget and Management and NEDA, as well as the BSP Governor. Among other functions, the ICC evaluates the fiscal, monetary and balance of payments implications of major national projects. Exceptions from this policy include projects that are covered by the PPP Act; projects that require national government borrowing or guarantees covered by the amended Foreign Borrowings Act and the amended Official Development Assistance Act; projects that require Presidential or NEDA Board approval based on existing laws, rules, and regulations; and proposed projects that are funded by the Chinese government, regardless of the amount (ICC, 2017).

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IX. Singapore[1]

Singapore's social protection system is rooted in the concept of a "social compact," a shared understanding among individuals, communities, and the government regarding their roles and responsibilities. Initially centered on self-reliance from the 1960s to the 1980s, the compact shifted toward greater collective responsibility in the 1990s, focusing on targeted support for lower-income groups. The system is built on six core pillars: education, housing, health care, retirement adequacy, employment, and social support. Singapore finances these initiatives through prudent budgetary practices, including the establishment of designated endowment and trust funds. These initiatives help ensure both flexibility and long-term sustainability without placing debt burdens on future generations. The government continually updates the social compact to meet evolving societal challenges, such as rising inequality and an aging population. The COVID-19 pandemic highlighted the strength of Singapore's fiscal management, with rapid government responses supported by the strategic use of reserves, ensuring minimal disruption to the economy and delivering social protection. To safeguard lives and livelihoods, the government introduced four key budgets together – Unity, Resilience, Solidarity, and Fortitude – amounting to 19.2 percent of GDP. This decision demonstrated the critical role of reserves in managing crises effectively.

1. Overview of the Social Protection System

1.1. Main Features: Adapting 'Social Compact' to Meet Changing Societal Needs

1. The concept of social protection in Singapore is often framed within the context of a "social compact". The concept denotes a whole-of-society approach to social assistance, executed through diverse institutions, with multiple layers of support. Therefore, the social compact encapsulates a mutual agreement among individuals, communities, and the government concerning their specific roles and responsibilities to enhance the well-being of Singaporeans. The primary line of social protection is self-reliance, achieved through individual and familial endeavors together with community and government support.

2. The concept of a social compact evolved over various stages of economic development[2]. During the first three decades of nation building and basic survival in Singapore's economic history, from the 1960s to the 1980s, social protection primarily revolved around education, health care, and housing, with much emphasis on self-reliance and individual responsibility in improving one's livelihood, according to the Ministry of Social

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[2] Table 6 provides an overview of the Singaporean economy by highlighting key macroeconomic indicators.

and Family Development (MSF, 2020). The social protection model at the time loosely fitted the Confucianist welfare model.

3. From the 1990s to the mid-2000s, the philosophy of a social compact gradually shifted from individual responsibility toward a greater sense of collective responsibility to address escalating income inequalities and foster a more inclusive society, using the "Many Helping Hands" framework. (MSF, 2020). The "Many Helping Hands" (MHH) is a community-driven framework that brings together government agencies, enablers, grant makers, donors, volunteers, and voluntary welfare organizations (VWOs) to offer social support to those who are poor, vulnerable, or disadvantaged. During this period, Singapore's economy diversified toward a knowledge-based society and technological advancement in response to globalization and more intense economic competition. Internally, the country was preparing for an aging population. The transition to a knowledge-based economy saw widening income inequality as skilled and more educated workers secured better jobs and experienced faster income growth. Around the same time, several endowment funds and schemes were established in the 1990s directing government subsidies toward three key domains: education, health care, and housing. This was a targeted move meant to facilitate an asset-based approach to social security, that is, to help Singaporeans to build human capital and accumulate housing assets. Edusave was set up in 1992 for education, MediFund in 1993 for health care, and the Central Provident Fund (CPF) Housing Grant in 1994 for housing. A larger share of total government expenditure went to social spending compared with expenses on economic development, security and external relations, or government administration (Figure 1). Between 1997 and 2022, government social spending was primarily allocated to education, health, and housing, which took up an average of 51 percent, 15 percent, and 15 percent of total government social spending, respectively. Spending on these three sectors was a key component of the targeted welfare approach.

4. By the mid-2000s, Singapore's social compact expanded to include structured income redistribution programs, which effectively reduced income inequality and supported vulnerable groups. During this period, the asset-based approach of social compact expanded to fund social programs to address inequality and support the vulnerable, alongside capital injections for education, health, and housing. More structured social programs were designed to boost vulnerable segments of society, address income inequalities and facilitate more inclusive growth. In 2005, the Community Care Endowment Fund (ComCare) was established to assist people facing financial and other difficulties. It marked an ideological shift to help needy Singaporeans, to ensure that no one would be left behind (Ministry of Finance, 2005).[3] The Workfare Income Supplement (WIS) scheme was introduced in 2007 as a permanent feature of the social security system to provide income security. It aims to supplement the incomes and CPF savings of lower-wage Singaporean workers while encouraging regular employment. Older workers and individuals with disabilities receive the highest payments. The implementation of fiscal redistribution scheme has effectively reduced income inequality in Singapore. To facilitate more structured fiscal redistribution, the Goods and Services Tax (GST) Voucher Scheme was established in FY2012 to provide cash, utilities rebates and MediSave Account top-ups to lower- and middle-income Singaporeans. Service and conservancy charges (S&CC) rebates were added to the scheme in FY2022. This scheme is a permanent system of transfers aimed at supporting lower- and middle-income Singaporeans with their living expenses. In the last 14 years, the Gini coefficient lowered after government transfers and taxes (Table 1), demonstrating that the fiscal redistribution schemes have lessened income inequality in Singapore.

5. As Singapore transitioned to an aging society, the government introduced initiatives aimed at enhancing employability, ensuring retirement adequacy and providing comprehensive healthcare coverage for elderly. In the 2000s, Singapore changed from a young society to an aging population when the proportion of residents aged 65 and above reached 7 percent, and since then, addressing the challenges of an aging population has become an important focus of the social compact. By 2019, it had become an aged society as the proportion of 65-year-olds and above increased to 14.4 percent.[4] In 2001, the government established the Lifelong Learning Endowment Fund to subsidize skill acquisition and upgrading, thereby enhancing older workers' employability. The Silver Support Scheme was introduced in 2015 to ensure retirement adequacy, providing financial support to eligible elderly individuals. To help manage rising health care costs, in 2015 the government replaced MediShield with MediShield Life, a national health insurance plan that offered lifelong coverage, including for the very old and those with preexisting health conditions.

6. The COVID-19 pandemic prompted Singapore to draw from Past Reserves to protect lives and livelihoods. In 2022 the Government also launched the Forward Singapore (Forward SG) initiative to refresh its social compact in response to evolving societal challenges. During the COVID-19 pandemic, the Singaporean government tapped into Past Reserves for the second time, the first instance dating back to 2009, in response to the global financial crisis. The primary focus of social protection schemes was on safeguarding the lives

[3] Budget Statement, p. 24.

[4] Table 7 gives some social indicators of Singapore.

and livelihoods of Singaporean citizens. In response to the crisis, the government drew SGD40 billion from its Past Reserves to deliver social and health services and ensure the economic stability and viability of businesses. After the pandemic, efforts were made to update the government's social compact with citizens in response to changing societal needs amid the aging population and COVID-19 disruptions**.** The Deputy Prime Minister at the time led the launch of a Forward SG initiative in June 2022. This initiative, involving many ministries, engaged actively with more than 200,000 Singaporeans from various backgrounds to collectively think about refreshing and reconsidering the nation's social protection system.

1.2. Structure of the Social Protection System

7. Singapore's social compact includes six pillars, adding social support to better address inclusivity and empower vulnerable groups. Previously, the structure of the social security and protection system focused on four pillars, namely home ownership, affordable health care, retirement adequacy and workfare income supplement and training. Table 1 shows the trend of social spending on these four domains. Education is important as a social enabler, empowering individuals and playing a crucial role in facilitating social mobility, and is thus regarded as a key pillar of the social compact. To make Singapore a more inclusive society, the social compact also emphasizes a need for social and community assistance targeted at lower-income and vulnerable groups. Hence, the social compact has been revised to focus on six pillars of social service provision – education, housing, health care, retirement, employment, and social and community support.

8. The refreshed social compact under the Forward SG initiative emphasizes a collaborative approach to fostering growth, expanding support for vulnerable groups, and investing across key social domains. Under the Forward SG initiative, Singapore's social compact was refreshed to outline the government's strategy to foster conditions conducive to growth and opportunities while providing targeted support for low-income, vulnerable, and needy individuals, according to the Ministry of Communications and Information (MCI, 2023). This updated approach includes expanded aid for disadvantaged groups, the elderly and mid-career individuals. The refreshed social compact adopts a whole of-government approach to invest across the six domains. As summarized by the Ministry of Finance (MOF), social security in Singapore is "enabled by a social compact anchored on individual responsibility, family as the first line of support, and the community complementing the Government's efforts to provide additional support to those in need" (Singapore Public Sector Outcomes Review 2022).[5]

1.3. Recent Development and Trends

9. Government spending on social programs has increased mainly due to the aging population requiring higher health costs (figure 1). In 1997, social development spending was about a third of total government spending and equivalent to 5.9 percent of GDP. However, in the decade to 2022, about half of total government expenditure went into social spending [6] reaching 7.6 percent of GDP in 2022. However, it is still significantly lower than the OECD average of 15.8 percent (OECD, 2023), where a large proportion of social spending was for pension and health financing. Most OECD countries have a defined benefit pension system and comprehensive health insurance. Singapore, however, adopts a defined contribution, fully funded central provident fund system. This has reduced Singapore's fiscal burden of financing an aging population. Singapore provides a basic hospitalization insurance plan in the form of MediShield Life, which helps to pay for large hospital bills and selected costly outpatient treatments. This is supplemented by Integrated Shield Plans (IPs) offered by commercial providers to provide enhanced coverage for private care. Under CPF MediSave, individuals also accumulate savings in a personal medical savings account which helps them pay for their personal or immediate family's medical care. MediFund provides a safety net for health financing.

10. Because of this institutional setup, Singapore could adhere to the principle of having a small and lean government. Over the past two decades, total government spending was between 12 percent and 19 percent of GDP (Figure 1). The upper range figure showed higher government spending as it responded to shocks – the 1998 global financial crisis economic shock and the COVID-19 pandemic health shock. Among the four functional categories of government expenditure – social development, economic development, security and external relations, and government administration – spending on overall government administration has remained small between 2011 to 2021, accounting for about 3.5 percent of total government spending. Over the same period of 2011 to 2021, about a fifth of total government expenditure had been used on economic development, and a quarter for security and external relations.

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[5] Singapore Public Sector Outcome Review, 2022, https://www.mof.gov.sg/news-publications/press-releases/report-on-public-sector-outcomes-2022-growing-opportunities-and-emerging-challenges-for-our-nation

[6] In this paper, social spending refers to total social development spending, which includes operating and development social spending.

11. A sectoral breakdown of government spending on social development shows the government's priorities on education, health, national development in terms of housing, social and family development, and manpower to provide financial security (Figure 2).

Healthcare Support for the Elderly

Singapore has shifted social spending toward healthcare, introducing multi-tiered financing schemes, trust funds, and targeted initiatives to address rising medical costs and support the elderly's financial and psychosocial well-being. Since 2010, Social spending has shifted from education to health because of population aging (Figure 2). In 2022, health expenditure made up a third of the social development budget, surpassing spending on education, which accounted for a quarter. To deliver affordable and accessible health care, Singapore has progressively introduced a multitiered financing scheme since the 1980s, comprising means tested subsidies, individual savings accounts (MediSave in 1984), basic hospital insurance (MediShield in 1990, and enhanced MediShield Life in 2015) and a government-funded safety net for the medical expenses of needy Singaporeans who face financial difficulties with their remaining bills after Government subsidies, insurance and MediSave (MediFund in 1993). Healthcare costs are a significant concern for the elderly, and as part of social protection efforts, the government implements schemes to help meet their health financing needs. In addition to allocating more funds to the health sector in the annual fiscal year block budget, the government topped up existing health-related endowment funds from time-to-time to provide greater assurance, such as Medical Endowment Fund. New trust funds are also established to finance medical subsidies and support for the elderly (Table 2). Health-care generational support from trust funds is created using budgetary savings that are accumulated. For instance, the Pioneer Generation Package (2014) provides medical subsidies and medical support to people born in 1949 and before, while the Merdeka Generation Package (2019) provides for those born between 1950 and 1959. These generational packages reduce outpatient medical costs and make insurance premiums more affordable for the elderly. Furthermore, the government is increasing rolling out new initiatives, such as Healthier SG and Age Well SG, to support the physical and social well-being of the elderly.

Education as a Path to Social Mobility

Prior to 2012, education accounted for almost half of total social spending as the objective was to administer universal subsidies so that every child would have access to quality education regardless of background and get off to a good start in life. The government also provides additional support for low-income families to acquire quality education. For example, to equalize opportunities, the government launched a KidStart program in 2016, aimed at reaching out to and supporting children from low-income families. To ensure better employment and income security for workers in a dynamic labor market, the government encourages lifelong learning beyond the traditional schooling years by offering subsidized training to upgrade skills through initiatives, such as Skills Future programs.).

Housing as Part of Social Security

National development accounted for 18% of social development expenditure in 2022, largely supporting public housing initiatives. One of the earliest social policies is "Home Ownership for the People," which was launched in 1964 as home ownership was a key priority of from the early years of Singapore's nation building. Home ownership was made affordable through subsidized public housing. These measures have enabled many citizens to accumulate housing assets as part of Singapore's asset-based social security system. Today, around 90 percent of households own their homes, and many households in rental flats aspire to become homeowners. To help these families own homes, the government introduced the Fresh Start Housing Scheme in 2016. This asset-based social security program enables families with children living in public rental flats to buy a two-room flexi flat or three-room flat on a shorter lease, with additional concessions and support.

Income Security for Workers

Government spending on manpower to help older and lower-wage workers gain financial and income security has increased since 2008 (Figure 2), following the introduction of the WIS scheme in 2007. The WIS boosts the incomes and CPF savings of lower-wage Singaporean workers and encourages them to work regularly. Subsequent initiatives, such as the Workfare Training Support and Progressive Wage Model, were rolled out to further raise wages for the lower income and broad middle class. The Special Employment Credit scheme aims to incentivize employers to retain older workers.

