



**EXECUTIVE SUMMARY**

# **Social spending in South Asia— an overview of government expenditure on health, education and social assistance**

Carolina Bloch, International Policy Centre for Inclusive Growth (IPC-IG)



Research Report No. 43

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By Carolina Bloch

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**SOCIAL SPENDING IN SOUTH ASIA—  
AN OVERVIEW OF GOVERNMENT  
EXPENDITURE ON HEALTH, EDUCATION  
AND SOCIAL ASSISTANCE**

This study is part of a series of papers developed as a partnership between the UNICEF Regional Office for South Asia and the IPC-IG, to assess different aspects of social protection in the region.

1. Social spending in South Asia: an overview of government expenditure on health, education and social assistance.
2. Overview of non-contributory social protection programmes in South Asia from a child and equity lens.
3. Gender and social protection in South Asia: an assessment of the design of non-contributory programmes.
4. Social protection legislative frameworks in South Asia from a child-rights perspective.
5. Evidence linking social protection programmes in South Asia with child poverty, economic growth and improvement in human development.

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Feedback is appreciated and should be sent to [publications@ipc-undp.org](mailto:publications@ipc-undp.org).

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We travelled to five countries in South Asia: Afghanistan, India, Nepal, Sri Lanka and Maldives, which has given us the opportunity to learn more about social protection in different contexts. This work would not have been possible without the collaboration of our counterparts from UNICEF, governments and non-governmental organisations.

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# EXECUTIVE SUMMARY

## Context and motivation

Government spending on the social sector is crucial to ensure that South Asia's population has access to basic health care, education and social safety nets, which are all key elements of policymakers' strategy to reduce poverty, improve welfare and spread the accumulation of human capital. The market often fails to deliver health and education services, at least to those who cannot afford them, leading to underinvestment and limited access to basic services, which in turn can have long-lasting and even irreversible effects on the population's well-being.

The provision of social services and transfers is thus intrinsically related to government responsibility for anchoring its expenditures to the country's development needs. Since the early 2000s, when many South Asian countries experienced changes in governments and strong economic growth, poverty and social exclusion started receiving growing attention, which was also reinforced by the call to action brought about by international development goals. It followed that South Asian governments strengthened their commitments of ensuring equal access to basic health care, education and an adequate income, which led to certain expectations regarding the role of the State to deliver social services. However, there still seems to be a huge gap between government intention and concrete policy action, as these commitments have not consistently been translated into adequate allocation and management of funds in the social sector.

South Asian countries differ considerably in terms of level of development: the regional average Human Development Index is around 0.6, ranging from 0.5 for Afghanistan to 0.8 for Sri Lanka. Poverty continues to affect millions of people in the region, with incidence particularly high in Bangladesh, Nepal, India and Afghanistan, while Bhutan, Maldives and Sri Lanka have the lowest rates. Income inequality and other forms of social exclusion hinder development across the region. Challenging geographical and demographic settings in the region hamper the provision of public services—such is the case in Nepal, where a significant share of the population lives in remote locations with limited access to basic health and education services, and in Maldives, where the population is spread across around 200 islands. Policymakers also struggle to provide public services to people living in emergency settings—for instance, school participation is lower in areas affected by security and natural disasters in India, Sri Lanka, Bangladesh and Pakistan. In some countries, public investment must keep up with the needs of a huge population (India) or density (Bangladesh and Maldives). These structural challenges result in a persisting need for public investment, and while government efforts have improved, they are hindered by gaps in budgetary and institutional capacity as well as contexts of political instability and social tensions.

