



Social Transfers in the Kingdom of Saudi Arabia:

Fiscal Analysis of Social Return from Public Spending





“We will endeavor to enhance efficient spending by setting up strict controls on approval mechanisms, in order to increase the impact achieved in exchange for spending. This will depend on strengthening the alignment between strategic priorities and budget distribution”.

The Custodian of the Two Holy Mosques
King Salman bin Abdulaziz Al-Saud

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1

Introduction



What is meant by social protection?

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King Khalid Foundation (KKF) is invested in supporting the building a viable social protection system in the Kingdom of Saudi Arabia. KKF has a deep belief in the returns of social spending and social protection on achieving inclusive economic growth, strengthening social cohesion, and achieving justice and equality for the disadvantaged segments of society.

Government spending on social transfers, health and education has a great impact on the standard of living of individuals and families in the Saudi society. The Coronavirus (COVID-19) pandemic has weighed on the global economy, but the Kingdom of Saudi Arabia has bravely led the global response efforts to the pandemic last year, upon its presidency over the Group of Twenty (G20). The Kingdom led the efforts to introduce several initiatives to mitigate the effects of the pandemic on the global economy. These initiatives first and foremost included, among others, the historical Debt Service Suspension Initiative (DSSI) for the poorest countries to enable these countries to address the pandemic locally, in addition to stimulus packages valued at more than 11 trillion US dollars, with an emphasis on protecting the disadvantaged families and groups, as well as workers and small and medium-scale enterprises.

Nowadays, a new prospect for social protection measures has globally emerged, driven by unprecedented government spending as part of the pandemic response and recovery efforts. Social spending during the COVID-19 pandemic has exceeded that of the World Financial Crisis (2007-2008) by four times¹, and the number of social protection measures has increased by (148%) since December 2020²; that is, one out of every five people around the world receives social benefits. The pandemic has shown the significance of the sound fiscal planning of social spending capabilities in state budgets. Global financial and development organizations have been providing in-depth analyses of the flows of social transfers in countries. Even more, they have been making recommendations for including social spending within the framework of financial planning in the medium term³.

KKF provides an assessment of the operational journey of social transfers, and highlights a number of challenges related to the provision of social transfers. These challenges mainly comprise the weak governance of social transfer amounts, in addition to the weak financial and economic planning of social spending. They also include the absence of analyses of the economic impact and fiscal multiplier of social transfers from the discussions of national policies, as compared to other government spending items.

In this paper, KKF presents a proposal for the regulation of financial planning for social transfers in the Kingdom. It aims to support better governance on a regular basis to estimate social transfer amounts, taking into account the accelerating economic changes and their related effects on low-income individuals and families. This would help to realize fiscal balance and sustainability targeted by the Kingdom's Vision 2030, in parallel with the financial planning in the Kingdom's counterpart countries in terms of income and Gross Domestic Product (GDP) size.

1

See the International Monetary Fund (IMF) recommendations through the Fiscal Monitor Report on Fiscal Policy Priorities (April 2021), and the International Labor Organization (ILO) in the World Employment Trends Report (2021).



2

World Bank Group (May 2021) "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" (Version 15).



3

International Monetary Fund (2021), "Global Fiscal Monitor" (April 2021), p. xiii.



This document is intended to contribute to bridging the gaps in social transfer adequacy, and support the unremitting national efforts and endeavors to meet the needs of the underprivileged segments, by proposing the following recommendations:

First:

Increasing government spending on social transfers by 15 to 20 billion riyals annually, starting from the 2022 budget

This will be intended to mitigate the consequences of the increase in the cost of living on lower-income families due to the rise of inflation rates, increase of the value-added tax rate, and the suspension of the cost-of-living allowance.

Second:

Forming a committee for the governance of social transfer benefit size reforms

1. Draw upon the model and working mechanism of the Committee for the Governance of Energy and Water Products Price Reforms by establishing a standing committee that would meet periodically every 6 months and set up specific upper and lower ceilings for raising and lowering benefit size not exceeding 10% with each reform;
2. Establish specialized work teams within the committee to study the impact of economic changes on lower-income families to ensure that the social transfer amounts catch up with the costs of living and economic developments; and
3. This committee will be responsible for studying the amounts of all governmental social transfers in the Kingdom. It will coordinate for integration purposes with non-governmental donor and support agencies to provide social transfers. The committee, however, will not have the competence to study reforms of the social transfer policies, the size and number of programs, or the criteria for eligibility, management, grievance, evaluation and follow-up. These latter competencies are already assumed by existing ministerial committees whose work terminates with the completion of their tasks and duties.

Third:

Developing the fiscal policy tools of social spending in the Kingdom

- 1.** Include social spending estimates within the medium-term estimates of the general State budget, in line with the estimates monitored and analyzed for both capital and current spending;
- 2.** Adopt the social accounting system to provide a quantitative analysis of social spending as well as future estimates for the development and reform of social protection programs;
- 3.** Calculate the fiscal multiplier of the government's capital, current and social spending on a periodical basis, to ensure an estimate of the financial sustainability of each form of spending. Accordingly, this will make it possible to monitor budgets efficiently and direct budget shares to spending items with a higher fiscal multiplier and economic return.