Comprehensive Social Safety Nets

Over and above universal subsidies on education, health and housing, Singapore has a comprehensive assistance scheme under ComCare to tailor to different segments of the population in the bottom income deciles**.** Expenditure on social and family development is designed to provide social safety nets for needy Singaporeans and families with financial or other challenges. This support helps them meet basic needs, address the developmental needs of children and facilitates their integration into society. For example, the ComCare Long-Term Assistance scheme supports individuals who are permanently unable to work and have little or no family support by providing cash assistance, along with automatic eligibility for or referral to other government support schemes. Short- and Medium-Term Assistance offers financial aid to low-income families and individuals to help them through difficult periods and regain stability. Interim Assistance provides immediate financial help to those facing urgent needs, through community touchpoints. Adopting a "whole-of-society" approach, the Ministry of Social and Family Development works closely with the community (ComLink+) to provide comprehensive, convenient, and coordinated (3C) support to uplift lower-income families with children living in public rental housing, helping them achieve stability, self-reliance, and social mobility (3S).[7] Over the past decade, on average, social and family development has accounted for around 7.5 percent of the annual social development budget. However, “assistance is not welfare, it is mutual obligation and not entitlement.” [8]

The "Trampoline" Approach to Support

The number of recipients under various ComCare and public assistance programs has remained fairly stable (Table 1), reflecting Singapore’s notion of a safety net**.** During the 45th St Gallen Symposium, Mr Tharman Shanmugaratnam, then Deputy Prime Minister and Minister for Finance, took a question from BBC Hardtalk interviewer Stephen Sackur about his idea of a safety net, and whether Singapore believed in the notion of a safety net for those who fell between the cracks of a successful economy. Mr Tharman replied: “I believe in the notion of a trampoline.” This notion emphasizes that the government’s role is to help the needy “bounce back from adversity.” [9] Social safety nets such as public assistance programs and other short-term financial support should function like a trampoline, providing temporary support while enabling recovery and resilience.

Old-Age Social Security

On old-age social security, Singapore has a defined contribution system in which both workers and employers give mandated proportions of earnings to the CPF. The government enhances these CPF savings by providing risk-free interest rates with a minimum floor rate of 2.5 percent for the Ordinary Account and 4 percent for the Special, MediSave and Retirement Accounts. The returns on savings are structured to be progressive, with older members and members with lower balances receiving additional interest of up to 2 percent. The accumulated savings are annuitized under the CPF Lifelong Income for Elderly (CPF LIFE). As a life annuity, CPF LIFE provides CPF members with a continuous, lifelong income stream to support retirement. CPF LIFE protects CPF members against longevity risk. Those

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[7] MSF website: https://www.msf.gov.sg/what-we-do/help-those-in-need/article/programmes/comlink

[8] Dr Vivian Balakrishnan, Acting Minister for Community Development, Youth and Sports and Seniors and Minister of State for Trade and Ministry, at the Committee of Supply Sitting, March 10, 2005

[9] Takeaways from the 45th St Gallen Symposium https://www.sg101.gov.sg/resources/connexionsg/quote-tharman-shanmugaratnam/

who are concerned about inflation can opt for the CPF LIFE Escalating Plan, where CPF members receive payouts that increase by 2% each year. While it is not inflation-indexed, it provides some protection against inflation risks.[10] Given that CPF is a contributory system fully funded by employees and employers, a major concern is its adequacy, especially for members who have not had a full career or have earned a low income. To address the issue of adequacy, the government introduced the Silver Support Scheme for workers who have earned a low income throughout their working lives and have little or no family support. In his roundup speech for Budget 2015, then Deputy Prime Minister Tharman and Minister for Finance, Shanmugaratnam highlighted that “a strong element of collective responsibility built into the CPF scheme. The Government provides support through the Budget to lower income members and provides assurance to all.” When first introduced in 2016, the scheme provided quarterly cash supplements ranging from SGD300 to SGD 750) to seniors who had low incomes during their working years and have less in retirement. From January 2025, the silver support benefits will be enhanced with payouts ranging from SGD215 to SGD1080, depending on monthly income per person and housing types.

2. Financing Social Spending: Fiscal Management and Budgetary Process

12. Singapore's social spending combines block budgeting with earmarked financing through special transfers and top-ups to endowment and trust funds (Figure 2).[11] Most of Singapore’s social protection expenditures are funded through the annual budgets of the respective Ministries. Social spending continues to account for the largest share of Ministry expenditures, making up about half of total Ministry spending. In addition, Special Transfers refer to direct transfers made by the Government to individuals and households as part of social protection efforts. The Government has also set up endowment and trust funds to support certain social protection programmes. The scope of spending for each fund is clearly defined in legislation and other governance documents. To ensure sufficient funding for these programmes, the Government periodically tops up these funds through the annual budget. For example, in FY2023, social spending by Ministries amounted to SGD 52.0 billion. There were also earmarked Special Transfers for cost-of-living special payments and Community Development Council (CDC) vouchers, to help individuals and families cope with higher costs of living due to inflation. Excluding funds not directly related to social programs presented in

[10] Strictly speaking, since CPF-LIFE escalating plan gives lower payouts in the initial period for higher payouts later, payouts are not inflation indexed but help provide some protection against inflation risks. To have inflation indexed payouts, the CPF LIFE plan would likely require higher premiums from CPF members.

[11] For details on Singapore’s budgetary process, see Chia N.C. 2014. Uniquely Singapore’s Budgetary System and Social Protection Financing Schemes, Singapore Economic Review, Vol. 59, No. 3.

Table 3, these government transfers amount to 3.0 percent of GDP. Table 4 itemizes spending from endowment and trust funds strengthens the social compact in health (Pioneer Generation Fund, Merdeka Generation Fund, Medical Endowment Fund), education (Edusave, Lifelong Learning), employment and income security for vulnerable workers (Employment Credit Schemes, Progressive Wage Credit,) intermediate and long-term care support (ElderCare Fund, Long-Term Care Support) and support for the elderly to age in place (Community Silver Trust). Again, if expenditure that is not directly related to social programs is excluded, the government would have spent 1.3 percent of GDP from these funds' returns on social protection.

13. Singapore's social spending extends beyond block budget allocations, with additional funding from special transfers and trust fund returns. Actual government spending exceeds Ministry budget allocations (Tables 3, 4). Considering both special transfers to support designated social expenditures and top-ups to endowment and trust funds, total social spending was augmented by an additional 4 percent of GDP in FY2023. For example, the social safety net financed by the ComCare Endowment Fund helps vulnerable segments of society. ComCare marks an ideological shift toward helping needy Singaporeans and ensuring that no one will be left behind (Ministry of Finance, 2005).[12] In FY2021, about SGD177 million was disbursed through various ComCare programs. Of this amount, SGD97 million, or 55 percent, was covered by the block budget allocated to the MSF, while the remaining SGD80 million, constituting 45 percent of total disbursement, was funded from returns generated by the ComCare Fund (MSF, ComCare Fund, 2021). Therefore, relying solely on statistics based on Ministry budgets would understate the total support provided to the needy.

14. Singapore's reliance on endowment and trust funds, established during budget surpluses, ensures sustainable social spending without increasing taxes excessively, reflecting fiscal prudence and a whole-of-government approach to supporting key pillars of the social compact. Singapore has opted to supplement its funding of social protection by using endowment and trust funds, exemplifying fiscal prudence and ensuring the long-term sustainability of social spending**.** These funds were set up from budgetary savings because the government views expenditure as a long-term social investment. This is fiscal prudence. Moreover, pre-funding social spending through endowment and trust funds is more sustainable than raising taxes. This approach to funding allows the government to establish funds during periods of budgetary surpluses, in anticipation of needs ahead of time.

[12] Budget Statement, p. 24.

Through new capital injections and regular top-ups, these funds have grown, supported by budget surpluses and strategic budget priorities. The expanded funds help generate a larger income stream to support the government's social protection initiatives. This approach to funding also ensures that social spending in Singapore remains sustainable and does not create government debt for future generations. Table 2, which summarizes the funds designed to build the social compact in key pillars such as education, health, housing, manpower and community support, reflects the whole-of-government approach to social protection, in which various government agencies are involved in managing and administering these funds to deliver social protection to targeted recipients. The table details the year each fund was legislated, the government ministry responsible for managing the fund, its intended use, and the fund size as of FY2022-2023.

2.1. Budgetary Process, Budget Review and Assessment

15. When initiating a new program or expanding an existing scheme, the MOF works with the respective line ministries to establish parameters and consult on budget availability. This practice aligns with Singapore's block budgeting system, wherein ministries are required to submit five-year budget proposals to the MOF. To prevent overcommitment, line ministries are required to hold prior consultations with the MOF. Parameter setting and budget consultation occur early in the program's development, before the proposals are submitted to Parliament for approval. If additional funds are needed, the line ministries will submit a request to the MOF for an additional budget.

16. As discussed above, Singapore draws on three main funding sources for social protection programs: Ministry budgets, the majority of which are determined by Block budget allocations; endowment and trust funds; and Special Transfers.[13] As the block budget is used for programs that are stable, predictable, and regular in nature, the MOF does not oversee these schemes directly. After all, block budgeting allows individual ministries the flexibility to manage their own finances without line-by-line control. In addition to the block budget, there is ring-fenced expenditure, which is part of the central government budget and is used for programs that require stricter MOF oversight. While the MOF does not provide specific guidelines for programs funded through ring-fenced expenditure, it maintains communication with the ministries responsible for these social protection programs. This

[13] For more information on the rules and provisions of the top-down budgeting framework, see Chia (2014). Within this framework, ministries are allocated a block budget that covers all their expenses, including operating costs, development expenditures and transfers, and each ministry has the autonomy to make final allocation decisions within its respective functions.

setup enables the MOF to intervene as necessary, applying a risk-based approach that varies with the likelihood of a program's success.[14]

17. The Singaporean government does not have legislated statutory spending related to an overarching "social protection" program; however, each endowment and trust fund set up to achieve specific social objectives is legislated. The budgeting process for social protection does not differ from any other government programs. In allocating resources to government spending priorities, the MOF adheres to the same overall fiscal discipline and fiscal rules. Each year's budget may run a surplus or deficit, but the Constitution requires the government to keep a balanced budget over each term of government. The fundamental approach to managing social protection programs in Singapore is to ensure they are prudent, need-based, and fiscally sustainable.

18. The MOF conducts its own mid-term reviews, and program outcomes that reflect key performance indicator achievements affect the budget allocations to programs in the next budgeting cycle. To set up medium-term cost projections, the MOF involves the line ministries, and the whole process is done for forecasting purposes only and is not legally binding. Sustainability assessment of medium-term trust and endowment funds is not required by law.

19. Singapore's use of robust endowment and trust funds, supported by regular top-ups and stable returns, ensures sustainable social protection initiatives. Supporting social protection using endowment and trust funds is one way for the government to manage and allocate resources to achieve social objectives and deliver social commitments. For instance, the Pioneer Generation Fund, which was established with SGD8 billion in 2014 to support the health care needs of citizens who were 65 and above in 2014, had a healthy balance of SGD5.85 billion in FY2022-2023 (SingaporeFY2022-2023 Government Financial Statements). The GST Voucher Fund was set up in 2012 with SGD2.95 billion to defray GST-related expenses for lower- and middle- income Singaporean households and ensures that the lower-income bears a lower effective GST rate. Since 2012, it has received various top-ups from the annual budget. In FY2022-2023, the fund received an SGD2.4 billion injection and reached SGD9.35 billion (Table 2). It supports the Assurance Package, which was announced at Budget 2020 to ease the impact of the planned 2%-point GST increase. The Assurance Package provides financial aid in various forms, such as cash payouts, MediSave Account top-ups and rebates to support households s. The Assurance Package will be disbursed over five years (2022-2026), starting in December 2022. Singapore needs to

[14] For this paper, MOF and MSF officials shared insights into the budgetary process of social protection programs.

continue maintaining a strong fiscal position to ensure the financial sustainability of its funds and to support the special transfers through annual budgets.

2.2. Fiscal Prudence and Sustainability: Past Reserves, Net investment Returns Contribution

20. Singapore's fiscal discipline and reserve accumulation stems from it being a small country without natural resources. This has necessitated a focus on building up reserves to ensure economic stability and growth. Fiscal discipline has enabled Singapore to accumulate reserves during times of rapid economic growth. By constitutional mandate, the government must consciously exercise fiscal discipline to achieve a balanced budget over each term of government. Budgetary surpluses during the term of government or current reserves could be used for special transfers and earmarked expenditures. Reserves are strategic assets of Singapore, with strict rules governing both their protection and usage**.** The current reserves are savings accumulated during the current term of government. There are fiscal rules to protect "Past Reserves," which are reserves not accumulated by the government during its current term of office but by previous terms of government.[15] Past Reserves include financial assets like loans and equity holdings as well as physical assets such as state land and buildings. Under a dual-key system, the government can draw on Past Reserves only with the approval of the President. Past Reserves are managed and invested by the Monetary Authority of Singapore (MAS), the Government of Singapore Investment Corporation (GIC) and Temasek Holdings. The usage of returns generated by Past Reserves is bound by strict regulations to ensure intergenerational equity. Usage rules that are too relaxed could lead to undersavings and shortchange future generations, while overly strict rules might result in excessive savings at the expense of the well-being of the current generation and potential economic growth.

21. Two major constitutional amendments govern the usage of returns from Past Reserves. In 2001, the government introduced a cap on the usage of net investment income (NII). NII refers to dividends, interest and other incomes earned from investing Singapore's national reserves after deduction of investment costs. With the 2001 amendment, the government can use only up to half of the NII for the annual budget, with at least the other 50 percent being safeguarded as part of the Past Reserves (MOF, 2020). In 2008, further constitutional amendments on the usage of investment returns from Past Reserves led to the introduction of the Net Investment Return (NIR) framework**.** NIR is based on the long-term

[15] See https://www.mof.gov.sg/policies/reserves

expected real returns, including capital gains, from net assets managed by the MAS and GIC. The net investment returns contribution (NIRC) was introduced, to include NII and NIR, increasing the amount of investment returns available for the government annual budget while still maintaining the 50 percent protection threshold. In 2015, a further amendment was made to include Temasek in the NIR framework, as planned when the NIR was first introduced. The enhancement, alongside other revenue moves, were part of a set of measures to enhance fiscal sustainability and ensure a fair balance between current and future needs. For example, the enhancements support Singapore’s longer term spending needs as an ageing society, with demographic changes leading to higher spending and lower revenue.