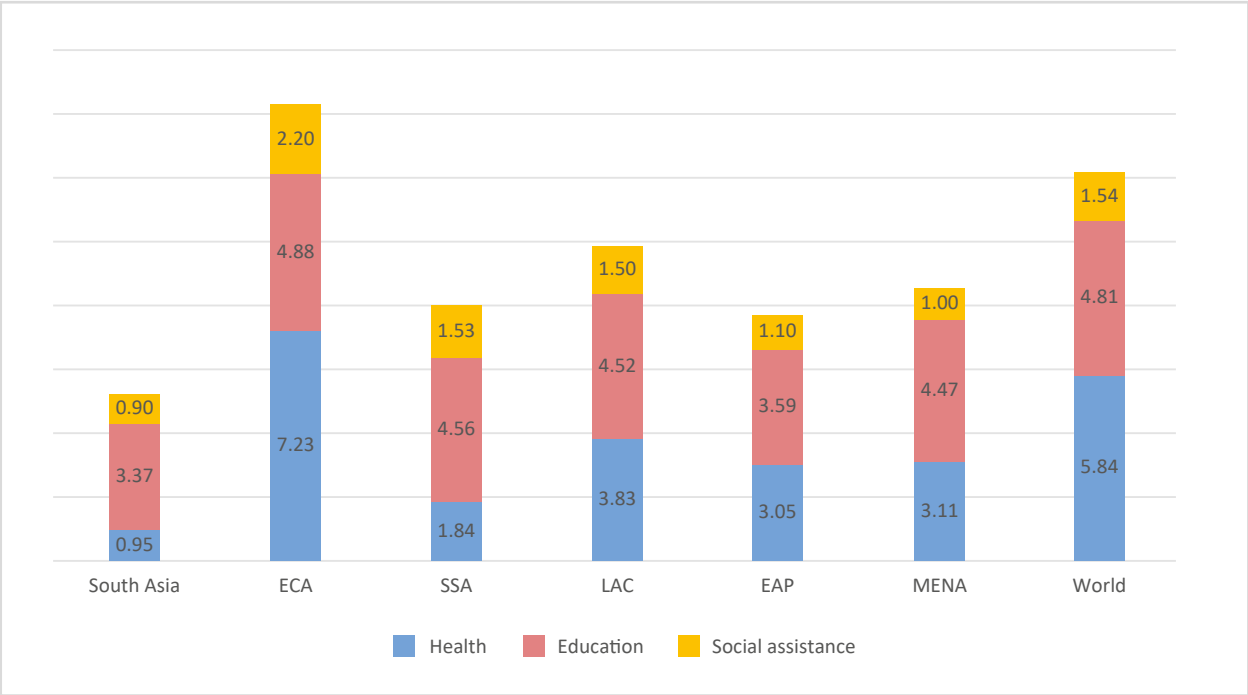
The objective of this report is to paint a broad picture of how governments in South Asia spend their resources on the social sector, focusing on health, education and social assistance, which are commonly seen as public policy priorities. It discusses the main trends, challenges and opportunities for financing social spending in the region, thus providing some guidelines on how public social expenditure in South Asia can be improved.

## Overview of social spending in South Asia

On average, South Asian governments spend less on health, education and social assistance (as a percent of gross domestic product—GDP) than other regions (Figure 1), but there is a great heterogeneity across the region.

Figure 2 provides an overview of spending on these three sectors in each country in South Asia. When adding up government spending on health, education and social assistance, Bhutan and Maldives have the highest level of public social spending as a percentage of GDP. Compared to other countries in the region, Bhutan devotes comparatively more public funds to education, while Maldives spends the most on health, and India on social assistance. At the other end of the spectrum, Bangladesh spends the least on both health and education, and Bhutan spends the least on social assistance.<sup>1</sup>

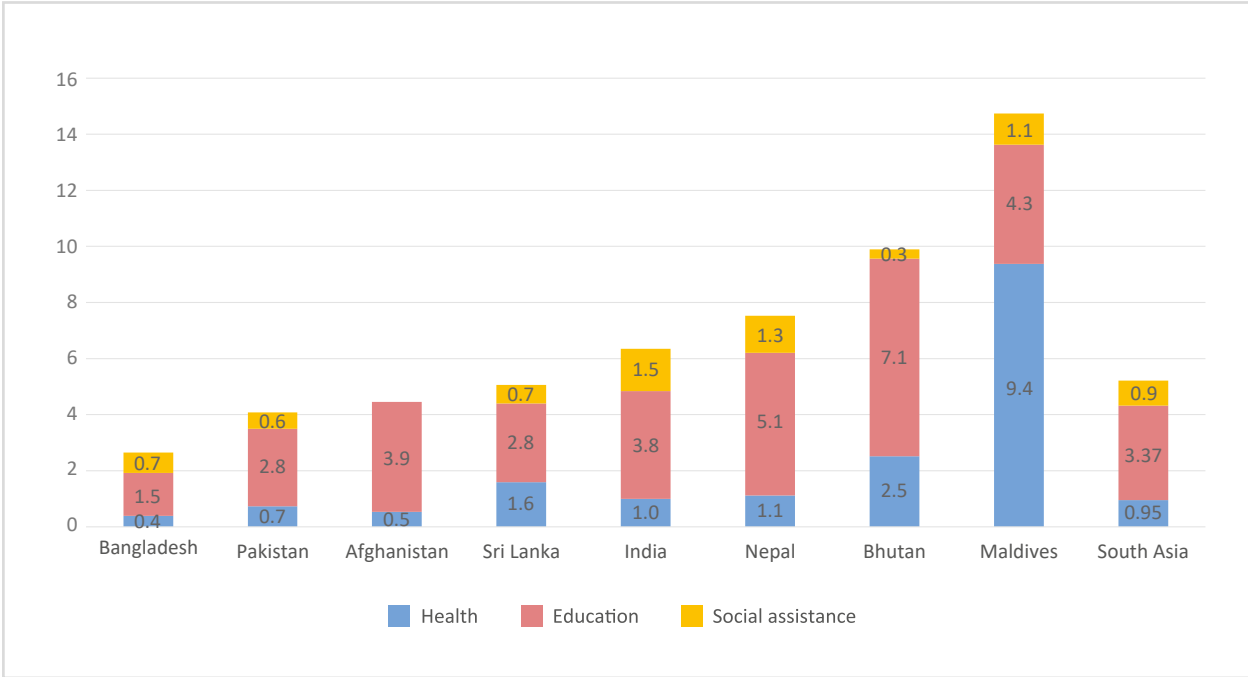
**Figure 1.** Social expenditure (health, education and social assistance) as a percentage of GDP, regional averages



