



CAREC Economic and Financial Stability Cluster 2021 High-Level Policy Dialogue on Social Spending to Tackle Rising post-COVID-19 Inequality in CAREC

22 November 2021 • Virtual meeting

SUMMARY

A high-level virtual panel discussing social spending measures to tackle rising post-COVID-19 inequality was held on 22 November, attended by deputy ministers, central bank governors and senior officials from CAREC member countries, as well as representatives from ADB, IMF, the WB and the Eurasian Fund for Stabilization and Development.

Opening Remarks and Keynote Speeches

Moderator: Mr. Tariq Niazi, ADB

Azerbaijan: Mr. Anar Kerimov, Deputy Minister, Ministry of Labour and Social Protection of Population, opened the forum and provided a background on the effects of the COVID-19 pandemic globally and in the CAREC countries by exposing vulnerabilities and inequalities. The Azerbaijan government took necessary measures to support vulnerable groups. In 2020, a comprehensive social-economic package supporting almost half of the population and worth over USD 2.0 billion was adopted. Current social assistance programs support low-income population and are an active tool to fight poverty. Application processes were simplified recently and helped widen programs' access and coverage. The government will pursue its socio-economic development strategy in 2022-2026. Government social expenditures will reach 46% of state budget in 2022, with a major share covering social security. The deputy Minister also emphasized that CAREC is an important knowledge and experience-sharing platform to improve social policies in the countries.

Joint presentation by ADB-IMF-WB: Mr. Alain Borghijs, Officer-in-charge of Regional Cooperation and Operations Coordination Division at ADB's Central and West Asia Department presented socio-economic challenges CAREC countries have been facing before the COVID-19 crisis that have been exacerbated by the crisis. He also pointed out the urgency of policy actions to tackle rising inequality and poverty to make recovery more inclusive and reduce the economic scarring from the pandemic.

IMF: Mr. Jihad Azour, IMF's Director of the Middle East and Central Asia Department provided a keynote statement. He highlighted that a median CAREC country needs to spend in addition 10% of GDP per year by 2030 to achieve five critical sustainable development goals (SDGs) covering human, social and physical capital. The COVID crisis has magnified these challenges and exposed significant vulnerabilities in health, education, social protection and gender inequality. An important challenge for most CAREC countries now is to find an appropriate balance between the needed fiscal consolidation and social spending. IMF analysis shows that public spending on health, education and social protection can have meaningful impact on socioeconomic outcomes. Investing in healthcare and education is essential to strengthen labor productivity. Targeted social assistance is paramount to ensure that the poorest group of population is not left behind, while adequate and efficient public spending on education, health and social protection is critical for building a healthy and productive workforce and inclusive society. IMF values the long-standing collaboration with the CAREC region.

World Bank: Ms. Tatyana Proskyurakova, World Bank Regional Director of the Central Asia Region, highlighted specific socioeconomic challenges in Central Asia. Challenges are country-specific, but on average, the covid shock has pushed more people into poverty than any other recent crisis. The pandemic has reversed gains that the countries have made in improving human capital. Education systems have suffered tremendous losses. Learning poverty could increase by 10 percentage points due to the pandemic. Without reversing these losses, it would be difficult to recover in a sustainable way. All governments have responded swiftly and provided support to vulnerable populations and strengthened spending on health and education. The World Bank has supported governments in these efforts and will continue to do so. In the medium-term, countries need to return to the structural reform agenda that they were carrying forward before the pandemic. In the short-term term, there are three things to focus on: i) speed up efforts on vaccination campaigns; ii) provide urgent support to reverse learning losses, iii) use public spending to promote recovery, including private sector recovery and employment.

ADB: Mr. Yevgeniy Zhukov, ADB Director General of the Central and West Asia Department, re-emphasized the impact of the COVID-19 pandemic on CAREC countries' development agendas and growth prospects. The ensuing recession has pushed millions into poverty, worsened preexisting inequalities, and has shrunk government resources available for policies to promote inclusive growth. The region's population may continue to be affected by the long-term effects of COVID-19. Social protection systems may be under further pressure in the context of high inequality, limited fiscal space, institutional fragmentation, climate change, digital transformation and demographic shifts. Governments will face difficult policy choices on how to finance crucial expenditures in health, education and social protection amid limited fiscal space in some countries. While the countries commit to additional spending, spending inefficiencies should be reduced, policies should be well-targeted and become more adequate. He shared that over \$5 billion in loans and grants have been approved by ADB under the COVID-19 Pandemic Response Option (CPRO) for CAREC governments with a focus on social safety nets. Under ADB's Asia Pacific Vaccine Access Facility (APVAX), ADB has so far committed a total of \$600 million in the CAREC region. ADB recognizes that beyond the short-term health and economic shocks, the economic scarring may be long-lasting and affect human capital and productivity and stands ready to continue supporting the CAREC countries in addressing these challenges.