22. The Net Investment Returns Contribution (NIRC) to Singapore's annual budget has significantly increased over the years. Between 2001 and 2007, NII on average added about SGD2.5 billion to the annual budget. In FY2009, with the introduction of the NIR framework alongside NII, the NIRC supplemented the annual budget with about SGD 7 billion. In FY2016, after factoring in Temasek’s contributions, the NIRC rose to about SGD 15 billion. After the pandemic, annual NIRC reached about SGD20 billion. The NIRC to the annual budget in terms of percentage of GDP has increased as a result of earlier moves (Figure 3), highlighting its growing role in bolstering the annual government budget. In terms of percentage GDP, NIRC rose to 2.4 percent of GDP when the NIR framework was adopted, and to 3.2 percent with Temasek’s inclusion. The government expects the NIRC to be stable in terms of percentage of GDP going forward. The government’s overall budgetary position is assessed after including long-term government expenditure (top-ups to funds) and ring-fenced prioritized expenditure (special transfers), along with net investment contributions to the primary balance (Table 5). The government’s overall budgetary position is assessed after including long-term government expenditure (top-ups to funds) and ring-fenced prioritized expenditure (special transfers), along with net investment contributions to the primary balance (Table 5).

23. Prudent fiscal policies have enabled Singapore to continue rolling out social programs despite challenges such as economic uncertainty, the aging population and growing income disparities. Figure 4 illustrates the various sources of funding for social spending from FY1997 to FY2022. The social spending by Ministries, represented by the blue line, shows an upward trend. The difference between the orange and green bars indicates the amount of special transfer.[16] A parallel trend is also observable between the

[16] Special transfers are not exclusively allocated to social protection. These transfers may also be directed toward government priorities other than social protection, such as developing research and development initiatives or enhancing productivity (Table 3).

government's social spending by Ministries and the NIRC. Overall, funding for social protection is on the rise. The upward trend became more pronounced following the introduction of the NIRC framework in FY2009. Specifically, a notable uptick has been seen in special transfers for earmarked expenditures, and in establishing new funds and topping up existing funds. New funds often have larger initial capital injections, the SGD8 billion Pioneer Generation Fund for example, while existing funds such as the Medical Endowment Fund, ElderCare Fund, ComCare Endowment Fund and GST Voucher Fund have seen more frequent top-ups. The government's overall budgetary position is assessed after including long-term government expenditure (top-ups to funds) and ring-fenced prioritized expenditure (transfers), along with net investment returns contribution in the primary balance. The Government maintained endowment and trust funds for specific purposes, including to strengthen social compact. (Table 2). The special transfers on cost-of-living special payment, CDC (shopping) vouchers and other transfers are primarily to help individuals and families cope with the higher cost-of-living due to inflation (Table 3). Taken together, the government's allocation of budget to earmarked expenditures and top-ups to endowment and trust funds is at 4% of GDP in FY 2023. Table 4 shows the spending from endowment and trust funds to strengthen social compacts in various aspects**.** This includes health (Pioneer Generation Fund, Merdeka Generation Fund, Medical Endowment Fund), education (Edusave, Lifelong Learning), employment and income security for older workers (Employment Credit Schemes, Progressive Wage Credit,) intermediate and long-term care support (ElderCare Fund, Long-Term Care Support) and support for the elderly to age in place (Community Silver Trust). Taken together, in FY 2023, spending from endowment and trust fund is at 1.4% of GDP.

3. COVID-19 Pandemic and Reform Priorities

24. Singapore's swift and proactive response to the COVID-19 pandemic is evident in the issuance of four budgets. The pandemic affected social interactions, economic activities and health spending, and decelerated global trade and investment. In response to COVID-19, the Minister for Finance introduced four budgets in a single year, aptly named Unity, Resilience, Solidarity and Fortitude Budgets, with a total of SGD52 billion approved from Past Reserves to prioritize support for the response to the pandemic. The issuance of four budgets in a year is a testament of the Singaporean government's proactive and timely response driven by the urgent need to protect lives and livelihoods. Table 5 presents the government's budget deficits for FY2020 and the requested (and approved) amount to be drawn from Past Reserves to support the three supplementary budgets.

3.1. Responses to COVID-19 through Three Supplementary Budgets

Unity Budget

The annual budget, Unity Budget was delivered on February 18, 2020. The Deputy Prime Minister and Minister for Finance announced two critical packages totaling SGD5.6 billion to support households and businesses (Ministry of Finance, 2020b).[17] The Care and Support Package allocated SGD1.6 billion to help households defray expenses through cash payouts, workfare payments, grocery vouchers, rebates on utilities and service and conservancy charges. A larger package, the Stabilization and Support Package totaling SGD4 billion, targeted businesses. Of this amount, SGD2.9 billion was dedicated to support and job retention under the Jobs Support Scheme (JSS). The government provided wage support for employers to retain local employees by subsidizing 8 percent of monthly gross wages up to a cap of SGD3,600 for three months.

Resilience Budget

The first supplementary budget, known as the Resilience Budget, which was announced on March 26, 2020, and amounted to SGD48 billion, also aimed to save jobs, support workers, protect livelihoods, and help businesses navigate challenges posed by the pandemic. Many firms could not operate or had to reduce operations, and government help was needed for employers to retain and pay workers. Thus, the focus of the Resilience Budget was on saving jobs, with SGD13.7 billion, about 80 percent of the SGD17 billion requested from Past Reserves, directed to the JSS to help severely affected sectors (Ministry of Finance, 2020c).[18] The JSS was enhanced by increasing the wage cap and extending its reach, subsidizing a quarter of the first SGD4,600 of gross monthly wages for all local workers. To aid more severely hit sectors, the wage subsidy was increased to 50 percent for food services, and to 75 percent for the aviation and tourism sectors. The remaining 20 percent of the requested SGD17 billion from Past Reserves was used to help self-employed individuals, support the aviation sector and ensure businesses could maintain access to credit. As the pandemic severely affected the livelihoods of the self-employed, this group of individuals had a pressing need for social protection. For the first time, under the Self-Employed Person Income Relief Scheme (SIRS), the government provided direct cash assistance to self-employed people, earmarking SGD1.2 billion to grant SGD1,000 per month of cash assistance for nine months to those eligible.[19]

[17] See paragraph A8

[18] See paragraph C10.

[19] About SGD 1.8 billion has been paid out from April to December 2020 to support self-employed persons affected by the COVID-19 situation.

Solidarity Budget

On April 6, 2020, a day before the start of a four-week lockdown known as the circuit breaker, when stringent safe distancing measures were implemented, the second supplementary budget, called Solidarity Budget, was announced. This was the first budgetary move to offer direct cash assistance to households under the Care and Support Package aimed at helping them weather the difficult period (Ministry of Finance, 2020d).[20] The Solidarity Budget also raised the wage subsidy to 75 percent of gross monthly wages for all firms, for the first $4,600 of wages paid in April 2020, for each local employee. In addition to supporting manpower costs, it introduced initiatives to reduce rental costs of businesses through property tax rebates and other business financing measures. In response to feedback from self-employed people whose livelihoods were affected and whose incomes would further drop during the circuit breaker, the Solidarity Budget broadened the eligibility criteria to extend social protection more broadly. The cash assistance granted under SIRS would cover self-employed individuals living in moderate-value condominiums and other private properties and those who earn a small income from employment.

Fortitude Budget

As the impacts of the pandemic worsened, with the circuit breaker and movement restrictions hindering economic activities and leading to further downgrades in GDP growth forecasts, the Minister for Finance introduced the third supplementary budget that amounted to SGD31 billion on May 20, 2020, named Fortitude Budget, funded by Past Reserves. This was to address the challenges of COVID-19 and to position Singapore for a stronger recovery (Ministry of Finance, 2020e). [21] This budget was delivered as Singapore emerged from the circuit breaker. The concern was that businesses would not be able to return immediately to pre-circuit breaker levels of operation. The central thrust of the Fortitude Budget was in saving jobs and protecting the livelihood of workers. It extended the JSS by one month to August 2020 for all firms and would cost the government SGD2.9 billion. Sectors that were unable to resume operations right after the circuit breaker, such as retail outlets, gyms, fitness studios and cinemas, would receive 75 percent wage support. For more severely hit industries, such as aviation and construction, the wage support would rise from 25 percent to either 50 percent or 75 percent. The Fortitude Budget sought to strengthen social resilience through digital inclusion, turning challenges to strengths.

[20] See paragraph B2

[21] See paragraph A20, B8 to B16, D1.

3.2 Past Reserves Enabled Timely, Comprehensive and Decisive Responses to COVID-19

25. The social protection measures were timely, comprehensive and decisive. The JSS helped to retain jobs and workers, as "many businesses have found the support useful, and have factored it into their decision to retain jobs and workers." It was enhanced and expanded over four budgets, and "will flow a total of $23.5 billion to support 1.9 million jobs over 10 months. Close to two-thirds of these jobs are in our SMEs. Over $11 billion have already gone out to help employers defray wage costs (Ministry of Finance, 2020f)."[22] Under the JSS, the government disbursed SGD23.5 billion to businesses to support wage costs. While it might seem to support businesses directly, its primary purpose was to support employment by helping businesses cover wage costs. This enabled them to retain and pay workers. In Budget 2021, JSS was extended for up to six months, covering wages from April to September 2021, with support varying by sector. Ultimately, the JSS was a crucial social protection measure to provide workers with income security. These measures were also estimated to save or create 155,000 jobs on average over 2020 and 2021 and prevented the resident unemployment rate from rising a further 2 percentage points in 2020. Lower-income households received more help from the higher levels of support granted by some of the measures, such as Special Payment and Grocery Vouchers (Ministry of Finance, 2021).[23]

26. However, due to whole-of-government swift and decisive actions, worse public health outcomes were averted, and Singapore experienced a stronger-than-expected rebound, eliminating the need for businesses to use backup measures such as loanloss provisions. Consequently, the actual usage of the Past Reserves for COVID-19 measures turned out to be lower, totaling SGD31.9 billion. Presidential approval was granted to reallocate SGD11 billion of the requested Past Reserves to fund a COVID-19 Resilience Package in FY2021. In FY2022, this allocation was adjusted down to SGD5 billion. The reason was that government ministries had underused their budgeted funds because of project delays caused by COVID-19, as well as unexpected revenue increases from vehicle quota premiums and stamp duties. The excess SGD6 billion was instead allocated toward maintaining a multilayered public health defense. With these two adjustments, the total draw on Past Reserves over FY2020 to FY2022 was SGD40 billion (Ministry of Finance, 2022).[24] This allocation significantly surpassed the amount drawn

[22] See paragraph B6.

[23] See paragraph A5

[24] See paragraph 304 to 310.

during the 2009 global financial crisis,[25] but the total usage ended up being about $40 billion or 77 percent of the initial SGD52 billion that the President had approved for FY2020.[26] It demonstrated the government's ongoing commitment to exercise prudence in using the Past Reserves, even when funds had been approved for spending.

27. The pandemic disrupted the budgetary process, leading to an overall budget deficit, at a historic magnitude (Figure 5). The revised estimate for FY2020 showed an overall budget deficit of 10.5 percent of GDP. Government spending in terms of special transfers and top-ups also hit a historical high of 9.23 percent of GDP.27 It "took just three months into FY2020 to use up the accumulated surplus that the current term of Government has built up since the start of this term of Government (Ministry of Finance, 2020f)."[28] For most countries, borrowing was the way to fund a large stimulus package in response to the pandemic. This method would increase the risk of unsustainable debt servicing, passing on the debt burden to future generations and affecting the economy in the long run.

28. The Constitution mandates the government to finance its expenditure with recurrent revenue and to maintain a balanced budget over its term of government. Such fiscal discipline and prudence have allowed previous terms of government to accumulate substantial reserves. The pandemic demonstrated that the available resources were crucial in implementing effective responses. Before the pandemic, operating revenue from various taxes was sufficient to cover total expenditure (Figure 6). Notably, surpluses were recorded during some financial years, specifically from 2006 to 2008 and from 2010 to 2015, when operating revenue surpassed total expenditure. Primary sources of revenue included corporate income tax, personal income tax, asset tax and GST. Furthermore, the NIRC, which was made up of income streams derived from the accumulated reserves, increased its contribution to the annual budget (Figure 5).

29. To ensure sustainable financing of social protection, Singapore must strive to achieve budget surpluses by raising more tax revenues, as expenditures are

[25] In the first episode of using the Past Reserves, in 2008, the global financial crisis triggered a withdrawal of SGD4.5 billion to fund a Job Credit Scheme to retain jobs, and another SGD338 million to support special risk-sharing initiatives to stimulate bank lending.

[26] For details about the use of the draw on Past Reserves FY2020 to FY2022, refer to https://www.mof.gov.sg/docs/librariesprovider3/budget2023/download/pdf/annexa1.pdf

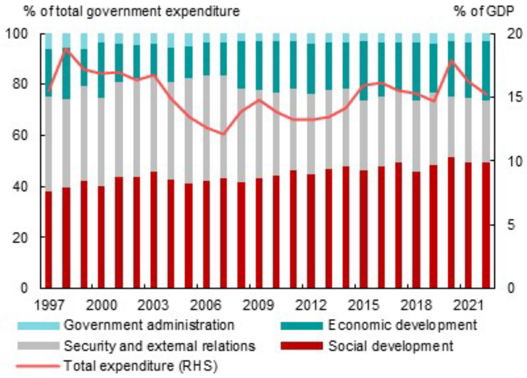
[27] Singapore Department of Statistics. https://tablebuilder.singstat.gov.sg/table/TS/M130661

[28] See paragraph C15.

projected to grow. Social spending now constitutes almost half of total government spending (Figure 1), with healthcare getting the largest allocation (Figure 2). Social protection programs are also funded through special transfers, and endowment and trust funds (Figure 4). A budget surplus will enable reserves to grow. The reserves must continue to yield strong returns despite the more challenging global investment landscape. By doing so, the social protection financing model using the NIRC, transfers and funds will remain sustainable.