Note: ECA = Europe and Central Asia; SSA = Sub-Saharan Africa; LAC = Latin America and Caribbean; EAP = East Asia and Pacific; MENA = Middle East and North Africa.

Source: Author’s elaboration based on World Bank (2019a) and World Bank (2019d) and International Labour Organization (2017).

**Figure 2.** Social expenditure (health, education and social assistance) by country, as a percentage of GDP (latest available data)



Source: Author’s elaboration based on World Health Organization (2019), UNESCO (2019) and World Bank (2019d).

## Health

Universal health care, as described in the Sustainable Development Goals (SDGs),<sup>2</sup> has two important dimensions: service coverage and financial protection. Thus, moving towards universal health care means ensuring that: a) the population has access to essential health care services (indicator 3.8.1); and b) no one needs to suffer financial hardship to have access to necessary health care (indicator 3.8.2). Achieving universal health care seems to be an aspiration of governments in every country of the region. However, despite the improvement of health outcomes, there is still much to be done in South Asia, and progress has been uneven across the region.

On average, governments of South Asian countries spend very little on health care compared to other regions, but the funds allocated to the health sector have been increasing with growth in income per capita. There is, however, a great variation within the region: while the governments of Afghanistan, Bangladesh, India and Pakistan spend below 1 per cent of GDP on health care, public spending is higher in Maldives, Bhutan, Sri Lanka and, to some extent, Nepal.

Maldives, Bhutan and Sri Lanka have the best indicators of financial protection, in the sense that government health spending is the highest in the region: the government is responsible for over 70 per cent of health care financing in Bhutan and Maldives, and 43 per cent in Sri Lanka (where out-of-pocket payments are mainly made by richer households). Maldives and Sri Lanka are the only countries in the region that have achieved SDG mortality rate targets and have life expectancy over 75 years and nearly universal immunisation. Bhutan's indicators are not as good (but overall above the regional average), which could be due to the high inequality of health service coverage.

In other South Asian countries, funding of health care comes mainly from out-of-pocket spending (i.e. health spending directly paid by households): the share of out-of-pocket spending is particularly high in Afghanistan (77 per cent) and Bangladesh (72 per cent). This illustrates the burden of health care payments on households in these countries—a consequence of the inadequacy of government provision of health services. Health care costs can be unpredictable (in terms of both occurrence and amount), and when it is left to households to bear excessive out-of-pocket expenditures, the consequences might be inadequate treatment, no treatment at all, or impoverishment due to the high burden of expenses. In Afghanistan and Pakistan in particular, health indicators of underweight prevalence, mortality rates, immunisation and skilled attendance at birth have been improving but remain at worrying levels, which indicates an urgent need for investment in maternal and child health care interventions.

Moreover, the regional comparison shows that countries with similar levels of health spending (especially countries where this level is low) can have widely different performance when it comes to service and financial coverage. Sri Lanka, for instance, has achieved outstanding health indicators with lower spending than countries such as Maldives and Bhutan. This indicates that, beyond increasing the allocation of resources to health sectors, governments can focus on improving expenditure management and service delivery to broaden access to essential health care and reduce the burden of health spending on households.

## Education

According to UNESCO Institute for Statistics estimates, South Asia is home to more than 11 million out-of-school children of primary school age. The number is even higher for lower secondary, as 18 million South Asian adolescents are not attending school. To achieve universal access to basic education (i.e. ensuring that all children of primary and lower secondary age are enrolled in school and benefit from quality education) by improving intake, completion and learning, it is crucial that South Asian governments direct the appropriate funds to education.