Moderated panel discussion

Moderator: Mr. William Seitz, World Bank

What are the lessons learned regarding social spending policies especially for building resilient social protection systems against future shocks in the CAREC region?

Turkmenistan: Mr. Begmyrat Allakbayev, Deputy Minister of Finance and Economy, Turkmenistan said that the implications of the pandemic over the last year and a half have resulted in a shift in the general approach of countries towards budgetary expenditures for social sectors. In the second half of 2020, Turkmenistan reviewed its budget and increased spending on healthcare and education. Turkmenistan annually increases expenditures of the state budget by 10 percent for payment of salaries to civil servants, pensions, state allowances, stipends. This has a positive impact on the income level of citizens. This year expenditures for preventive measures in the country and for vaccination against infections have been considerably increased (approximately 80% of the population of the country).

People's Republic of China (PRC): Mr. Peizhuang Yi, Level I Bureau Rank Official, Ministry of Civil Affairs, People's Republic of China provided a review of social security systems in PRC mainly consisting of social insurance, social benefits and social relief programs. The social relief program acts as a social safety net in the social security system. COVID-19 has resulted in a decline in income levels, increased expenditure for low-income populations and a rise in the number of people in need of financial aid. The PRC government

has introduced the following measures to address these issues: (i) subsistence measures for people with disabilities; ii) a lump-sum of cash provided to those facing economic hardships induced by the pandemic; iii) short-term subsidy mechanism to mitigate the impact of rising consumer prices; iv) strengthening ad-hoc relief efforts; v) streamlined processes for easier access to assistance such as an online review process; vi) monitoring and early warning system to identify those in need of immediate relief.

Tajikistan: Deputy Minister Yusuf Majidi from Tajikistan indicated that in 2020, Tajikistan's national budget was modified for emergency allocations to the health sector to finance the purchase of medical equipment and personal protective equipment (PPE), increase the salary of medical workers and transfer funds to vulnerable groups. In 2020, 48 percent of budgetary expenditure was directed towards the social sphere. IMF and ADB provided concessional loans and grants. In the post-COVID scenario, additional financial resources will be required to stimulate small and medium sized businesses, support vulnerable groups, and implement vaccination programs. In this regard, cooperation with CAREC member countries and financial support from development partners will help in the smooth and effective implementation of economic recovery programs.

What lessons can CAREC countries learn from each other in terms of designing effective and sustainable social spending responses to tackle inequalities in the post-COVID-19 period?

Georgia: Mr. Koba Gvenetadze, Governor, National Bank of Georgia highlighted that Georgia is a tourist-dependent economy and lost a significant share of tourist revenues in 2020 compared to 2019. If a prudent macro-economic policy is pursued by the government and social spending is well-targeted, central banks will not need to keep interest rates high. Lowering interest rates will allow the economy to recover from the pandemic and increase employment opportunities for people. Even prior to the pandemic, household debt was increasing in Georgia. Households had dedicated a large part of their income to debt servicing which meant that their disposable income was declining, and this was increasing poverty and inequality in society as a whole. The Bank of Georgia introduced specialized lending regulations in cooperation with the government. This helped to reduce debts across households. Citizens were subsequently in a better position to face the economic impact of Covid-19 than they would have been otherwise. As a result of the lending regulations, default rates have declined and the ability of borrowers to overcome future financial difficulties has improved.

Pakistan: Mr. Noor Rehman Khan, Director General (Cash Transfer), Benazir Income Support Program Pakistan suggested that in the context of Covid-19, countries who had invested in social protection systems were better equipped to respond to economic shocks. A dynamic socio-economic registry will allow a cash transfer scheme to be swiftly organized as an emergency response. Workers in the informal economy are usually not covered under any social protection system. A database of such informal workers needs to be established to allow inclusive economic recovery. Investments need to be directed to nutrition and health related systems, specifically for the most vulnerable. Investments are also needed for the education of the most vulnerable in society. Funds should also be channeled towards skills development. Micro-financing can enable citizens to return to the job market and contribute to the economy. The government of Pakistan has invested in digital and financial literacy programs at the grassroots level, to allow rural communities and those living in remote districts to partake in financial activity. Furthermore, during times of crises when markets are not functioning, these citizens will have the ability to transact digitally.