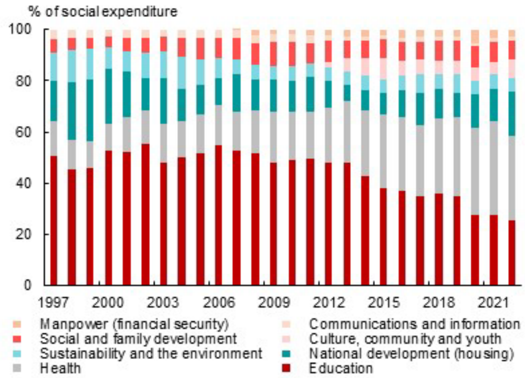
Appendix IX.1. Selected Figures

Figure 1. Components of Government Expenditure by Functions



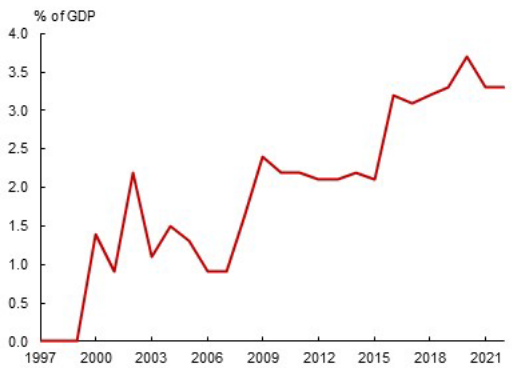
Source: Singapore, Department of Statistics

Figure 2. Sectoral Composition of Total Social Spending



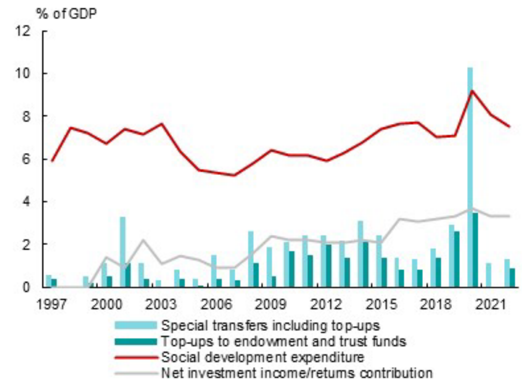
Source: Singapore, Department of Statistics

Figure 3. Net Investment Returns Contribution



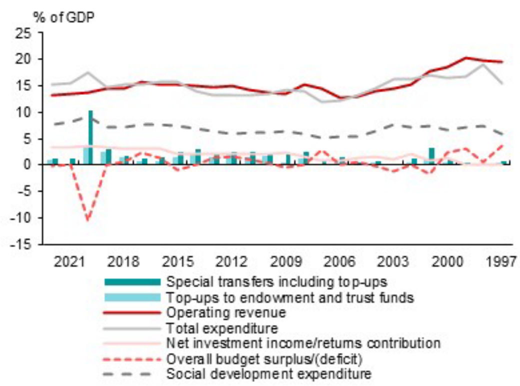
Source: Singapore, Department of Statistics

Figure 4. Social Development Expenditure, Transfers, and Top-ups to Funds



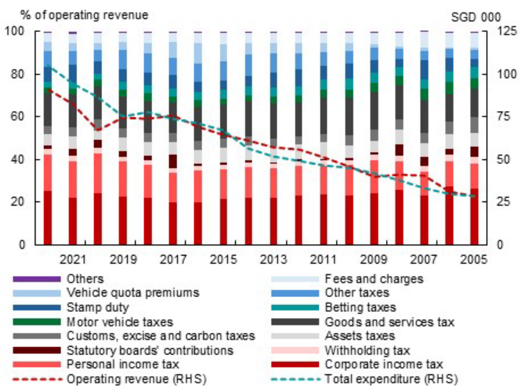
Source: Singapore, Department of Statistics

Figure 5. Aggregate Fiscal Indicators, 2022-1997



Source: Singapore, Department of Statistics

Figure 6. Total Expenditure and Operating Revenue Trends with Composition, 2022-2005



Source: Singapore, Department of Statistics

Appendix IX.2. Selected Tables

Table 1. Social Protection Indicators

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Education (% of GDP) [1]	1.90	2.21	2.54	2.47	2.53	2.68	2.83	2.82	2.91	3.02	2.85	3.06	3.02	3.08
Health (% of GDP)	n.a.	n.a.	2.9	3.2	2.2	2.1	2.1	2.1	2.0	1.8	1.5	1.3	1.2	1.2
Housing (% of GDP) [1]	1.32	1.00	1.21	0.69	0.81	0.94	0.80	0.63	0.54	0.41	0.62	0.85	0.74	0.80
Manpower (Financial Security) (% of GDP) [1]	0.23	0.27	0.48	0.20	0.20	0.22	0.26	0.17	0.18	0.17	0.13	0.13	0.11	0.13
Social And Family Development (% of GDP) [1]	0.54	0.63	0.78	0.57	0.54	0.54	0.56	0.53	0.45	0.43	0.48	0.51	0.60	0.59
Comcare Long Term Assistance For Households (Number)	n.a	3,718	3,926	4,078	4,156	4,261	4,409	4,387	4,248	3,846	3,568	3,420	3,370	3,253
Total Residents in Homes for the Aged	17,757	16,811	15,479	15,227	14,755	13,706	12,777	11,712	11,078	10,547	10,410	10,016	9,904	9,755
Proportion in Subsidised Homes (%)	61.1	63.0	65.7	66.1	67.6	69.5	69.3	69.9	70.7	68.7	68.6	68.8	69.3	70.5
Gini coeff (before govt transfer and taxes)	0.433	0.437	0.444	0.452	0.452	0.458	0.459	0.458	0.463	0.464	0.463	0.478	0.473	0.472
Gini coeff (after govt transfer and taxes)	0.371	0.378	0.385	0.375	0.398	0.403	0.402	0.401	0.409	0.411	0.409	0.432	0.423	0.425

Source: Singapore, Department of Statistics; Ministry of Social and Family Development; Ministry of Health

Notes: n.a. means not available. 1) In the computations, social expenditures are spending over the fiscal year, whereas GDP are in calendar years.

Table 2. Summary of Endowment and Trust Funds Supporting Social Compact

Social Compact	Legislation	Fund (established year, ministry)	Fund size 2022-2023 (SGD bn)[1)]	Purpose/Programs
Endowment Fund				
Education	Education Endowment and Savings Schemes Act	Edusave (1992, MOE)	6.76	- Broad-based school fee subsidies for all students - Financial support for low-income households - Use of Edusave for educational activities - Edusave awards to well-performing students - MOE Financial Assistance Scheme to cover schooling costs - KidStart program to support preschoolers from low-income households
		Lifelong Learning Endowment Fund (2001, MOE)	5.06	SkillsFuture - Financial assistance or incentives for people to acquire, develop or upgrade skills and expertise to enhance employability - Research and development of learning methods and technology to help people acquire, develop or upgrade skills and expertise
Health Care	Medical and Elderly Care Endowment Scheme Act	MediFund (1993, MOF) MediFund Silver (2007, MOF)	4.85	Safety net for Singaporeans who face financial difficulties with their remaining bills after Government subsidies, insurance and MediSave, incurred at a MediFund-approved institution. Every MediFund-approved institution has an independent MediFund Committee to consider and approve applications, and to decide on the appropriate quantum of assistance to provide.
		ElderCare Fund (2000, MOH)	3.68	To support the financing of operating subsidies for intermediate and long-term care (ILTC) services. The Fund has financed nursing home subsidies, as well as supported other subsidised ILTC services provided by the same nursing home provider.
Community Support	Community Care Endowment Fund (2005, MSF)	ComCare (2005, MSF)	2.43	Social assistance and support - Help for individuals and their family who are facing financial or other difficulties, so they can earn enough income to meet basic needs, address developmental issues faced by their children and integrate into society - Grants to organisations to develop programs that enhance the capacity of the community
Trust Fund				
Health-care Generational Support	Pioneer Generation and Merdeka Generation Funds Act 2014	Pioneer Generation Fund (2014, MOF)	5.85	Health care needs of generations born before 1950 - Outpatient care subsidies, annual MediSave top-ups, subsidies for MediShield Life and CareShield Life premiums, cash payouts under PG Disability Assistance Scheme - Benefits disbursed by the Central Provident Fund Board, Agency for Integrated Care and health care clusters: National Healthcare Group, National University Health System and Singapore Health Services

Social Compact	Legislation	Fund (established year, ministry)	Fund size 2022-2023 (SGD bn)[1)]	Purpose/Programs
		Merdeka Generation Fund (2019, MOF)	5.68	Health care needs of those born between 1950 and 1959 - Annual MediSave top-ups from 2019 to 2023, subsidies for MediShield Life premiums, CareShield Life participation incentives, outpatient care subsidies - Benefits disbursed by the Central Provident Fund Board and healthcare clusters: National Healthcare Group, National University Health System and Singapore Health Services
	CareShield Life and Long-Term Care Act 2019	Long-Term Care Support Fund (2020, MOF)	4.95	Long-term care financing support for persons with severe disability - Fund CareShield Life premium subsidies and incentives - Fund costs of prescribed public schemes that provides financial support for persons with disability, such as the ElderFund scheme.
Cost of Living	Goods and Services Tax Voucher Fund Act 2012	GST Voucher Fund (2013, MOF)	9.35	- Financial assistance (including cash grants, grantsinaid, rebates, reliefs, subsidies and credits) under a public scheme to mitigate the impact of GST on living expenses - GST Voucher in cash for lower-income Singaporeans - GST Voucher through CPF MediSave account top-ups for elderly aged 65 and above - S&CC Rebate to offset service and conservancy charges - GST Voucher through U-Save to offset utilities bills - Assurance Package cushions impact of GST rate increase on all Singaporeans in addition to permanent GST Voucher scheme

Source: Accountant-General's Department

Note: 1) The fund size shows the accumulated fund net of spending. The accumulation includes fund top-ups and returns from investment.

Table 3. Components of Special Transfers, Revised FY2023

	Revised FY2023 (SGD million)
Special Transfers[1)]	27,169
Special Transfers Excluding Top-ups to Endowment and Trust Funds	
Cost-of-Living Special Payment	1,549
CDC Vouchers	635
Other Transfers[2)]	664
Sub-total	2,849
Top-ups to Endowment and Trust Funds	
Majulah Package Fund	7,500
National Productivity Fund	4,000
Goods and Services Tax Voucher Fund	2,400
Progressive Wage Credit Scheme Fund	2,400
Changi Airport Development Fund	2,000
Medical Endowment Fund	1,500
Trust Fund for the Employment Credit Schemes	1,500
National Research Fund	1,200
Community Silver Trust Fund	1,000
ElderCare Fund	500
Community Care Endowment Fund	300
Public Transport Fund	20
Sub-total	24,320

Source: MoF

Note: 1) Special Transfers include top-ups to endowment and trust funds. 2) Includes GST Voucher Special Payment, top-ups to Edusave, PostSecondary Education and Child Development Accounts, CPF MediSave top-ups, CPF Transition Offset, S&CC rebates, Jobs Support Scheme, top-ups to self-help groups, Rental Support Scheme, Workfare Special Bonus, Passion Card top-ups, Wage Credit Scheme, Productivity and Innovation Credit, Household Utilities Credit, Cash Grant to Mitigate Rental Costs, Self-Employed Persons Income Relief Scheme, Cash Rebate for School Buses, Grocery Vouchers.

Table 4. Spending from Endowment and Trust Funds

	Revised FY2023 (SGD million)
Total Spending	9,635
Goods and Services Tax Voucher Fund	3,758
Progressive Wage Credit Scheme Fund	2,547
National Research Fund	804
Skills Development Fund	371
Pioneer Generation Fund	321
Trust Fund for the Employment Credit Schemes	295
Merdeka Generation Fund	242
Edusave Endowment Fund	184
Medical Endowment Fund	176
Community Silver Trust	154
Long-Term Care Support Fund	150
Lifelong Learning Endowment Fund	144
ElderCare Fund	134
Others[1]	134
National Productivity Fund	133
Community Care Endowment Fund	89

Source: MoF

Notes: Figures may not add up due to rounding. 1) Consists of funds with spending less than SGD500 million. Bus Transport Fund, Service Enhancement Fund, Community Capability Trust Fund, Cultural Matching Fund, National Youth Fund, Public Transport Fund, SG Eco Fund, and Singapore Universities Trust Fund.

Table 5. Government Fiscal Position FY2020, SGD billion

	Unity	Resilience	Solidarity	Fortitude
	18 Feb 2020	26 Mar 2020	6 Apr 2020	26 May 2020
Operating Revenue (1)	76	70.8	70.4	68.8
Total Expenditure (2)	83.6	89.1	89.8	110.5
Primary Surplus/Deficit (3) = (1)-(2)	-7.6	-18.3	-19.4	-41.7
Special Transfers exc top-ups to funds (4)	4.7	22.3	26.3	33.9
Basic Surplus/Deficit (5) = (3) - (4)	-12.3	-40.5	-45.6	-75.6
Top-ups to Endowment and Trust Funds (6)	17.3	17.3	17.3	17.3
Net Investment Returns Contribution (7)	18.6	18.6	18.6	18.6
Overall Budget Surplus/Deficit (5) - (6) + (7)	-10.9	-39.2	-44.3	-74.3
Withdrawal from Past Reserves		17	4	31

Source: MoF; Author's compilation

Note: The total draw on past reserves to finance COVID-19 response measures across FY2020 to FY2022 was about SGD40 billion, which was roughly 77 percent of the initial SGD52 billion that the President originally approved for FY2020.