South Asian countries spend, on average, around 4 per cent of GDP on education, which remains below the world average (4.8 per cent) and is the lowest of all regions. Despite the overall low level of public spending as a share of GDP, of the three social sectors considered in this study, education is typically the one receiving the most public funding in the region, which suggests that it is considered a policy priority. All countries allocate over 10 per cent of the government budget to education expenditures (in Bhutan, the share exceeds 20 per cent), and the regional average is around 15 per cent (against 7 per cent for health).

Four countries exceed the regional average: Bhutan (6.6 per cent), Nepal (5.2 per cent), Afghanistan and Maldives (4.1 per cent). However, education spending in these four countries results in widely different outcomes:

- In Afghanistan, over half the population is illiterate, and available data on education indicators show that the country fares worse than others in the region (except Pakistan, in some cases).
- Maldives has some of the best outcomes in the region, with nearly 100 per cent literacy rates and primary school enrolment.
- Bhutan devotes almost a quarter of government expenditures to education, but only 67 per cent of the adult population is literate, and the share of out-of-school children of primary school age is among the highest in the region (indicators for secondary education are slightly better).
- Nepal stands out as spending over half its education budget on primary education, resulting in encouraging primary education outcomes: net enrolment and completion rates are well above the regional average.

At the other end of the spectrum, India, Pakistan, Sri Lanka and Bangladesh all have government spending on education below 4 per cent of GDP, but also with varying education indicators:

- Sri Lanka has the second lowest level of spending but some of the best outcomes in the region, especially literacy rates and school enrolment, and the rates of out-of-school children are extremely low.
- Similarly, Bangladesh has the lowest level of education expenditures in the region, but its literacy rates and school enrolment exceed the regional averages.<sup>3</sup>
- India's education spending is about the same as the regional average. In terms of outcomes of basic education, there is still much room for improvement, especially as the share of out-of-school children of lower secondary age remains very high.
- Pakistan has a particularly alarming situation: school enrolment and literacy rates remain extremely low. Around a quarter of Pakistan's children are out of school. Around half of the over 20 million out-of-school children in South Asia of primary and lower secondary age live in Pakistan.

The case of South Asia suggests that a similar proportion of public spending on education can lead to completely different outcomes. Possible explanations for this heterogeneity include a lack of administrative capacity, inadequate use of public resources directed to education, and inequality of spending incidence. This is in line with the idea that more public investment in education does lead, on average, to better education outcomes, but this relationship depends strongly on factors such as a country's income, institutions, demography etc., which should be key inputs to determining current and future financial needs.

## Social assistance

One of the main targets of SDG 1, “end poverty in all its forms everywhere”, is to “implement nationally appropriate social protection systems and measures for all” (target 1.3). In this sense, the point of expanding the coverage of social protection programmes<sup>4</sup> is to protect the population from situations of poverty and vulnerability. In the case of South Asia, the governments of Afghanistan, India, Maldives, Nepal and Sri Lanka have made efforts to include social protection in their legislation, strengthening commitments to improve social protection systems. However, this does not seem to be the case in Bhutan, Bangladesh and Pakistan, three countries where expanding coverage of social safety nets is urgent, since according to ASPIRE estimates,<sup>5</sup> less than 20 per cent of the population is covered by social protection and labour programmes (coverage in Bhutan is particularly low, reaching only 3 per cent of the total population).

Moreover, even in countries where legal coverage has expanded, a huge share of the population remains excluded from social safety nets. Such is the case in Afghanistan, where less than 10 per cent of the population is covered by social protection programmes. Even lower is the share of the population benefiting from contributory social protection, as informality remains a considerable obstacle across South Asia.

As shown in Figure 1, countries in South Asia spend, on average, 0.9 per cent of GDP on social assistance, which places the region at the bottom of the global distribution, as other regions spend comparatively more. Of all South Asian countries for which ASPIRE data are available, India, Nepal and Maldives are the only ones where public spending on social assistance exceeds 1 per cent of GDP. These estimates indicate that India has the highest spending in the region (1.5 per cent of GDP). At the other end of the distribution, Bangladesh, Sri Lanka, Pakistan and Bhutan all spend less than 1 per cent of GDP on social assistance.

ASPIRE data also suggest that social assistance programmes in South Asia do not always benefit the poorest deciles most. In the cases of Bangladesh, India and Sri Lanka, there is some indication that the largest share of benefits goes to lower quintiles, and, therefore, that social assistance is progressive (in absolute terms). Conversely, better-off households tend to benefit more from social assistance in Afghanistan, Bhutan, Maldives, Nepal and Pakistan. As for the impact of social assistance programmes on poverty and inequality, ASPIRE finds by far the greatest impacts in Maldives: extreme poverty falls by nearly half, and the Gini Index by 4 per cent, when accounting for benefits from social assistance. Sri Lankan social protection programmes have the second largest impacts on poverty (31 per cent), and the Indian ones have the largest impacts on inequality. (2 per cent). The impact of social assistance in other countries of the region is comparatively low (Bhutan and Afghanistan show the lowest reductions, though the numbers are somewhat out of date).