What can countries expect from IFIs in economic recovery post COVID-19?

Kazakhstan: Mr. Yerzhan Nessibkulov, Director of Department for International Economic Cooperation, Ministry of National Economy answered on behalf of Mr. Alibek Kuantayrov, Vice-Minister of National Economy, Kazakhstan. He emphasized the role of IFIs to support

countries during the pandemic. ADB's COVID-19 Solidarity Fund for Kazakhstan, amounting to USD 1 Billion, was aimed at reducing the impact of COVID-19 on the most vulnerable. Technical assistance was provided to rural populations and persons with disabilities to prepare them for new industries and jobs. ADB also provided a grant of USD 3 Million under the auspices of the government of Japan, for funding the procurement of vital medical supplies in the country.

Turkmenistan: Mr. Begmyrat Allakbayev, Deputy Minister of Finance and Economy, Turkmenistan emphasized that the most effective way to minimize the negative economic consequences of the pandemic is to strengthen multilateral cooperation through scientific diplomacy together with international organizations. It can be done by creating all necessary conditions for systemic communication among medical scientists, experts, and specialists in other related fields of knowledge in order to form a multilateral professional dialogue aimed at thoroughly studying the origin of the new type of coronavirus, diseases caused by this infection, and treatment and prevention methods. In his speech for the United Nations General Assembly, the President of Turkmenistan proposed a number of new approaches to address various pressing global issues of our time, including the development of international cooperation in the health sector. Also, Mr. Begmyrat Allakbayev noted that the President of Turkmenistan proposed to start exploring the prospects of establishing the following international and regional instruments: Special Program of the World Health Organization (WHO) for the study of the coronavirus genome; WHO Multilateral Pneumonia Control Mechanism; WHO Methodological Center for the Treatment and Prevention of Acute Infections; Central Asian Regional Center for Epidemiology, Virology and Bacteriology. Support of these initiatives by the CAREC Program will contribute to their efficient implementation for the benefit of the entire region and the world as a whole, contributing to the establishment of adequate and systemic international mechanisms to counter dangerous infections in the long term.

Georgia: Mr. Koba Gvenetadze, Governor, National Bank of Georgia underscored that IFIs can support capacity building and reform agenda in developing countries in three ways: i) IFIs can help countries convert a crisis into an opportunity. Sometimes crises enable countries to identify problems with their economy and prompt them to address issues. IFIs should encourage countries to 'fix their roof when the sun is still shining,' to make them more resilient to future economic crises; ii) IFIs can assist countries in creating an efficient digital ecosystem especially within the realm of the financial sector - as that is conducive to economic growth; iii) IFIs should encourage countries to implement sustainable finance and share best practices among countries to contribute to effective strategic positioning.

Pakistan: Mr. Noor Rehman Khan, Director General (Cash Transfer), Benazir Income Support Program Pakistan (BISP) underlined that IFIs can help countries in developing a database on vulnerable citizens. Countries with stronger databases have been able to respond more efficiently to the impact of the COVID-19 pandemic. IFIs can support countries in developing digitization and help in building the capacity of citizens relating to ICT technologies. Through integrated technological databases, Pakistan has significantly expanded its cash transfer program for vulnerable populations within a span of two to three months. IFIs should support CAREC member countries in digitalizing payment systems specifically for 'government to person payments' also known as G2Ps. This will allow payments to be delivered to beneficiaries with immediacy. Countries that lacked digitized systems took longer to deliver cash to their affected populations. The World Bank is supporting Pakistan in developing a hybrid social protection system, especially geared towards informal workers. With ADB on the other hand, the country is working on a financial inclusion project aimed at fostering an effective social protection system. IFIs should build the skills of vulnerable groups to equip them to generate earnings after an economic crisis. Conditional cash transfers can help in improving countries' human development index.