2

Social Transfers in the Kingdom of Saudi Arabia



1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and achieve substantial health coverage of the poor and the vulnerable.

In 2020, this Goal was achieved as follows:

Less than 50% of the world's population is covered by at least one social protection program.

85% of the population of high-income countries is covered by at least one social protection program.

78% of the Kingdom's population is covered by at least one social protection program.

ILO Flagship World Social Protection Report 2020. Download [HERE](#).



What is meant by social transfers?

Social transfers refer to cash transfers provided by government agencies to individuals and families, and considered as a major social protection measure. This paper discusses all social transfers provided by government agencies to individuals and families in the Kingdom, such as:

1. Social Assistance Benefits and Support Programs:

- ▶ **Social security benefits**
- ▶ **Support programs:** such as the lump sum assistance program, supplementary assistance program, the home renovation program, the cash assistance program for schoolbags and uniforms, the partial payment of electricity and water bills program, the assessment and academic achievement test fee payment program, the cash assistance for food program, the home furnishing program, the health insurance program, the productive projects program for individuals and groups;

2. Financial assistance for people with disabilities;

3. Job-seeking and unemployment benefits;

4. Financial assistance within the home-based rehabilitation health care program;

5. University students' allowances;

6. Citizen Account Program assistance

Figure 1

Operational journey for providing social transfers in the Kingdom



Funding Sources

1. General State budget in relation to government transfers
2. Non-profit organizations and associations, whether by means of the endowments allocated by the donor for institutions or the donations and zakat amounts collected by associations.
3. Donations of the private sector to the non-profit sector or through social responsibility programs.



Infrastructure

All means to provide service to the beneficiaries, including social infrastructure such as houses or buildings, or digital infrastructure such as electronic platforms.



Service Provider

The agency in charge of setting the procedures for providing the service and assistance to the beneficiary and ensuring the adequacy of the service and assistance, in addition to enforcing the laws and regulations issued with regard to social transfers.



Social worker

A person who ensures that beneficiaries meet eligibility criteria and follows up on their status through field visits, and verifies the validity of the documents and data provided by these beneficiaries, to complete the economic and social data of the case.



Beneficiary

The recipient of assistance based on the eligibility criteria and controls.

Operational Challenges to Providing Social Transfers

Based on the assessment conducted by King Khalid Foundation, there are four operational challenges in the way of providing government social transfers in the Kingdom:

First:

Weak institutional capacity to provide social assistance services

Providing social transfers requires qualified human staff able to ensure that the beneficiary is eligible to receive social assistance through field visits or the so-called social research. It also requires building a development plan that satisfies the beneficiary's instant needs through social assistance, and links this beneficiary to supplementary programs that help him to overcome his state of destitution and need to reach empowerment and productivity in the long run. It is noticeable that the profession of a social worker is absent, unlike other professions such as health workers supervised by the Saudi Commission for Health Specialties.

Social work is now a crucial profession that affects public health and the development and safety of society. Therefore, its practice at the global level is subject to regulatory conditions that guarantee public interest. For example, each American state appoints a supervisory board to monitor the work of social workers, determine their necessary competencies, apply professional examinations and continuing education, and granting licensing for their work on American soil. These supervisory boards meet in a national assembly (Association of Social Work Boards) that provides evidence and guiding standards, including the Model Social Work Practice Act.

In England, a competent regulatory organization (Social Work England) takes over the regulation of social workers through registration and accreditation tools, setting professional standards and continuing professional development practices, as well as hearing complaints against social workers. This Organization seeks to ensure the application of six professional standards related to the following:

- 1 Promote the rights, strengths and wellbeing of people, families and communities;
- 2 Establish and maintain the trust and confidence of people;
- 3 Be accountable for the quality of the practices and decisions made by social workers;
- 4 Ensure that social workers comply with the continuing professional development;
- 5 Act safely, respectfully and with professional integrity; and
- 6 Promote ethical practice and report abusive practice.

In the Kingdom of Saudi Arabia, the deprioritization of social work professions and the absence of a specialized professional agency have led to the development of inefficient human staff in the field of social work, as well as the absence of licensing, follow-up, professional testing, and continuing education. The Saudi Commission for Health Specialties provides classification services for the degree of “assistant specialist, specialist, senior specialist, and consultant” based on the bachelor’s, master’s and doctoral degrees in the disciplines of sociology, social work, and psychology, although this classification mainly targets workers in the health sector.

A Council of Ministers Resolution has been issued recently to establish an administrative unit as part of the Ministry of Human Resources and Social Development under the name “Social Specialties Unit.” This unit aims to regulate and control the social work of professional practitioners by issuing licenses to social workers, preparing licensing tests, and listing professional workers in the field of social care. This unit is still under establishment, but in terms of its organizational level, it is weaker than the professional agencies for other specializations such as health, engineering, law, auditing and accounting, and other specialties and professions for which specialized professional agencies have been established.