Overall, much needs to be done to expand the coverage and adequacy of social assistance programmes in South Asia. To enhance public spending on social policy, it is crucial that governments direct a share of their budgets to improving the adequacy of social assistance programmes. This means investing in programme design (including adequate identification of beneficiaries and their needs) as well as monitoring and evaluation (to ensure that programmes are achieving their objectives and produce evidence to substantiate the scale-up of programmes that have shown good results).

## Fiscal space for social spending in South Asia

In South Asia, the combination of low domestic revenue generation, inadequate spending and deterioration of economic conditions continues to lead to increasing fiscal deficits and weak macroeconomic buffers, which in turn affect the capacity of countries to allocate resources to health, education and social assistance. However, South Asia is the fastest-growing region in the world, and even countries with tight budgets have the potential to increase investment in social sectors.

As the provision of health, education and social assistance requires stable and significant sources of financing, South Asian countries could consider the option of creating fiscal space through sustainable and equitable revenue mobilisation. Despite many efforts to increase tax-financed social policies (e.g. in Bhutan, Maldives, Nepal and Sri Lanka), inadequate domestic revenue mobilisation remains a considerable obstacle to development in the region. Overall, it seems that South Asian countries underexploit tax collection as a financing mechanism for social policies, which can be explained, to some extent, by structural factors such as low formal employment, widespread tax exemption and evasion, and weak tax administration. Direct taxation in the region is particularly low—increasing it would create more room for introducing more progressive taxation, especially in countries with high inequality, such as Maldives and Sri Lanka.

Beyond increasing domestic resource mobilisation, South Asian countries could improve social expenditure by addressing equity, efficiency and effectiveness issues on the spending side of the budget. A high level of expenditure on the military across the region, for instance, suggests that South Asian countries could consider switching expenditures as a way to create fiscal space for investment in the social sector. Improving fiscal management also requires systematic budget assessment, fiscal and benefit incidence analyses and transparency, as well as monitoring and evaluation of public policies.

Strong institutions and adequate budgeting and planning are key to support governments in their reprioritisation efforts. One common issue for many countries in South Asia concerns the heterogeneity of governance between different government units. In Nepal, for instance, poor implementation capacity at subnational government levels leads to budget under-execution. Similarly, in India, fiscal discipline is not uniform across states, and some manage to spend public resources more efficiently than others (in the sense that they achieve better social outcomes).

South Asian countries can alternatively explore other resources to increase the budget of social policies. Official Development Assistance (ODA), for instance, could be a starting point for financing social policies in countries where tax reforms are more difficult to implement, such as Afghanistan.

## Conclusion and final policy recommendations

As South Asia countries continue to struggle with many forms of social exclusion (e.g. poverty, inequality, informality), which are caused to some extent by gaps in provision of health care, education and social assistance, governments should ensure that investments in these sectors reach those who are most in need. Moreover, policymakers need to align their spending on the social sector with their country's development needs, which means, *inter alia*, taking concrete steps to put political intent into practice (through legal and budgetary commitments, for instance) and setting expenditure targets according to countries' and sectors' specific contexts. South Asia is the fastest-growing region in the world, and even countries with a tight budget have the potential to increase investment in the social sector. Policymakers should make the most of economic, political and demographic opportunities to strengthen and fulfil commitments to provide health care, education and social safety nets.

Additional efforts are necessary to fill data collection and management gaps, to better understand these needs and inform decision-making, improve information systems and monitoring progress towards the achievement of development outcomes. As there are different government sectors competing to capture the often scarce public resources, it is crucial that policymakers rely on evidence on the effectiveness and efficiency of current spending to make better-informed decisions. All government expenses that seem excessive should be carefully evaluated to identify inefficiencies. Conversely, evidence pointing to the effectiveness of health care, education and social assistance policies can be used to scale up such programmes.

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## NOTES

1. No data for spending on social assistance were available for Afghanistan in the database used for this graph (ASPIRE).
2. Target 3.8: “Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all.”
3. The proportion of out-of-school children in Bangladesh is relatively high, but the indicators date from 2010.
4. UNICEF (2012) defines social protection as a “set of public and private policies and programmes aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation”.
5. It seems important to highlight that ASPIRE data should be interpreted with caution, as estimates are based on a limited number of programmes.



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