ADB: Mr. Yevgeniy Zhukov, ADB's Director General, Central and West Asia Department, gave an overview of ADB's past and ongoing responses. ADB's initial response to the

COVID-19 pandemic focused on several immediate issues facing DMCs, including providing targeted social protection for vulnerable groups, especially women. ADB committed \$1 billion to Kazakhstan, \$500 million to Pakistan, and \$500 million to Uzbekistan for budget support. In Georgia, ADB provided a policy-based loan of \$202 million for a fiscal resilience and social protection support program. The program supports government reforms to the national pension scheme, benefiting senior citizens and improving other social protection systems to promote Georgia's return to inclusive economic growth. The next phase of ADB's response has been to help DMCs deploy COVID-19 vaccines through the Asia Pacific Vaccine Access Facility (APVAX). Appropriate policies, financing, and knowledge support have been deployed in several countries of the region to meet vaccine planning, procurement, delivery, and communication needs and to carefully manage the risks of introducing a new vaccine into populations. Going forward, he shared that ADB will remain adaptive and agile in meeting the needs of CAREC DMCs, by expanding existing programs and developing new instruments as needed to help CAREC DMCs meet critical development financing needs and maintain debt sustainability, support the private sector to accelerate job creation and rebuild incomes, and invest in health, social protection and education to enhance resilience to future pandemics and external shocks. This will be complemented with targeted knowledge solutions. The CAREC program will also be key to building for recovery across the region. The endorsement of the CAREC-Health Strategy 2030 in the recently concluded Ministerial Conference is a step in the right direction.

IMF: IMF's Director of Middle East and Central Asia Department, Mr. Jihad Azour noted that social policy is key pillar for post-COVID 19 crisis mitigation, without which transformative recovery is not possible. Countries that have implemented strong social policies recovered faster. Healthcare, education and labour policies ought to be prioritized. Since the pandemic has exacerbated social and economic inequalities, countries need to promote inclusivity in all their development efforts. Vaccination and coordination are important dimensions of a regional approach to COVID-19 recovery. Improving labour mobility and developing regional projects which strengthen digital infrastructure have helped the governments to deliver the required financial support to citizens. The IMF has provided US\$ 110 billion in emergency assistance and 450 billion in SDR allocations to its members, including low-income countries and emerging economies to help them address the economic fallout of the pandemic. The Fund has assisted low-income economies to accelerate recovery processes and utilize resources to protect their economy. The Resilience and Sustainability Trust (RST) is a new instrument which is being developed by the Fund to support green recovery. Additionally, a new capacity development centre – CCAMTAC, which was established in the region by the IMF, will play a key role in mobilizing peer-to-peer networks. The CAREC meeting is a manifestation of the importance of strengthening peer-to-peer collaboration.

World Bank: Mr. William Seitz, Senior Economist/Team Leader, Poverty and Equity program in Central Asia, World Bank emphasized the key importance of administrative capacity. Bold responses have been driven by relevant knowledge skills, which makes it important to maintain talent in government systems. Furthermore, having IT systems is critical to responding quickly and effectively to emergencies as they can help to quickly identify those in need of immediate assistance.

Eurasian Fund for Stabilization and Development (EFSD): Mr. Andrey Shirokov, Managing Director of EFSD, postulated that Covid-19 has levelled up discussions on social spending and the effectiveness of social safety nets in the presence of limited fiscal spaces. Despite observed economic recovery, the countries remain highly vulnerable to external shocks, which could materialize in financing gaps and further amplify social policy challenges. For fiscal policy, the key challenge would be growth of fiscal and quasi-fiscal risks, as well as maintaining debt sustainability. In this efforts, countries should pay due attention to the sustainability of funding for protected social expenditures, as well as key social programs and infrastructure projects. Social policy measures have been the cornerstone of programs implemented by EFSD. EFSD is in discussion with member countries regarding budgetary support programs for operationalizing structural measures to

help them become more resilient to economic shocks in a sustainable manner. EFSD supported the significance of digitization in the agenda.

Summary of the Proceedings

Moderator: Mr. Tariq Niazi, ADB

Distinguished participants shared their rich insights and experiences during the proceedings of the forum. Panellists discussed socio-economic challenges and unprecedented financial packages related to health, education and social spending, rolled out in different countries. Interesting innovations were highlighted, including the development of robust databases and the provision of credit to the private sector. Policymakers and IFIs acknowledged the importance of rising allocations for social spending without compromising on debt and fiscal sustainability. In the presence of limited fiscal space, social spending needs to be efficient and adequately targeted.

Concluding Remarks

Mr. Anar Kerimov, Deputy Minister, Ministry of Labour and Social Protection of Population stated that rising inequality is a common challenge, and that Azerbaijan expresses its solidarity with CAREC member countries in their development approaches.