Another institutional challenge is the lack of coordination between the agencies providing social transfers, whether between government agencies themselves, or between them and non-governmental agencies providing social transfers. Coordination is necessary, not only in terms of integration, but also to ensure the efficiency of social transfers and their impact on beneficiaries, as well as to avoid double benefit or waste.



Council of Ministers Resolution no. 673, dated 121442/11/H

Establishing an administrative unit at the Ministry of Human Resources and Social Development under the name “the Social Specialties Unit”.

The duties and responsibilities of the administrative unit stated in Clause I of this Resolution shall be as follows:

1. Propose the foundations and criteria for practicing social professions, and submit them to the competent authority for approval;
2. Coordinate with the educational sectors with regard to social specializations, within the framework of the general education policy, and develop the workforce in social fields;
3. Examine the licensing applications for social specialties, and submit its views to the competent authority to issue professional licenses for those specialties;
4. Evaluate professional social qualifications, in coordination with the relevant agencies; and
5. Encourage and support the preparation of social scientific research.



Study of the development of the government assistance system.

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Second:

Difficulty of investigating the targeting effectiveness of social transfers

King Khalid Foundation (KKF) discussed the importance of setting clear standards for targeting the underprivileged segments based on the adoption of a methodology for designing the threshold for relative poverty in a previous publication (See “the Social Government Assistance System”). KKF commends the relentless efforts that accompanied the development of the new Social Security Law and its Implementing Regulations. The new Law no longer depends on categorical standards in determining eligible beneficiaries, but relies on income, verification and the beneficiary’s solvency (means-tested). The absence of a poverty line designation is one of the great challenges for all governmental and non-governmental providers of social transfers, due to the absence of a methodology for determining the eligible beneficiaries, which led to varying criteria and controls for eligibility.

In addition, the absence of periodic social and economic surveys of the family limits the ability to investigate destitution and inequality in the Saudi society by the governmental and non-governmental providers of assistance programs, and makes it difficult to identify development needs. In particular, there is still a data gap that is detailed as follows:

- Detailed disclosure of the data of the household income and expenditure survey, and the labor force survey, at the level of the Kingdom’s regions, as well as the demographic, social and economic variables and characteristics: gender, nationality, age group, administrative region, disability status, income categories.
- Development of a household income and expenditure survey to ensure coverage of family wealth data, and confirm the insufficiency of the income and expenditure data.
- Decline of economic and social indicators at the level of cities, especially the urban poverty indicators issued by urban observatories in the various regions of the Kingdom; they include the percentage of poor families, the percentage of female-headed households, the average income and expenditure, the household income distribution, and the ratio of housing rent to income.
- Need to issue a time-use survey to track family lifestyle, especially low-income families as compared to the rest of society.
- Need to issue a victimization survey to measure the extent to which this phenomenon spreads among different income groups.

Any shortage of the above-mentioned data poses a major challenge to building evidence-based policies and programs. It also limits the ability to target groups who are eligible for assistance with social transfers and programs that contribute to their economic and social empowerment.

Third:

Need for the governance of social transfer amounts

Over the past five years, the social protection system in the Kingdom has been subject for many reforms related to the development of relevant laws and legislations:

- Introduce the Citizen Account Program to address the consequences of the economic reforms of the former Fiscal Balance Program (currently the Fiscal Sustainability Program).
- Approve the new Statute of Jobseekers Allowance (Hafiz) and amending the eligibility conditions and the transfer amount, as well as linking the beneficiary to the development and training programs of the Human Resources Development Fund to motivate the new program applicants to search for work and terminate their dependency on assistance.
- Ensure that the newly issued Social Security Law and its implementing regulations are not based on categorical standards and ensure eligibility through social research processes.
- Merge the Public Pension Agency into the General Organization for Social Insurance to promote operational and financial efficiency

However, it is necessary to consider the foundations and factors required to determine and estimate social transfer amounts in light of the absence of a national poverty line and the weakness of social statistical indicators. It is also required to follow-up the developments of the national economy and their economic consequences on low-income groups on a periodical basis, such as a higher cost of living index, increased consumption taxes, and the economic participation of these groups. The World Bank indicates, through its ongoing review of social protection systems around the world, that the governance of support, assistance and service provision programs among the providers of these services and subsidies constitutes the most important challenge for developing the social protection system in world countries.⁴

4

World Bank Group (2012), "Rules, Roles, and Controls: Governance in Social Protection with an Application to Social Assistance", p. 1.





Learn more about the history of social spending in the Kingdom over the past 35 years, in the previous policy paper published by King Khalid Foundation entitled

Social Spending and Consumption-based Taxation Policies for the Year 2017

Download
HERE



5 | 6

Saudi Central Bank (2020). "Annual Statistics", Table no. 1 (b).