Appendix IX.3. Supplementary Tables

Table 6. Singapore Economy Macro Indicators

Macro Indicators	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Per Capita GDP (SGD)	113,779	121,914	106,942	84,808	90,145	90,157	84,460	78,610	76,503	72,938	71,283	69,417	67,783	64,408
Per Capita GDP (US Dollar)	84,714	88,414	79,570	61,491	66,079	66,828	61,172	56,902	55,647	57,563	56,967	55,547	53,886	47,237
CPI	113.6	108.4	102.1	99.8	100	99.4	99.0	98.4	99.0	99.5	98.5	96.2	92.0	87.4
Total Resident Labor Force Participation Rate	68.6	70.0	70.5	68.1	68.0	67.7	67.7	68.0	68.3	67.0	66.7	66.6	66.1	66.2
Male Resident Participation Rate	74.9	77.0	77.2	75.4	75.4	75.6	76.0	76.2	76.7	75.9	75.8	76.0	75.6	76.5
Female Resident Participation Rate	62.6	63.4	64.2	61.2	61.1	60.2	59.8	60.4	60.4	58.6	58.1	57.7	57.0	56.5
Total Unemployment Rate	1.9	2.1	2.7	3.0	2.3	2.1	2.2	2.1	2.0	1.9	2.0	1.9	2.0	2.2
Resident Unemployment Rate	2.7	2.8	3.6	4.1	3.2	2.9	3.1	3.0	2.8	2.8	2.9	2.8	2.9	3.1

Source: Singapore, Department of Statistics

Table 7. Social Indicators

Social Indicators	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Total Population (Number, million)	5.92	5.64	5.45	5.69	5.70	5.64	5.61	5.61	5.54	5.47	5.40	5.31	5.18	5.08
Resident Population (Number, million)	4.15	4.07	3.99	4.04	4.03	3.99	3.97	3.93	3.90	3.87	3.84	3.82	3.79	3.77
Resident Population Growth (Percent)	1.9	2.2	-1.4	0.4	0.8	0.7	0.8	0.8	0.8	0.7	0.7	0.8	0.5	1.0
Rate Of Natural Increase (Per Thousand Residents)	1.2	1.6	2.7	3.3	3.7	3.7	4.0	4.6	4.9	5.1	4.6	5.6	5.1	4.9
Median Age of Resident Population (Years)	42.4	42.1	41.8	41.5	41.1	40.8	40.5	40.0	39.6	39.3	38.9	38.4	38.0	37.4
Proportion of Elderly (65 Years & Over) Among Residents (Percent)	17.3	16.6	16.0	15.2	14.4	13.7	13.0	12.4	11.8	11.2	10.5	9.9	9.3	9.0
Resident Old-age Support Ratio (number): young (15-64) per old (65+)	4.0	4.1	4.3	4.6	4.9	5.2	5.5	5.8	6.2	6.6	7.0	7.4	7.9	8.2
Resident Total Fertility Rate (Per Female)	0.97	1.04	1.12	1.1	1.14	1.14	1.16	1.2	1.24	1.25	1.19	1.29	1.2	1.15
Resident Life Expectancy at Birth (Years)	83	83	83.2	83.7	83.7	83.4	83.2	83.0	82.9	82.6	82.4	82.1	81.9	81.7
Resident Life Expectancy at Age 65 Years (Years)	20.7	20.7	20.9	21.3	21.4	21.2	21.0	20.8	20.8	20.6	20.4	20.2	20.0	19.8

Source: Singapore, Department of Statistics, Ministry of Social and Family Development; Ministry of Health

Note: Residents comprise Singapore citizens and permanent residents.

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X. Thailand[1]

In the case of Thailand, the term "social protection" has not yet been officially defined or classified. There exist many social protection programs covering old age, health care, disability, work injury, unemployment, mother and children, and other issues. The 13th National Economic and Social Development Plan B.E. 2566-2570 (2023-2027) talked about challenges of the Thai social security system and set a strategic aim to achieve appropriate social protection. Fiscal responsibilities for specific contingencies are clearly stated in the Constitution and in the laws governing each social protection program. But the government has not yet estimated the total resources needed for the whole system in both medium and long-term aspects. Reform priorities hinge on official definitions, the classification of social protection, assessments of medium and long-term resource needs, and the guarantee of financing sufficiency and fiscal sustainability.

1. Overview of the Social Protection System

1.1. Definition and Classification of Social Protection

1. The terms "social protection" and "social protection system" are occasionally used in official documents, but do not have exact definitions as yet. No specific laws stipulate the definition of social protection. In the Constitution of the Kingdom of Thailand Buddhist Era (B.E.) 2560 (2017), neither term explicitly appears. However, some of the chapters clarify contingencies, events and target populations that should be protected, supported or assisted by the government, covering specific programs and the government's fiscal responsibilities of the programs. These chapters are about the Rights and Liberties of the Thai People (Chapter 3), Duties of the State (Chapter 5) and Directive Principles of Government Policies (Chapter 6), as follows:

- *A person shall have the right to receive public health services provided by the State. An indigent person shall have the right to receive public health services provided by the State free of charge as provided by law. A person shall have the right to the protection and eradication of harmful contagious diseases by the State free of charge as provided by law. (Chapter 3, Section 47)*
- *The rights of a mother during the period prior to and after giving birth shall be protected and assisted as provided by law. A person who is over sixty years of age and has*

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insufficient income for subsistence and an indigent person shall have the right to receive appropriate aids from the State as provided by law. (Chapter 3, Section 48)

- *The State shall ensure that the people receive efficient public health services universally, ensure that the public has the basic knowledge in relation to health promotion and disease prevention, and shall promote and support the development of wisdom on Thai traditional medicine to maximize its benefits. The public health services under paragraph one shall cover health promotion, control and prevention of diseases, medical treatment and rehabilitation. The State shall continuously improve the standard and quality of public health services. (Chapter 5, Section 55)*
- *The State should strengthen the family unit which is an important basic element of society, provide an appropriate accommodation, promote and develop the enhancement of health in order to enable people to have good health and strong mind, as well as promote and develop excellence in sports and to maximize the benefit for the people. The State should promote and develop human resources to be good citizens with higher quality and abilities. The State should provide assistance to children, youth, women, the elderly, persons with disabilities, indigent persons and underprivileged persons to be able to have a quality living and shall protect such persons from violence or unfair treatment, as well as provide treatment, rehabilitation and remedies to such injured persons. In allocating the budget, the State shall take into account the different necessities and needs with respect to genders, ages and conditions of persons to ensure fairness. (Chapter 6, Section 71)*
- *The State should promote the abilities of the people to engage in work, which is appropriate to their potential and ages, and ensure that they have work to engage in. The State should protect labor to ensure safety and vocational hygiene, and receive income, welfare, social security and other benefits which are suitable for their living and should provide for or promote savings for living after their working age. The State should provide a system of labor relations for all relevant parties to participate in. Apart from the issue of social protection programs, fiscal responsibilities and commitments including "how to" for supporting education programs are clearly mentioned in the level of the constitution in concrete as follows. (Chapter 6, Section 74)*

2. In addition to the stipulations laid out in the chapters of the Constitution, there exists a near working definition of classification or structure of social protection in an official document, Directive Framework for Sustainable Social Welfare Provision in the Period of the 11th National Economic and Social Development Plan, which was published by the Office of the National Economic and Social Development Council (NESDC) in 2010 and covered the period 2012-2016. This official document aims to systematically review and classify social protection programs in Thailand, delineate the whole picture of the Thai social protection system and provide proposals for its development during 2012-2016. According to this document, social protection programs are classified into four pillars, namely, social services provision, social assistance, social insurance, and mutual support by civil society. Two points should be taken into account. Firstly, the term “social welfare” is used in the document’s title instead of “social protection.” Secondly, this kind of classification is not based on the International Monetary Fund’s Government Finance Statistics (GFS) manual; instead, the classification criteria are fuzzy and intermixed among the roles of the government, the forms of benefits and the public financing methods.

3. In recent years, the concept of “social protection” has reappeared in official documents. National Strategy B.E. 2561-2580 (2018-2037) contains the term “social security” under its “Strategy for Social Cohesion and Just Society.” The strategy states that social security as a policy instrument should be used for achieving the target of “mitigating inequality and creating multidimensional justice.” In addition, the social security system should be adequate for everyone regardless of gender and age. The document does not define social security. However, in the 13th National Economic and Social Development Plan B.E. 2566-2570 (2023-2027), which the government launched under the National Strategy B.E. 2561-2580 (2018-2037) framework, “social protection” appears in the ninth milestone as a strategic aim, “Thailand Has Less Intergenerational Poverty and Adequate, Appropriate Social Protection.”

4. The plan regards that, Thailand needs to develop adequate social protection systems for populations across different age groups in order to cope effectively with demographic and other changes. Currently, Thailand’s social protection systems suffer from gaps and inadequate levels of benefits for basic needs. In the working age population, a number of workers lack appropriate income security. Meanwhile, the elderly in this cohort also lack social welfare to ensure a good quality of life. Thailand’s overall social protection still suffers from a lack of systemic governance as social protection programs are served by several agencies working incoherently without integration from policy to implementation level and in terms of database systems, resulting in inadequate benefit levels for some target groups. Moreover, an absence of monitoring and evaluation leads to budget losses, ineffective programs and negatively impacts fiscal sustainability. There is also a lack of emergency preparedness and response, resulting in delayed, ineffective, and inaccurate assistance.

5. To this day, Thai policymakers remain confused about the definition and classification of social protection, such that the associated terms and certain aspects of the social protection system, for example social security and social welfare, are used

interchangeably. Nevertheless, in terms of implementation, Thai society has many social protection programs under implementation. The major programs under the different categories of the social protection system (Table 1) cover apparently all contingencies as defined by the GFS' classification.

1.2. Fiscal Responsibilities and Commitments of the Government

6. There exists no specific law specifying the comprehensive financial responsibilities and commitments of the government to a social protection system; however, the Constitution and the specific laws governing each program mention three relevant aspects, with the first aspect being the Constitution's reference to the fiscal responsibilities and commitments of the government in certain specific contingencies. As mentioned in the previous section, the Constitution defines the financial responsibilities of the government and the public financing methods for specific contingencies, such as health services for an indigent person, a person who is more than 60 years of age and has insufficient income for subsistence, and specific groups including children, youth, women, the elderly, persons with disabilities, indigent persons and underprivileged persons, as well as social security for the workforce**.** Specifically, the government must provide public health services to the indigent free of charge based on their rights mentioned in Chapter 3 Section 47. Chapter 6 Section 71 states that the government has a duty to provide a provisional budget for assistance to children, youth, women, the elderly, persons with disabilities, indigent persons and underprivileged persons so that they can achieve quality living and shall protect such persons from violence or unfair treatment, as well as provide treatment, rehabilitation and remedies to such injured persons. Therefore, for social protection programs, the government must provide a provisional budget. The government should also provide for or promote savings from labor for living expenses that will be incurred after a person is past working age, as mentioned in Chapter 6 Section 74. The stipulation reflects the position that, to ensure old-age income security for workers, the government should promote a contributory scheme rather than adopt a purely tax-financed scheme.

7. Secondly, the government's fiscal responsibilities and commitments for each social protection program are specified in each respective law. Most of the social protection programs are financed by taxes. The government must provide full annual budget allocations to these programs. However, some programs take the form of social insurance. For example, the Social Security Fund (SSF) is basically responsible for comprehensive social security that grants benefits due to injury, sickness, death that is work-related or non-work-related, maternity, old age and unemployment. Its main compulsory scheme covers all employees in any establishment that employs more than one employee. Contributions from employees, employers and the government make up the scheme's main sources of funds. The Ministry of Education Mutual Fund Scheme is also in the form of social insurance. It provides a package of benefits including medical subsidies, child educational subsidies, loans, old-age benefits, and benefits for survivors of private schools' directors, teachers and other educational personnel. Contributions from these beneficiaries, school administrators and the Ministry of Education are the scheme's main funding sources. A third scheme that adopts social insurance is the Workers' Compensation Fund. This fund accords protection to employees who, because of their work for an employer, suffer injury, illness or loss of earning capacity, or occupational diseases. This scheme provides for compensation, medical expenses, rehabilitation expenses and funeral grants. The employer is solely responsible for contributions to the fund. Under the National Savings Fund, by comparison, the government encourages people in the rest of the working population who are not public or private-sector employees to voluntarily prepare for old-age income security by saving up. The government is obliged to co-contribute to the monthly savings of the fund's members, and to guarantee minimum financial returns.

8. Thirdly, the Constitution explicitly raises concerns about the long-term burden on public expenditures in general, in Chapter 5 Duties of the State. The Constitution seriously takes into account the government's financial and fiscal discipline issues and its long-term fiscal situation. Chapter 5 Section 62 says: *The State shall strictly maintain its financial and fiscal discipline in order to ensure that the financial and fiscal status of the State is sustainably stable and secure in accordance with the law on financial and fiscal discipline of the State and shall establish a taxation system to ensure fairness in the society. The law on financial and fiscal discipline of the State shall, at least, contain, provisions relating to the framework of undertaking of public finance and budget of the State, formulation of fiscal discipline in respect of both budgetary and extra-budgetary income and expenditures, management of State properties and treasury reserves and public debt management.*

1.3. Key Strategic Documents and Laws

9. Currently, the government does not have medium or long-term strategic papers that focus solely on the entire picture of a social protection system. The laws and strategic documents on a social protection system are the Constitution, the National Strategy and the 13th National Economic and Social Development Plan, and the specific laws and orders of each social protection program. There are many specific laws that together construct a Thai social protection system, for example, the Government Officials Pension Act B.E. 2494 (1951), Government Pension Fund Act B.E. 2539 (1996), Social Security Fund Act B.E. 2533 (1990), Workers' Compensation Fund Act B.E. 2537 (1994), National Saving Fund Act B.E. 2554 (2011) and National Health Security Act B.E. 2545 (2002).

10. A recent strategic document that clarifies parts of the social protection system's entire picture in Thailand is the 13th National Economic and Social Development Plan. Although the document does not give an operational definition, one of its national strategic aims is "to achieve appropriate social protection." The current social protection system has been challenged for the existence of gaps and inadequate benefits to meet basic needs, a lack of income security for certain types of workers, a lack of social welfare to enhance the elderly's quality of life, a lack of systematic governance caused by disregarding policy coordination at any level, an absence of monitoring and evaluation leading to budget losses in ineffective programs and negative impacts on fiscal sustainability, and a lack of emergency preparedness and response. Therefore, in the 13th National Economic and Social Development Plan, the government has systematically set the target, indicators and development strategies as follows to get rid of these pain points.

1.4. Recent Developments and Trends

11. In the 13th National Economic and Social Development Plan, the Thai government has accorded more importance to the social protection system. The target, indicators and development strategies to achieve appropriate social protection are apparently filled in as follows:

Target Thai people of all age groups have adequate social protection for their livelihood.

Indicator The social protection composite index score is no less than 100. The social protection composite index includes three dimensions and the following indicators:

1. Social protection for children

> *(1) Access to early childhood care (0 to two years) increases by no less than 50 per cent.*

2. Social protection for working age population

> *(1) Workers insured for Social Security benefits account for no less than 60 per cent of the total workforce.*
>
> *(2) The number of subscribers to the voluntary retirement savings system with government co-contributions increases by no less than 100 per cent.*
>
> *(3) Workers in all forms of employment are protected by labor laws.*

3. Social protection for the elderly

(1) The proportion of the elderly poor decreases to less than 4 per cent.

(2) The proportion of the dependent elderly who can access long-term healthcare under the Universal Health Coverage program increases to no less than 70 per cent.

To achieve the target and key performance indicators, three development strategies are set out: the first strategy enhances social protection for people of all age groups, the second builds an efficient social protection system, and the third develops an integrated database to reduce intergenerational transmission of poverty and provide social protection (Table 2). Although Thailand has medium and long-term strategic documents that mention a social protection system, such as the National Strategy and the 13th National Economic and Social Development Plan, these documents do not directly specify any resource requirements or financing information. The financing of social protection programs is separately considered. However, a linkage exists between these strategic documents and annual resource allocations, namely the budgetary process. The linkage is officially mentioned in the "Annual Budgeting Guideline and Budgetary Process Calendar for Fiscal Year T."[2] Each government agency is expected to prepare its budget proposal in consistency with medium and long-term strategic documents such as the National Strategy, the Master Plan under the National Strategy, the 13th National Economic and Social Development Plan, the National Plan and Policies on National Security, and the National Reform Plan (Revised Version). Budget proposals that are firmly consistent with these medium and long-term strategies will be highly prioritized.

12. In general, the government has a coordination mechanism among line ministries to cope with interlinked issues, by setting up a national committee or sometimes an ad hoc committee. To hold deeper or more technical discussions among stakeholders within smaller groups, a subcommittee or technical working committee is occasionally appointed. In most cases, experts from academia, the private sector and civil society are appointed as national committee members according to the law. These committee members sometimes play an important role in connecting the dots arising from the opinions of the line ministries. However, in the process of drafting a strategic document such as the 13th National Economic and Social Development Plan, which partially focuses on social protection, most of the committee members were former bureaucrats, academicians, and representatives of non-governmental organizations. Line ministries and the Ministry of Finance were not involved at the formulation stage of the strategic plan. However, before the Cabinet and Parliament grant their approval, the draft of the plan must be approved by the NESDC, which involves the

[2] Fiscal year T in Thailand starts from October 1, year T-1, to September 30, year T.

Permanent Secretary of the Ministry of Finance. This implies both high-level acknowledgment and endorsement of plans that aim to achieve strategic priorities. The Permanent Secretary of the Ministry of Finance, as an NESDC member, can also express opinions about the fiscal aspects and clarify both short and long-term fiscal implications of the proposed strategic documents. Unfortunately, the council has no other high-level personnel representing the respective ministries of social protection programs. Thus, a coordination mechanism between line ministries and the Ministry of Finance will not be carried out in the process of a strategic plan's formulation.

2. Fiscal Management of the Social Protection System

2.1. Fiscal Considerations in Introducing or Modifying a Program

13. Various channels exist to introduce a new social protection program or modify a current one. To introduce a new program through legislation or amendment of an existing law, the draft law can be proposed by the respective ministry, the ruling party, an opposition party or a process initiated by 10,000 Thais who have voting rights. However, if the new program or a current program's modification requires new or additional resources, it is required to obtain the Ministry of Finance's official opinions on the draft law's introduction or amendment. This procedure implies that the opinions of the Ministry of Finance on sources of funding can crucially alter the direction of decision-making in the social protection program's introduction or modification. In some cases, a new program is introduced through a ministerial order, such as Old-age Allowance, a government policy, including Child Allowance for Newborn Children in Low-Income Families, or a project. Long-term care services for highly dependent persons are included under a universal health security package and are not separately provided for by law. To introduce a new social protection program, the most common channel is to legislate a new law. Examples include the Government Officials Pension Act B.E. 2494 (1951), Government Pension Fund Act B.E. 2539 (1996), Social Security Fund Act B.E. 2533 (1990), Workers' Compensation Fund Act B.E. 2537 (1994), National Savings Fund Act B.E. 2554 (2011) and National Health Security Act B.E. 2545 (2002).

14. If a ministry wants to introduce a new program or revise an existing one, it will submit a proposal for discussion at national committee level. In some cases, a subcommittee and/or technical working committee is appointed to hold in-depth and technical discussions on the proposed draft. The Ministry of Finance may take part as a committee member. Subsequently, a revised draft is submitted to the Cabinet for approval. The Cabinet will ask for official opinions from all ministers and relevant government organizations, then officially approve the new or revised program.

15. There exist no explicit rules which express how the government decides whether to introduce a new program by primary or secondary legislation, such as a parliamentary law, ministerial order, regulation or government policy. The decision depends on various factors, for instance, the need for expediency to hasten implementation, the complexity of issues, and complicated connections with other legislations. For example, the government wanted to set up provisions for local care volunteers attending to home-based care-dependent persons, including older persons, which the country considers as those aged at least 60. The Act on the Elderly B.E. 2546 (2003) was amended toward the end of service of the first Prime Minister Prayuth Cabinet by including a new right for "care of dependent older persons." After that, to clarify the division of labor on elderly rights protection based on the said Act on the Elderly, the Cabinet Office issued an Order announcing "care of dependent older persons" as an obligation of local authorities. Simultaneously, based on the Determining Plans and Process of Decentralization to Local Government Organization Act B.E. 2542 (1999), "care of dependent older persons," to be conducted by specifically employing local care volunteers, was added as an obligation of local authorities, and the Ministry of Interior issued an order authorizing the use of the local government budget. In contrast, the old-age allowance started adopting a quasi-universal system during the service of the Prime Minister Abhisit Cabinet. This new scheme was introduced through a Ministry of Interior Order.

16. Basically, the local authorities are also allowed to introduce their own social protection programs, on condition that those programs are on the list of their basic duties, officially stipulated in their establishment laws. These laws are the Municipality Act B.E. 2496 (1953), Subdistrict Council and Subdistrict Administrative Organization Act B.E. 2537 (1994), Provincial Administrative Organization Act B.E. 2540 (1997), Bangkok Metropolitan Administration Act B.E. 2528 and Pattaya City Administration Act B.E. 2542 (1999). In this case, the local authorities are not required to obtain central government approval before introducing a program. There are no specific fiscal arrangements between the central government and local authorities. Such programs draw funding from local taxes and other self-generated revenue, tax sharing or general subsidies from the central government. If the programs are a part of local decentralization plans, their related personnel and provisional budgets will be transferred from the respective central government or regional administrative body to local authorities. By contrast, under a previous financial monitoring and auditing annual process conducted by the State Audit Office of the Kingdom of Thailand, local authorities were not allowed to use their budget on certain public services initiated by them because the auditor regarded the provision of those services as falling under the central government's obligations instead of being part of the local authorities' duties. At the same time, social protection programs in Thailand are undergoing decentralization as well. Some obligations of the central government will be transferred to local authorities under the Third Plan of Decentralization toward Local Authorities, for example, the Funeral Subsidy Program, Home-based Services for Older Persons' Volunteer Scheme, and Home Renovation for Older Persons. There is room for official discussion about the division of labor and roles between the central government and local authorities on social protection programs.

17. Nevertheless, the central and local governments do have some coordination mechanisms in place on social protection programs. One example is the Tambon (Subdistrict) Health Fund. This fund is an area-based scheme which has been established in each single local authority (municipality or Subdistrict Administrative Organization) by three parties, namely the central government working through the National Health Security Office (NHSO), the respective local authority, and the local community. The fund encourages local stakeholders to initiate projects that promote local people's health and quality of life, supply public funds for those projects and provide a clear channel for the NHSO to subsidize specific programs. In principle, the three parties are expected to financially contribute to the fund based on a 1:1:1 ratio. However, contributions from the community and full contributions from the local authorities are currently not required because some of them are not financially ready yet. In addition, the fund serves as a channel for the NHSO to allocate a budget to home-based long-term care programs.

2.2. Budgetary Process of Social Protection Programs

2.2.1. Budget Request and Review Process

18. The budgetary process involves a structured timeline. As the starting point of the budgetary process, the Budget Bureau prepares and proposes the "Annual Budgeting Guideline and Budgetary Process Calendar for Fiscal Year T" to the Prime Minister for agreement during October of year T-2. After obtaining agreement from the Prime Minister, the Budget Bureau submits its proposal to the Cabinet for official approval, following which it will be officially announced to all government agencies. Generally, the budget review and planning process will be conducted from October-December in year T-2 to the beginning of January in year T-1. The budget formulation process will go from December in year T-2 until May in year T-1. The budget approval process will then take place between June and the beginning of September of year T-1.

19. During the budget review and planning, medium-term fiscal resources at macro level are assessed and discussed. The projection and assessment of medium-term fiscal resource needs, as known as the medium-term fiscal framework (MTFF), is the responsibility of the Government Committee on Financial and Fiscal Policy based on the State Financial and Fiscal Disciplines Act B.E. 2561 (2018). The Fiscal Policy Office at the Ministry of Finance serves as the committee's secretariat. The MTFF's time horizon spans five calendar years, namely year T to year T+4, which is relevant to fiscal year T+1 to year T+5. Its main content comprises GDP, net government revenue, government expenditure (national budget), fiscal surplus or deficit, and outstanding public debt as a percentage of GDP projections. Based on the MTFF, the Budget Bureau will submit a package of estimated revenue, budgetary policy, ceiling, and structure of that fiscal year to the Cabinet for approval. The prime minister will then deliver the budgetary policy to all government agencies to kick-start the budgetary formulation process in the next step. These procedures do not include sectoral ceilings specific to social protection programs.

20. Regarding certain aspects relating to the budget request and review process and social protection programs, firstly, concrete policies and their resource requirements are not explicitly determined in long-term plans such as the National Strategy or the 13th National Economic and Social Development Plan. Therefore, the MTFF does not consider the resource requirements set out in these long-term plans.

21. Secondly, however, the MTFF operates on two levels based on the State Financial and Fiscal Disciplines Act B.E. 2561 (2018), which comprises a top-down medium-term expenditure framework (MTEF) and a bottom-up MTEF. The former is prepared at macro level under the collaboration of the Budget Bureau, NESDC, Ministry of Finance and Bank of Thailand. The latter is prepared at a more micro level, namely, among ministries and other government agencies. Therefore, basically all the implementing agencies of social protection programs must conduct an MTEF at their own level. As mentioned before, social protection programs are carried out by many government agencies. The MTFF in its present form does not provide for an intermediate level to capture only social protection needs in the medium term. The possible differences between the published top-down MTEF at macro level and the aggregated bottom-up MTEF of government agencies have never been reconciled or taken into account in the initial stage of the budgetary process. Nevertheless, during budget formulation, the Budget Bureau reviews the bottom-up MTEF as part of budget negotiations. Specifically, it may negotiate and argue with the government agencies on the (estimated) requested budget and its projection.

22. Thirdly, the term "social protection" does not have an explicit operational definition, therefore social protection programs are not subject to ex ante budget ceilings. Because each government agency that is responsible for its own social protection programs requests a budget separately from the rest, it may face a budget ceiling during negotiations. However, the summation of the proposed budget from all government agencies must be equal to the predetermined budget framework of that fiscal year.

23. Fourthly, social protection programs differ in terms of the budget formulation process. Certain cash benefit programs, such as old-age allowance, already have a fixed benefit rate, and the eligible recipients must register in advance. Thus, the program authorities have not much flexibility. For the universal health coverage scheme, the Budget Bureau will allocate a budget in the form of a "per-head subsidy." There is room for mutual negotiation between the Budget Bureau and the NHSO to decrease or increase such per-head subsidies. In contrast, for some other programs as the Civil Servants Medical Services Scheme (CSMBS) and the Civil Servants Pension, the program authorities will set a total estimated budget within the central budget. At the end of the fiscal year, the program budget can be adjusted flexibly within the central budget if it turns out to be inadequate.

24. Fifthly, the budgetary process is sometimes implemented differently between general programs and those that collect social insurance contributions. In terms of fiscal responsibility to the SSF, the government mandatorily co-contributes according to the statutory rate mentioned in ministerial regulations. However, the SSF's financial statements in recent years show that the government has yet to pay some of its mandated contributions. This does not mean that the Thai budget for social protection programs is not assured despite the government's legal obligation to help finance the programs. Naturally, from the SSF's viewpoint, the government's delayed contributions will cause enormous opportunity cost. The SSF's financial statements reveal that this amount has climbed to about THB80 billion. The fund has lost financial opportunities to manage this sum to gain financial returns for future pension payment. From the government's viewpoint, it may perceive that, given the SSF's continuous accumulation of outstanding assets, the SSF's pension fund is not facing or struggling with a surge in demand for pension payments. Therefore, the government has yet to totally fulfill its legal obligation. Nevertheless, SSF programs will soon enforce their funding requirements more rigidly, because Thailand has become an aged society and is going to shoulder more and more pension payments with the increasing number of retired employees.

2.2.2. Determination of Eligibility Conditions and Benefits

25. The eligibility conditions of each social protection program are usually specified in the law. However, the level of benefits in a contributory system varies according to the contribution rate. In some cases, the benefits are determined by law, especially if the program's legal basis is a ministerial order or government policy. If the program's legal basis comes from legislation, that legislation determines the level of benefits and contribution rate; however, the actual amount or rate will be fixed separately in ministerial regulations. For example, the Social Security Fund Act B.E. 2533 (1990) stipulates statutory contribution rates for employees, employers and the government that will go toward old-age benefits under the SSF; however the effective rates borne by the three parties are announced officially in ministerial regulations. In the case of old-age allowance, old-age income security as the right of an older person is mentioned in the Act on the Elderly B.E. 2546 (2003), with the eligibility conditions and level of benefits detailed in a Ministry of Interior Order.

26. Benefits are not reviewed or updated for all social protection programs on a regular basis, except certain programs, such as the universal coverage health security program. The Universal Coverage Scheme, which ensures health security, will receive from the Budget Bureau a per-head subsidy. This subsidy is reassessed and recalculated by the NHSO in the beginning of the budgetary process based on changes in population structure (beneficiaries' age structure), prevalence of diseases, introduction or modification of service packages, prices, technology and so on. The reassessed and recalculated subsidy will be proposed to the Budget Bureau for negotiation.

2.2.3. System to Ensure Sufficiency of Appropriate Resources

27. If the appropriated resources of any social protection programs are insufficient toward the end of the fiscal year, each program can make an official request to the Budget Bureau for permission to use a supplementary budget from the central budget. Such a request is legally based on the Order on Central Budget Management for Reservation Fund in Case of Emergency and Necessity B.E. 2562 (2019). According to the order, when requesting a supplementary budget, the social protection program must have already been allocated an annual budget but has found it insufficient and needs emergency funds. The authority to approve these budgetary adjustments is the Budget Bureau, whereas, depending on the amount requested, the Prime Minister may only issue an acknowledgment, or the Prime Minister or Cabinet must give their agreement, in the final stage.

28. In general, under the management of the government budget, fund transfers from one administrative unit to another are legally allowed only when necessary, according to the State Financial and Fiscal Disciplines Act. The Act stipulates that a fund transfer is allowed when a legislative act exists that provides for it; when administrative units merge or when one administrative unit is transferred to another under a royal decree; when integrated budget expenditure within one administrative unit, or among administrative units, is transferred under the same integrated or strategic program; or when personnel budget expenditure is transferred under the Program on Public Sector Personnel.

29. In the same manner, there are rules governing fund transfers within the same administrative unit based on Section 36 of the Budgetary Procedures Act B.E. 2561 (2018). "Director" means the Director of the Bureau of the Budget.