Fourth:

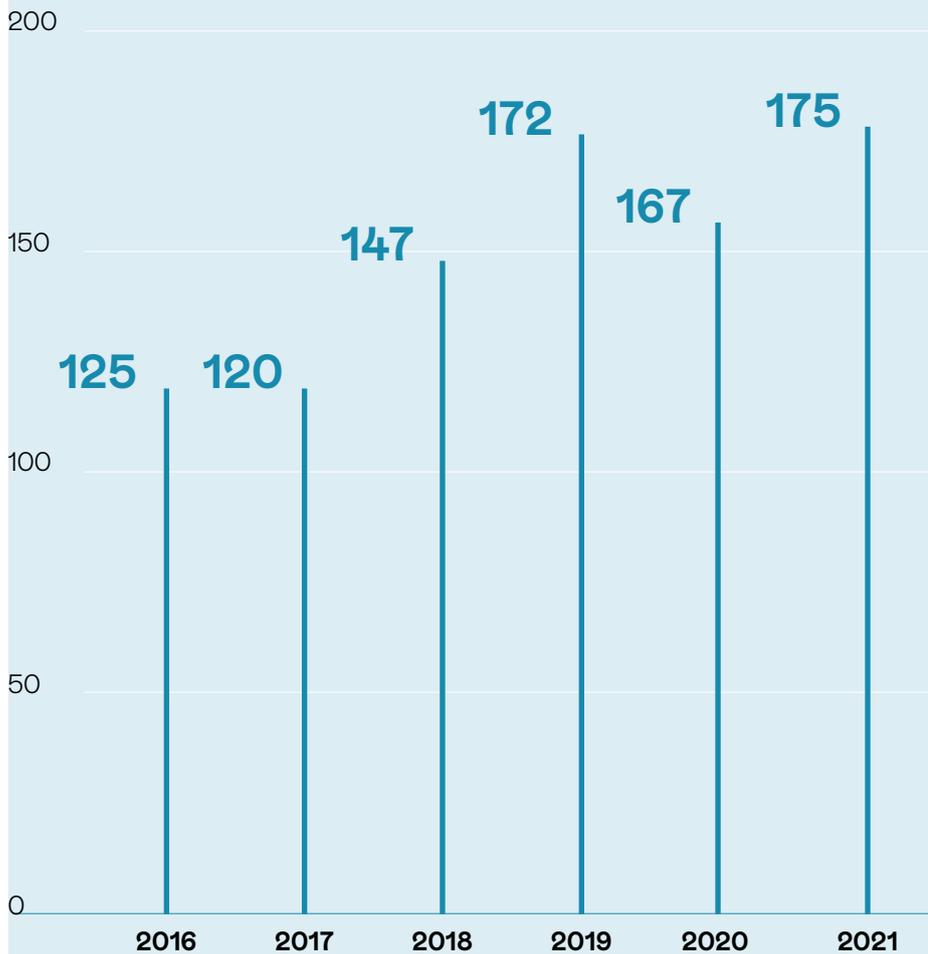
Weak financial and economic planning of social spending

Social transfers are among the most important channels of social spending in the Kingdom. For the reasons and purposes of this paper, social spending means current and capital spending on social assistance and health, listed in the State budget under the health and social development expenditures.

Saudi Arabia has made great strides in following up on the growth of social spending by including in the Kingdom's budget for the first time in 2019 a chapter on strengthening social spending in the medium term to ensure a highest social return and a direct positive return on the citizen. The Kingdom's government managed to achieve this goal over the past few years, as the Kingdom's social spending allocations increased from 120 billion riyals⁵ in 2017 to 17⁵ billion riyals⁶ in 2021. However, the remaining challenge relates to issuing economic indicators for the fiscal multiplier of social spending in the Kingdom and comparing these indicators with the current and capital government spending.

Graph no. 1

Social spending in the Kingdom over the past four years (estimates of the annual State budget in billions of riyals)



Source:
Saudi Central Bank (2020). "Annual
Statistics", Table no. 1 (b).



Boosting Social Spending

The Government aimed in the 2019 budget and in the medium term to achieve the highest social return by boosting social spending that brings about the best direct positive return on the citizen. The means it used included developing assistance mechanisms to target eligible beneficiaries and improving the level of government services delivered to the citizen. In this respect, the government will continue to implement and develop the Citizen Account Program through an inclusive social protection program serving as an umbrella through which government subsidies are provided to eligible families and citizens. Thus, social spending would include programs for social transfers, grants and benefits, and would ensure the continuation of spending on key service sectors such as health, education, housing and municipal services. It would also seek to improve and upgrade government services targeting specific sectors, such as programs to support working women and motivate job seekers (e.g. TAQAT, HAFIZ, and SANED).

Saudi Arabia Budget Statement 2019

3

Financial Return on Social Spending

What is the Financial Return on Social Spending?

Decision-makers and fiscal policy-makers around the world are concerned with calculating the fiscal multipliers of government spending to track the impact of government spending on the Gross Domestic Product (GDP) (especially the non-oil GDP in the Saudi context). Most studies around the world agree that current spending (especially that provided through cash transfers to lower-income individuals and families) provides a higher fiscal multiplier than capital spending in the short term. Over time, the fiscal multiplier of capital spending increases and prevails in the long-term.

Worthy of note is that studying financial consequences in the short and long term is crucial to help the decision maker to direct resources towards the best spending items of the fiscal multiplier and to obtain the best economic and social returns from government spending, especially in times of crises or economic stagnation, such as the status quo, where the world is recovering from the consequences of the COVID-19 pandemic. This paper provides a summary of the scientific evidence (at the global and local levels), showing the priority of government spending on social protection and health.

The latest international studies also indicate that cash social transfers are the fastest way to provide a fiscal multiplier in the short term⁷. Social transfers also stand out as an appropriate intervention at critical circumstances and in response to economic crises. Many world countries (especially developed countries and G20 countries) have provided stimulus packages to families and individuals through cash transfers to ensure the ability of citizens to withstand the pandemic and its economic consequences, and to absorb the financial shock resulting from families losing their sources of income. It is expected that these early interventions would help to accelerate the process of economic recovery in countries that have used cash subsidies as a major way to address the economic consequences of the COVID-19 pandemic.

A study that covered a period of more than forty years in the United States of America concluded that social transfers have had a large, immediate and significant positive response of consumption to permanent benefit increases, especially with regard to purchase of durable goods⁸. Another study that covered a 25-year-period in a group of countries of the Organization for Economic Cooperation and Development (OECD) found an expansionary fiscal multiplier that brought about a GDP growth of 0.6% with each increase in government social spending equal to 1% of GDP⁹. A recent study conducted by the International Trade Union Confederation (ITUC) has also reported an increase between 0.7% and 1.9% in GDP with each increase in social protection investments with a value equal to 1% of GDP in eight developing countries. This was also accompanied by other positive economic returns, namely in creating jobs, increasing government tax revenues, reducing poverty, and decreasing barriers to women's participation in the job market¹⁰.

The reason for the quick and positive fiscal multiplier of spending on cash transfers is that they are usually given to citizens and families who tend to spend their income at a quick pace (as a result of their consumption needs and their unwillingness to save or invest their income). Therefore, this necessarily leads to a reinjection of cash into the economy through immediate purchase liquidity, which is consistent with the economic theory that an increase in the fiscal multiplier is expected to occur with the increase in the marginal propensity to consume (MPC) (due to injection of income), and a decrease in the fiscal multiplier with the increase of the marginal propensity to save (MPS) (due to leakage of income).

7

The New Zealand Institute of Economic Research (July 2020). "Literature scan on the economic effects of social protection expenditure", p. 6.



8

The American Economic Journal (2016), "Transfer Payments and the Macroeconomy: The Effects of Social Security Benefit Increases".



9

The Institute for Fiscal Studies (2012), "The Effects of Social Spending on Economic Activity: Empirical Evidence from a Panel of OECD Countries".