- *Section 36. Appropriations of a budget receiving unit provided in any action plan or any item under the law on appropriations or the Royal Decree under section 35 (2) shall not be transferred to or used for any other action plan or item unless approval is given by the Director, but the Director may not give approval in the case where it results in an increase of expenditure in the category of money for intelligence purposes or where it is a new action plan or project, unless approval is given by the Council of Ministers.*
- *The Director shall have the power to allocate expenditure items specified in the central appropriations* (namely the central budget) *to budget receiving units for direct disbursement or for disbursement under items belonging to such budget receiving units, as is necessary.*
- *In the case of necessity, the Director, with the approval of the Prime Minister, may transfer central appropriations in respect of any item to other items in the central appropriations alike.*

Some social protection programs, such as the CSMBS and Civil Servants Pension, normally receive an annual allocation under the central budget because the exact amount of pensions or the number of patients and their medical expenses are difficult to estimate in advance. If the appropriated resources are found to be insufficient toward the end of the fiscal year, the program's budget can be adjusted within the framework of the central budget. In contrast, in the case of the Universal Coverage Scheme for health care, the Budget Bureau will allocate a budget to the NHSO in the form of a fixed per-head subsidy. The budget will be allocated consecutively to hospitals, where eligible program beneficiaries have registered in advance. Medical services at each hospital will be provided to these beneficiaries according to the total budget received by the hospital and its other funding sources, if any. The fixed per-head subsidy, if insufficient, can be recalculated, reevaluated, and renegotiated during the budgetary process in each fiscal year.

2.2.4. Monitoring of Program Implementation

30. The Comptroller General's Department of the Ministry of Finance has developed a social welfare e-system that integrates the databases of social welfare programs. This e-system allows the government to monitor the disbursement situation of all social welfare program recipients at individual level and program levels in real time. It covers social welfare schemes, certain education-related subsidy schemes, and remuneration for formal volunteers, for example, government welfare schemes, childcare subsidies, old-age allowance, disability allowance, student subsidies, subsidies for low-income families and the homeless, remuneration for health volunteers at village and Bangkok metropolis levels, elderly care volunteers, and Children Protection Fund benefits.

2.2.5. Performance Assessment

31. In the 13th National Economic and Social Development Plan, the government created a Social Protection Composite Index to assess the performance of social protection programs. The index comprises three dimensions: social protection for children, which is assessed by one indicator, namely access to early childhood care; social protection for the working-age population (two indicators, both relating to pension coverage); and social protection for the elderly (two indicators, relating to the elderly poor and long-term health care). Unfortunately, no assessment system is available to investigate the fiscal performance of social protection programs. Even the 13th National Economic and Social Development Plan does not have key performance indicators related to fiscal management that reflect under or overspending of resources related to social protection. Each program still receives an annual budget allocation as usual. Naturally, the fiscal performance information compiled by the index does not affect the programs' future annual resource allocations.

2.3. Assessing Medium and Long-term Resource Needs and Ensuring Financing Sufficiency and Fiscal Sustainability

32. The social protection system in Thailand is fragmented and administrated by a few government agencies. In principle, they manage each social protection program independently. No regular platform is in place to discuss the medium-term resource needs of social protection programs. There is a regular platform, called the National Committee of Social Welfare Promotion, focusing on social welfare programs. However, it has no clear mission on considering or estimating the medium-term resource needs of social welfare programs. In the last decade, during the service of the two Prayuth Cabinets, there was a movement to form a regular platform for coordinating all pension-related programs, known as the National Committee on Pension. But the process of bringing the law into enforcement was unsuccessful before the Prayuth administration ended in May 2023**.** The government makes medium-term fiscal projections that are used as the main economic and fiscal framework in each fiscal year's budgetary process, as previously detailed. However medium-term fiscal projections show the economic and fiscal situation at macro level, not the sectoral allocations to social protection. A medium-term fiscal plan would instead show mega infrastructure projects and their public financing methods because it relates directly to public debt management. The medium-term fiscal plan is quite strongly linked to annual budget allocations because it is used as a framework to scope the budget ceiling of the next fiscal year. It is reviewed before the start of the budgetary formulation process in each fiscal year. It is adopted as the main framework for financial and fiscal aspects, including budgeting and government expenditure planning in each fiscal year and public debt management.

33. In practice, there is no mechanism to regularly assess and ensure long-term sustainability of the social protection system. However, outside the MTEF, individual schemes have their own ways of assessment. For instance, the SSF publishes some key indicators in its annual report, made publicly available on its homepage. These indicators are as follows: accumulated fund, accumulated SSF classified by benefit type, accumulated SSF to GDP in the past 10 years, status of income to SSF expenditure, return on investment, administrative expenses, return rate in the past 12 months, benefits expenditure compared with contributions collected, payment of benefits to the insured person, statements of financial position, statements of financial performance, SSF investment report, investment status of securities classified according to the Social Security Committee's Regulation on Procurement of Social Security Fund Benefits 2016, contributions and interest in the past 10 years, and annual realized return on investment in the past 10 years. Unfortunately, the annual reports do not provide remarks about the SSF's financial assessment or long-term sustainability implications based on those indicators. All the key indicators show their latest levels and statistics from the past years. It is almost certain that SSF specialists have assessed the fund's long-term sustainability over a time horizon, but the assessment results are not made public.

3. Covid-19 Pandemic and Reform Priorities

3.1. Social Protection System and the COVID-19 Stimulus Package

34. During the COVID-19 pandemic, the Thai government regularly maintained all social protection programs through annual budget allocations. Some types of benefits, such as unemployment benefits, were irrelevant to the actual situation. The government issued orders from time to time to stop certain businesses and economic activities and prohibited interregional mobility, such that some employees could not keep their jobs. This type of accidental unemployment arising from government orders was ineligible for the usual unemployment benefits. Thus, the Social Security Law has been amended to cope with pandemic-induced unemployment.

35. To provide relief from COVID-19 and to revive the economy and society, the government enacted royal decrees twice to borrow additional resources from domestic and overseas sources. The royal decrees were the Emergency Decree Authorizing the Ministry of Finance to Raise Loans to Solve Economic and Social Problems Affected by the Coronavirus Disease Pandemic B.E. 2563 (2020) and the Emergency Decree Authorizing the Ministry of Finance to Raise Additional Loans to Solve Economic and Social Problems Affected by the Coronavirus Disease Pandemic B.E. 2564 (2021). The first decree accorded the Ministry of Finance the authority to raise a loan in Thai baht or foreign currency, or to issue bonds in the name of the Royal Thai Government, to a total value of not more than THB1 trillion, under which the loan contract must be signed, or the bonds issued, by September 30, 2021. The second decree allowed the Ministry of Finance, by approval of the Council of Ministers, to have the authority to raise a loan in Thai baht or foreign currency, or to issue bonds in the name of the Royal Thai Government, to a total value of not more than THB500 billion, under which the loan contract must be signed, or the bonds issued, by September 30, 2022. The purposes of raising a loan must be none other than to solve the problem of the spread of COVID-19; to assist, remedy, and compensate the public, agricultural workers and business operators who had been affected by the pandemic; and to restore the economy and society as affected by the pandemic. Because of the two emergency decrees, the ratio of public debt outstanding to GDP exceeded the ceiling of 60 percent of GDP stipulated by Fiscal Discipline Act B.E. 2561. Thus, before the two decrees took effect, the ratio ceiling was raised to 70 percent.

36. To ensure official security of the additional fiscal resources, the government launched a series of policies to assist, remedy, and compensate the public, agricultural workers and business operators who were affected by COVID-19. The government rolled out a package of remedial measures to relieve financial impacts of the pandemic through social protection programs and new channels. These measures included the **Additional Subsidy for Welfare Card's Eligible Person, We Win Project** (in Thai, *Rao Chana*, a temporary subsidy of THB2,000 paid via the National Welfare Card or the Pao Tang digital platform, which accepts applications to government programs), **Article 33 We Love Each Other** (in Thai, *Mattra Samsibsam Rao Rak Gan*, a temporary subsidy of THB2,000), **We Don't Leave Anyone Behind** (in Thai, *Rao Mai Ting Gan,* THB5,000 compensation over three months for the SSF's Article 39 and Article 40 members), **Pay Half Each Project** (in Thai, *Khon La Krueng*, a fixed government subsidy paid via Pao Tang applications that recipients could use to get a 50 percent discount, subject to a daily cap of THB150), Additional Subsidy for the Special Needy, **Travel Together Project** (in Thai, *Rao Tiao Duai Gan*, granting discounts on hotel costs and coupons to offset entrance fees and eating expenses), **Shop Dee Mee Kuen Individual Income Tax Relief** (the acceptance of a certain amount of general shopping expenses as income deduction), a temporary cut to the SSF's contribution rate, special and emergency loans from the Government Savings Bank and the Bank for Agriculture and Agricultural Cooperatives (BAAC), and discounts on electricity and water bills. Since the current social protection programs are basically fragmented by the beneficiaries' age, occupation, labor status and income, the remedial measures were fragmented as well. This probably caused feelings of unfairness among groups who received different treatment under the same COVID-19 situation.

3.2. Challenges of Social Protection System after the Pandemic

37. The pandemic experience confirmed the broad impacts a crisis would make at national level, regardless of sex, age, occupation, area, or other individual characteristics. Social protection programs have mostly been designed according to individual characteristics and specific contingencies. Therefore, a mismatch arose in providing support. The government should have separate centralized support systems in specific emergent and catastrophic circumstances rather than rely on the existing social protection system. For specific needs such as health, additional support could surely be provided through the health security system.

38. Furthermore, centrally manageable resources are necessary. The government's central budget system can be continuously drawn upon; however, it probably has to take into account the magnitude of effects caused by the emergent and catastrophic circumstances. Setting too high a central budget may create issues of efficiency, transparency and governance in future annual budget management. Therefore, a policy option may be to establish a specific "financial fund for tomorrow's risks," to be accumulated and professionally managed to gain financial returns.

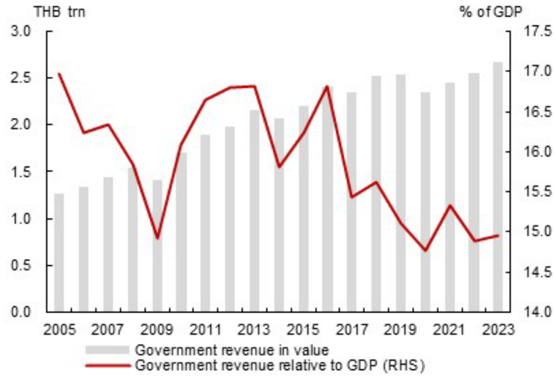
3.3. Reform Priorities in Strengthening Efficiency of Social Protection System

39. The most crucial priority in strengthening the efficiency of social protection and support is to accurately capture the current entire picture of social protection in Thailand and to provide official operational definition of social protection in government documents. The following questions should be raised. What are the components of the Thai social protection system, according to international classification or classifications that were mentioned in previous documents, namely the Directive Framework for Sustainable Social Welfare Provision in the Period of the 11th National Economic and Social Development Plan, which was characterized by function, and the 13th National Economic and Social Development Plan, characterized by a life-cycle approach? What are the itemized social protection programs in each component? What are the current fiscal resources injected into each program and into the social protection system as a whole? An official baseline that sets a status-quo cost on social protection is necessary to reform or redesign the system. To produce a clearer picture of social protection in its entirety, coordination between the NESDC and the Fiscal Policy Office of the Ministry of Finance is a prerequisite. Based on this process, the status quo of the current system will be clarified and quantified in terms of resources used. Cooperation between the NESDC and the Fiscal Policy Office can also serve as a mechanism for projecting the sectoral fiscal needs of social protection in the medium and long term. This mechanism can be used to monitor and evaluate the social protection system as well.

40. As a next step, the government as the intermediary should establish formal platforms among stakeholders to draw up a blueprint for a desirable social protection system. Issues that should be raised for discussion on such platforms include sharing the diversified values, principles and needs of various groups and generations, and creating public awareness of fiscal and institutional restrictions and feasible financing methods. In particular, how to finance the social protection system to maintain its long-term sustainability is an important issue; some possible measures to consider include implementing the long-awaited raising of the value added tax rate from the current 7 percent to 10 percent, and merging contributory and non-contributory schemes. Under limited resources, certain types of social protection benefits should be given some serious thought as well, namely, whether the benefits should be provided steadily in the form of cash or be partially converted to social services. If the latter is chosen, who would be responsible for providing such social services? The discussion on the roles of local authorities and non-governmental actors cannot be disregarded.