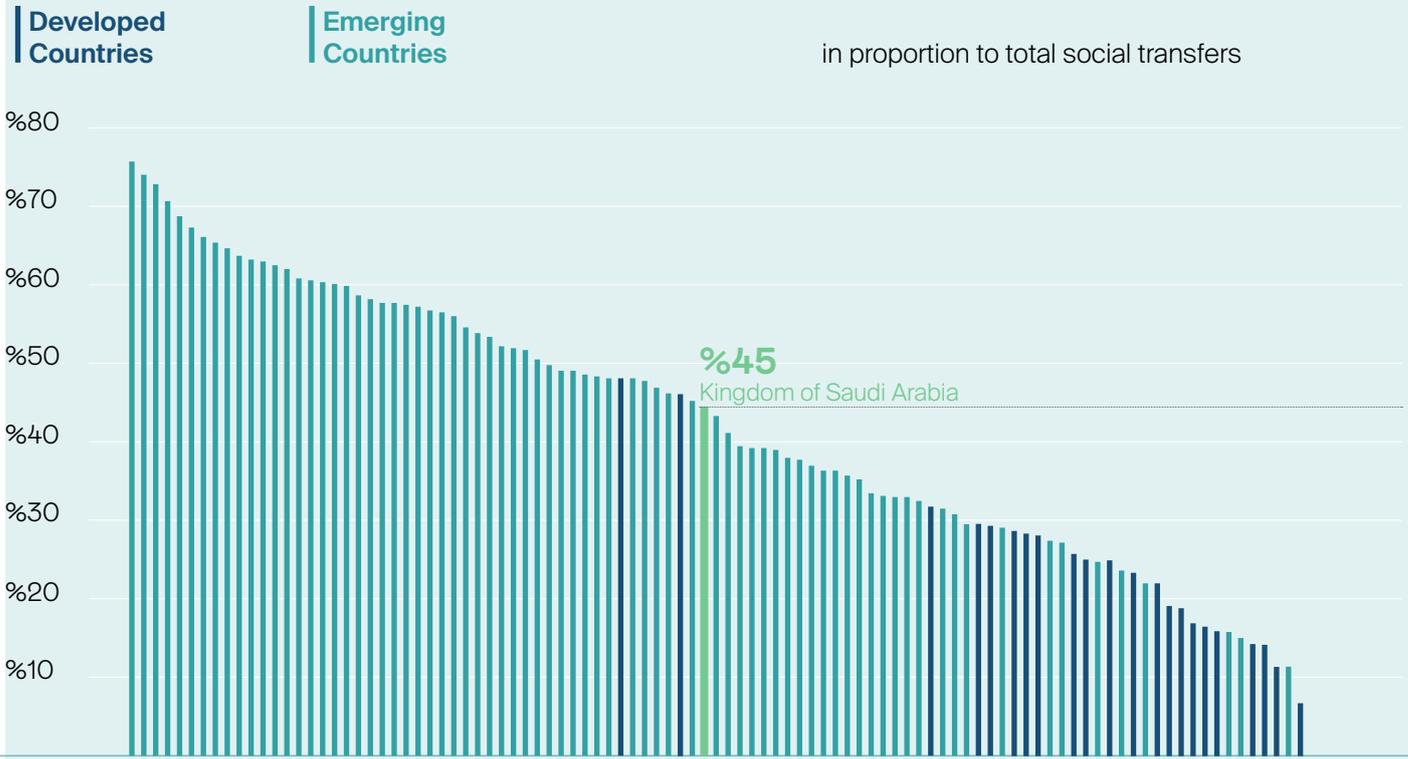
10

The International Trade Union Confederation (ITUC) (2021), "Investments in social protection and their impacts on economic growth", p. 8.



Graph no. 2

Country share of social transfers reaching hand to mouth individuals



in proportion to total social transfers



Source:
Working Paper: "The Financial Multiplier of Social Transfers in Developing and Developed Countries". World Bank (2021)

11

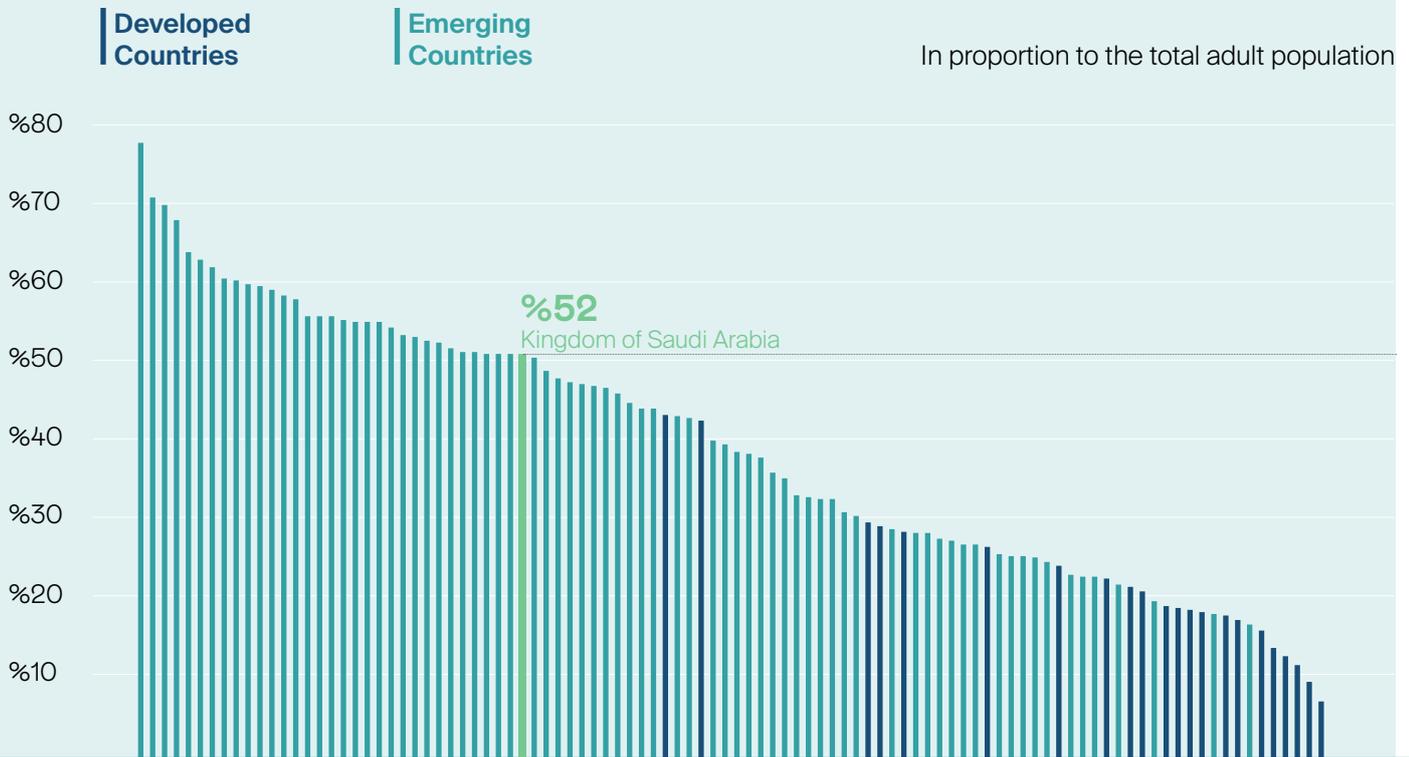
World Bank Group (2021), Working Paper: "The Financial Multiplier of Social Transfers in Developing and Developed Countries", p. 40