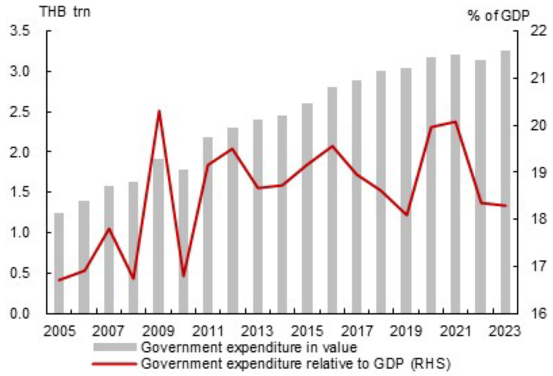
Appendix X.1. Selected Figures

Figure 1. Government Revenue



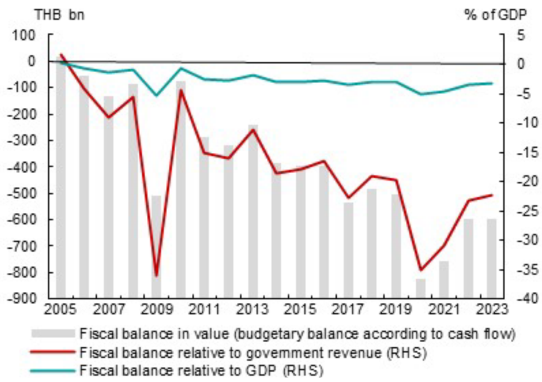
Source: Comptroller General's Department; Fiscal Policy Office

Figure 2. Government Expenditure



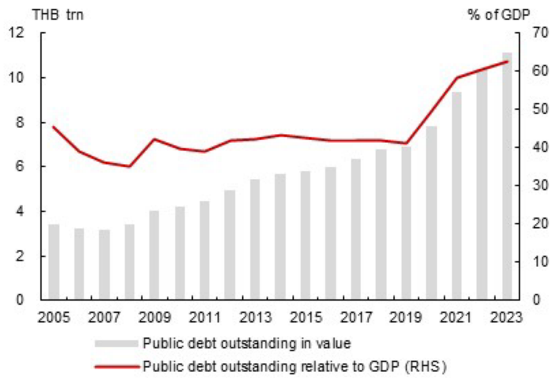
Source: Comptroller General's Department; Fiscal Policy Office

Figure 3. Fiscal Balance (Budgetary Balance)



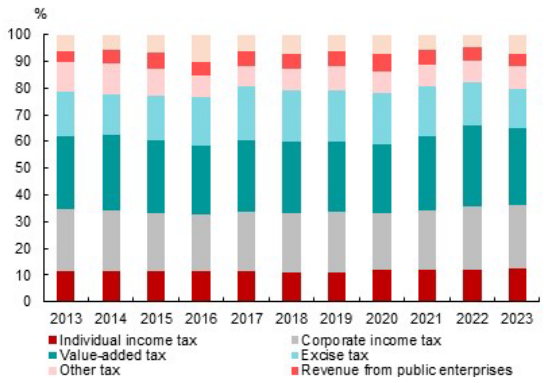
Source: Comptroller General's Department; Fiscal Policy Office

Figure 4. Public Debt Outstanding



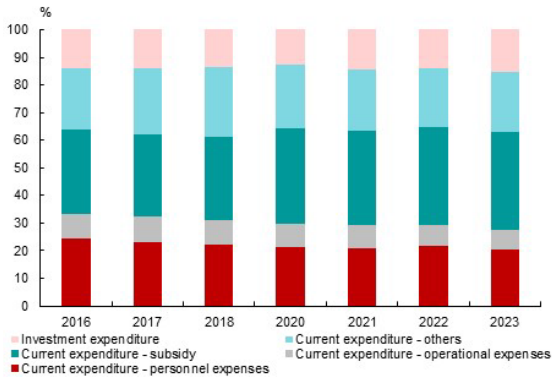
Source: Public Debt Management Office

Figure 5. Government Revenue Structure



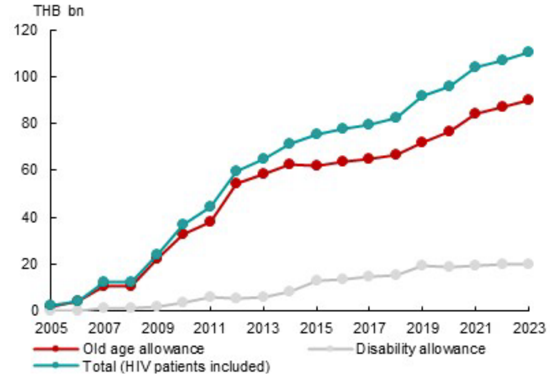
Source: Ministry of Finance (MoF)

Figure 6. Government Expenditure Structure



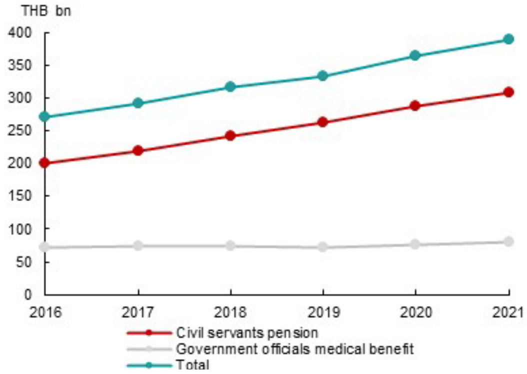
Source: MoF

Figure 7. Old-age Allowance, Disability Allowance and HIV Patients Allowance



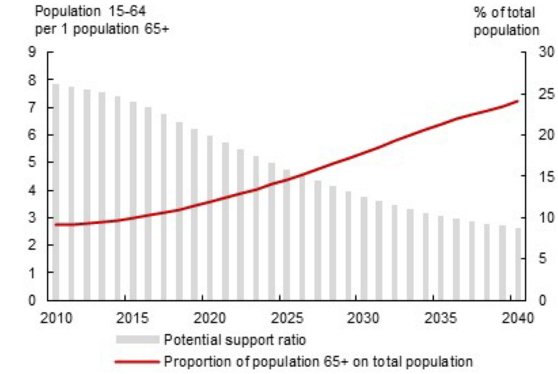
Source: NESDC

Figure 8. Government Officials' Social Protection Expenditure



Source: Comptroller General's Department

Figure 9. Population Aging Trend



Source: NESDC

Appendix X.2. Selected Tables

Table 1. Contingencies Based on GFS and Social Protection Programs

Contingencies	Social Protection Programs
Old Age	Old-age Allowance, Civil Servants Pension, Local Authorities' Government Officials Pension Fund, Old Age Benefits under Social Security Fund (SSF) Scheme, Ministry of Education Mutual Fund, National Savings Fund, Provident Fund
Sickness/Health Care	Civil Servants Medical Services Scheme (CSMBS), Medical Benefits under SSF Scheme, Universal Coverage Scheme (UCS) for health care
Disability	Invalidity Cash and Invalidity Care Scheme under SSF Scheme, Disability Allowance
Work Injury	Workers' Compensation Fund
Unemployment	Unemployment Benefits under SSF Scheme
Family/Children	Child Allowance and Maternity Cash Benefits under SSF Scheme, Child Allowance for Low-Income Family
Others	Survivors: Benefits for Survivors under SSF Scheme, Pension/Lump Sum Payment for Survivors, Funeral Expenses Subsidy for Older Persons Housing: Home Renovation Support Scheme for Poor Older Persons Poverty Relief and Support for the Vulnerable Groups: Government Welfare Card Program, Allowance for Low-Income Older Persons, Allowance for Low-Income Families, Allowance for HIV Patients

Source: Author's compilation

Table 2. Development Strategies for 9th Milestone in 13th National Economic and Social Development Plan B.E. 2566-2570 (2023-2027)

Strategy	Sub-strategy
Strategy 1 Enhance social protection for people of all age groups	Sub-strategy 1.1 Enhance social protection to promote child development. Increase access to and urgently improve the quality of early childhood development centers nationwide. Increase access to quality childcare centers for children aged 0 to 2 years old, together with support for local administrative organizations with readiness to expand the services of early childhood development centers to include children aged 0 to 2. Promote the establishment of quality childcare centers in communities, workplaces and government agencies so that parents can return to the labor market while living with their children.
	Sub-strategy 1.2 Enhance social protection to ensure security for the working-age population. Uplift the social security system to respond to the needs of informal workers, specifically improving procedures for contribution payments and benefits to increase variety and flexibility. Encourage retirement savings by incentivizing informal workers to join the voluntary savings system. Revise the conditions and benefits of the retirement savings system to allow participants to save and receive increased benefits. Develop financial data services to help participants plan retirement savings efficiently. Revise and develop laws to enhance the labor welfare protection system by including new forms of employment, such as temporary workers and platform workers, and ensure equal or similar protection as traditional employees.
	Sub-strategy 1.3 Enhance social protection to improve the elderly's quality of life. In particular, support alternative welfare systems provided by local administrative organizations and other development partners. Integrate data on welfare and financial support for the elderly to avoid duplication and facilitate the provision of targeted assistance to the elderly poor. Improve access to long-term health care for the dependent elderly by enhancing the capacity of the Universal Health Coverage program. Promote the role of local administrative organizations, private facilities, independent caregivers and trained or qualified family members. Encourage the elderly to reside at home by improving living conditions, especially for the elderly poor, and ensure adequate residential options, including housing for people who need special care and housing specially designed for the elderly.
Strategy 2 Build an efficient social protection system	Sub-strategy 2.1 Integrate the social protection system, starting from collaboratively setting goals of social security provision, establishing clear structures and roles of relevant agencies at national, regional and local levels and linking databases of all agencies to enable collaboration, so as to reduce duplication between projects and measures. Improve the adequacy of benefits. Reduce exclusion errors of vulnerable groups: people with disabilities and multiple vulnerabilities, the homeless, and people facing difficulties.
	Sub-strategy 2.2 Improve methods of providing social protection to ensure that people of all groups receive appropriate welfare based on fiscal sustainability. Carefully evaluate every project and measure to improve efficiency and effectiveness. Terminate or reduce budgets of projects and measures with no or low impacts to truly align budgeting with the country's development goals. Promote social protection financed by co-payments, especially from groups that can afford to pay. Support the local administrative organizations in providing welfare to local populations. Attract more participation in the tax system.
	Sub-strategy 2.3 Develop emergency preparedness and response. Identify levels, approaches and channels for monetary and non-monetary relief, prepare a database of target groups and initial budget sources, and identify the roles of relevant national, regional and local agencies in providing support to those affected by socioeconomic crises and natural disasters to ensure timely and effective assistance.
Strategy 3 Develop an integrated database to reduce intergenerational transmission of poverty and provide social protection	Sub-strategy 3.1 Develop and update a database of individuals to cover the population of intergenerational poor households. Link crucial data to reduce intergenerational poverty and integrate social protection plans. Establish the country's panel database with annual data collection and updates.
	Sub-strategy 3.2 Promote the usage of databases in designing policies and measures as well as in monitoring and evaluation to help provide the targeted intergenerational poor with efficient social welfare measures. Share data across sectors, including the public sector, the private sector, civil society and academia, to ensure coherent implementation.

Source: NESDC

Table 3.1. Selected Economic Indicators

	2020	2021	2022	2023	Estimate 2024[1)]
Real Sector and Prices	(In annual percentage of change)				
Real GDP[2)]	-6.1	1.6	2.5	1.9	2.2-3.2
Agriculture[2)]	-3.2	2.2	2.5	1.9	N.A.
Industry[2)]	-5.8	3.8	0.1	-2.4	N.A.
Services[2)]	-6.6	0.3	3.8	4.3	N.A.
GDP Deflator	-1.3	1.8	4.8	1.2	0.9-1.9
CPI Inflation	-0.8	1.2	6.1	1.2	0.9-1.9
Fiscal Sector	(in percentage of GDP)				
Government Revenue	14.8	15.3	14.9	15.0	N.A.
Government Expenditure	20.0	20.1	18.4	18.3	N.A.
Overall Fiscal Balance	-5.2	-4.7	-3.5	-3.3	N.A.
Public Debt	49.4	58.4	60.5	62.4	N.A.
Memorandum Items					
Nominal GDP (THB billion)	15,661.1	16,188.6	17,378.0	17,921.2	18,656.0
Nominal GDP (USD billion)	500.5	506.2	495.5	513.5	540.8
GDP per capita (USD)	7,200.7	7,264.0	7,094.1	7,331.5	7,701.6
Exchange rate (THB/USD)	31.29	31.84	35.07	34.90	34.49

Source: NESDC; MoF; Author's calculation

Note: 1) NESDC projections as of February 19th, 2024. 2) Gross domestic product (production), chain volume measures [reference year = 2002].

Table 3.2. Government Spending Statistics on Selected Social Protection Programs

Selected Social Protection Programs	Amount (million THB)	Remarks
Social Welfare Program		
Disability Allowance	19,833.91	Fiscal Year 2023
New-Born Baby Care Subsidy	1,454.32	Fiscal Year 2023
Child Allowance for Poor Family	171.82	Fiscal Year 2023
Health Care		
Universal Coverage Scheme Budget	198,891.79	Fiscal Year 2022
Civil Servants Medical Benefits Scheme	79,725.2	Fiscal Year 2021
Pension		
Government Pension	308,911.6	Fiscal Year 2021
Old-age Allowance	90,208.19	Fiscal Year 2023
Social Security Fund		
Expenses for All Benefits	161,218.00	Fiscal Year 2022
4 Benefits (Sickness, Maternity, Disability and Death)	107,754.00	Fiscal Year 2022
2 Benefits (Old-age and Child Allowance)	40,904.00	Fiscal Year 2022
1 Benefit (Unemployment)	10,669.00	Fiscal Year 2022
Workers' Compensation Fund		
Expenses for Compensation	2,006.65	Fiscal Year 2022
National Government Budget	2,402,539.7	Fiscal Year 2023

Source: NESDC; Department of Children and Youth; National Health Security Office; Comptroller General's Department, MoF; Social Security Office

Table 4.1. Selected Social Protection-related Indicators on Old Age (Pension related)

Year (Calendar/Fiscal)	2019	2020	2021	2022	2023
Size of Older Population (60+)[1)]	11,136,059	11,633,188	12,071,837	12,519,926	12,980,057
Number of Old-Age Allowance Recipients	9,093,974	9,664,524	10,576,968	10,903,328	11,336,929
Proportion of OAA Recipients %	*81.7*	*83.1*	*87.6*	*87.1*	*87.3*
Size of Labor Force Population (15-59)[2)]	33,882,910	33,916,880	35,243,210	35,139,340	35,349,040
Number of Social Security Scheme members[3)]					
Article 33 (Mandatory)	11,686,393	11,124,209	11,137,211	11,638041	11,890,917
Article 39 (Voluntary)	1,648,118	1,799,786	1,938,895	1,879,744	1,797,848
Number of Government Pension Fund members[4)]	951,139	1,036,939	1,132,074	1,193,360	1,221,043
Number of National Savings Fund members[5)]	2,335,085	2,396,543	2,458,916	2,516,426	2,567,450
Proportion of Persons with Old-age Income Security in Population of 15 to 59-year-olds %	*49.1*	*48.2*	*47.3*	*49.0*	*49.4*

Source: Department of Provincial Administration, Ministry of Interior; NESDC; National Statistical Office cited from NESDC; Social Security Office; Government Pension Fund; National Savings Fund

Note: 1) Number of registrants of Thai nationality as of December 31 each year. 2) Average Q1-Q4 of each year. 3) As of December, each year. 4) As of December, each year. 5) As of December 2023.

Table 4.2. Selected Social Protection-related Indicators on Health Care

Year	2018	2019	2020	2021	2022
Number of persons who have rights to the universal health security system	66,159,176	66,245,147	66,563,831	66,805,199	66,983,983
Number of persons who register their rights to the universal health security system	66,013,645	66,205,796	66,507,909	66,624,872	66,689,977
Coverage %	99.78	99.94	99.92	99.73	99.57
Coverage of Universal Coverage Scheme (UCS) %	72.20	71.45	71.45	71.44	70.74
Coverage of Social Security System (SSS) %	18.48	18.92	18.84	18.73	19.12
Coverage of Civil Servants Medical Benefits Scheme (CSMBS) %	7.63	7.74	7.80	7.92	7.94
Coverage of other schemes %	1.62	1.80	1.64	1.47	1.76

Source: National Health Security Office cited from NESDC

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