Therefore, developing countries enjoy higher fiscal multipliers as a result of cash transfers (due to the propensity of a greater proportion of their citizens to consume) compared to lower fiscal multipliers as a result of cash transfers in developed countries (due to the propensity of a greater proportion of their citizens to invest and save). Fiscal multipliers increase with the improvement of cash transfers targeting lower-income groups (the highest consumers in proportion to their income). **It can be estimated that the Kingdom of Saudi Arabia enjoys a high fiscal multiplier of cash transfers compared to developed countries, due to the fact that more than half of its population has a propensity to consume their entire income. In addition, (45.3%) of cash transfers is delivered to the highest consumer group".¹¹**

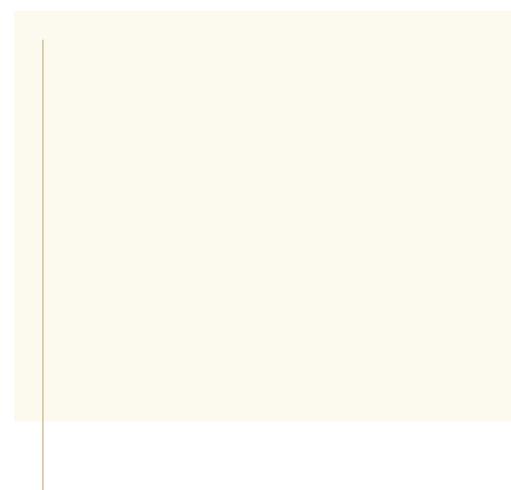
Graph no. 3

Country share of hand to mouth individuals



Source:
Working Paper: "The Financial Multiplier of Social Transfers in Developing and Developed Countries". World Bank (2021)

The above graph shows that more than half of the population of the Kingdom is among the highest consumers (52%) despite the poor targeting performance. Therefore, **the Kingdom is expected to enjoy high fiscal multipliers that are appropriate as a successful financial policy tool in the short and medium term to respond to economic crises.**



Return on Social Spending in Saudi Arabia

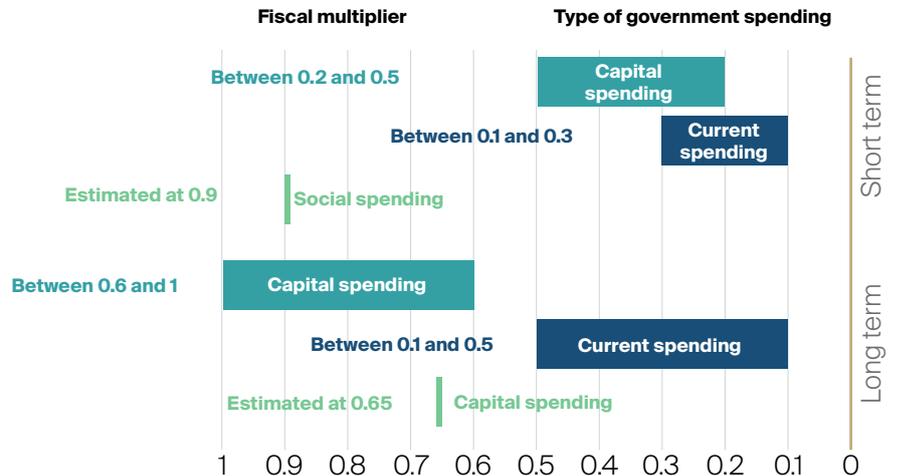
In order to estimate the multipliers of social spending in the Kingdom, as compared to the total government current and capital spending, following is a review of the major studies conducted on the Kingdom pertaining to this subject. These studies are inclusively reviewed in a paper entitled “Fiscal Multipliers for Saudi Arabia Revisited,” authored by Dr. Majid Al-Muneef and Dr. Fakhri Hasanov and published by King Abdullah Petroleum Studies and Research Center (KAPSARC) in 2020. The following graphs summarize those studies that can be compared to the most recent estimates provided by the two authors. The study, which covered a period of more than thirty-five years, concluded that the Saudi government spending on current items is larger in the short term and smaller in the long term, which is consistent with international trends. The two researchers also concluded that the spending multiplier on capital items is smaller in the short term and larger in the long term, which is also in line with international trends.

In general, the Saudi government spending multiplier stands at 0.11 in the short term and 0.41 in the long term. Besides, it is usually higher during periods of economic recession and lower during periods of economic expansion¹². This makes the economic recovery for the post-COVID-19 pandemic period an appropriate opportunity for protecting and increasing the financial allocations for cash transfer items and for capturing their multipliers.

Most studies showed the superiority of the fiscal multiplier of capital spending in the long term and that of the current spending multiplier in the short term. One study showed the superiority of the fiscal multiplier of social spending in both the short and long term. Below is a summary of the comparison of fiscal multiplier estimates of government current, capital and social spending:

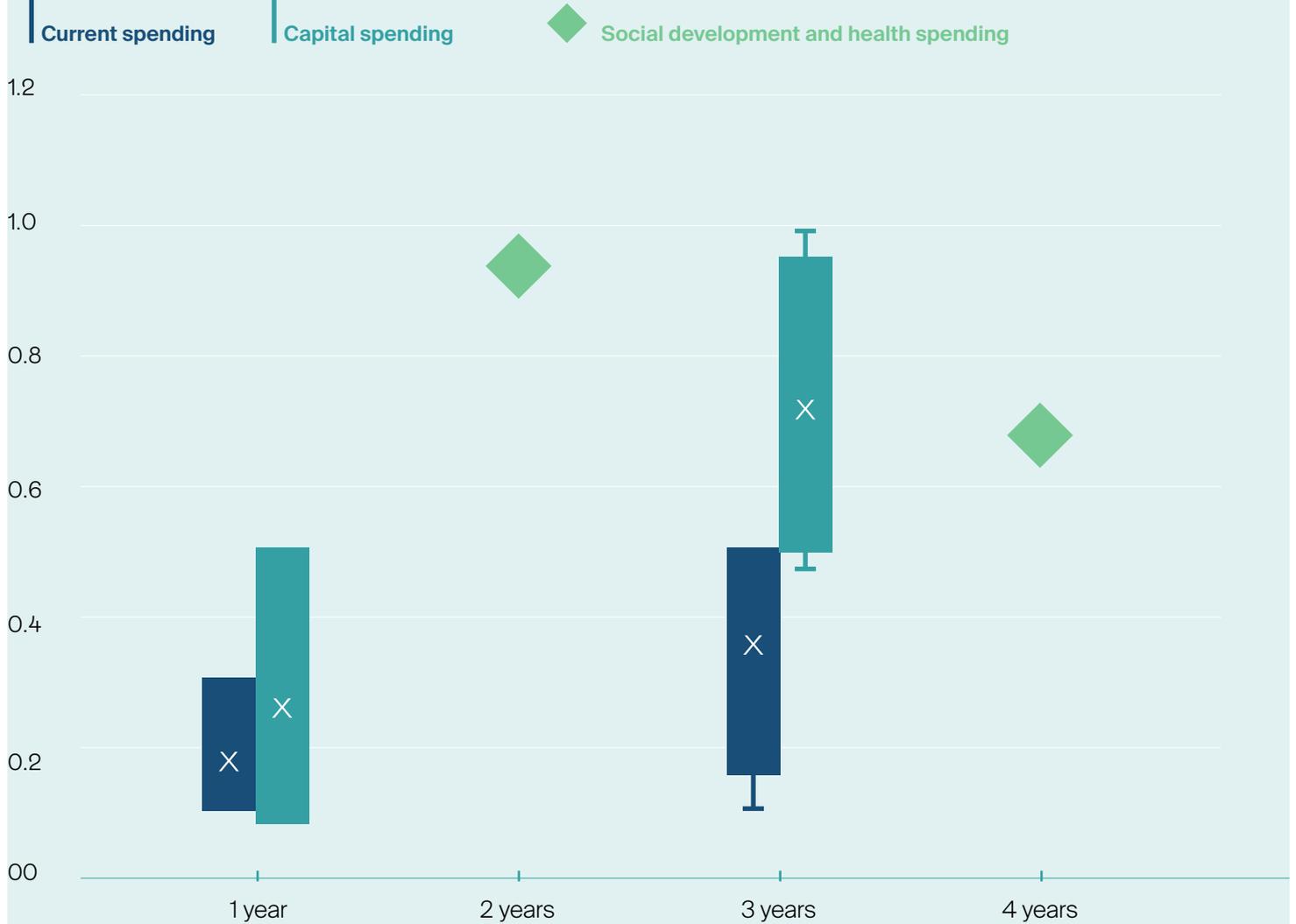
12

Majid Al-Muneef and Fakhri Hasanov. “Fiscal Multipliers for Saudi Arabia Revisited” (KAPSARC 2020).



Graph no. 4

Comparison of all published estimates of the capital, current and social spending multipliers in the Kingdom



These include short and long-term estimates by Al-Muneef and Hasanov (2020), Hemrit and Benlagha (2018), the International Monetary Fund (2016 and 2017), and Espinoza and Senhadji (2011)

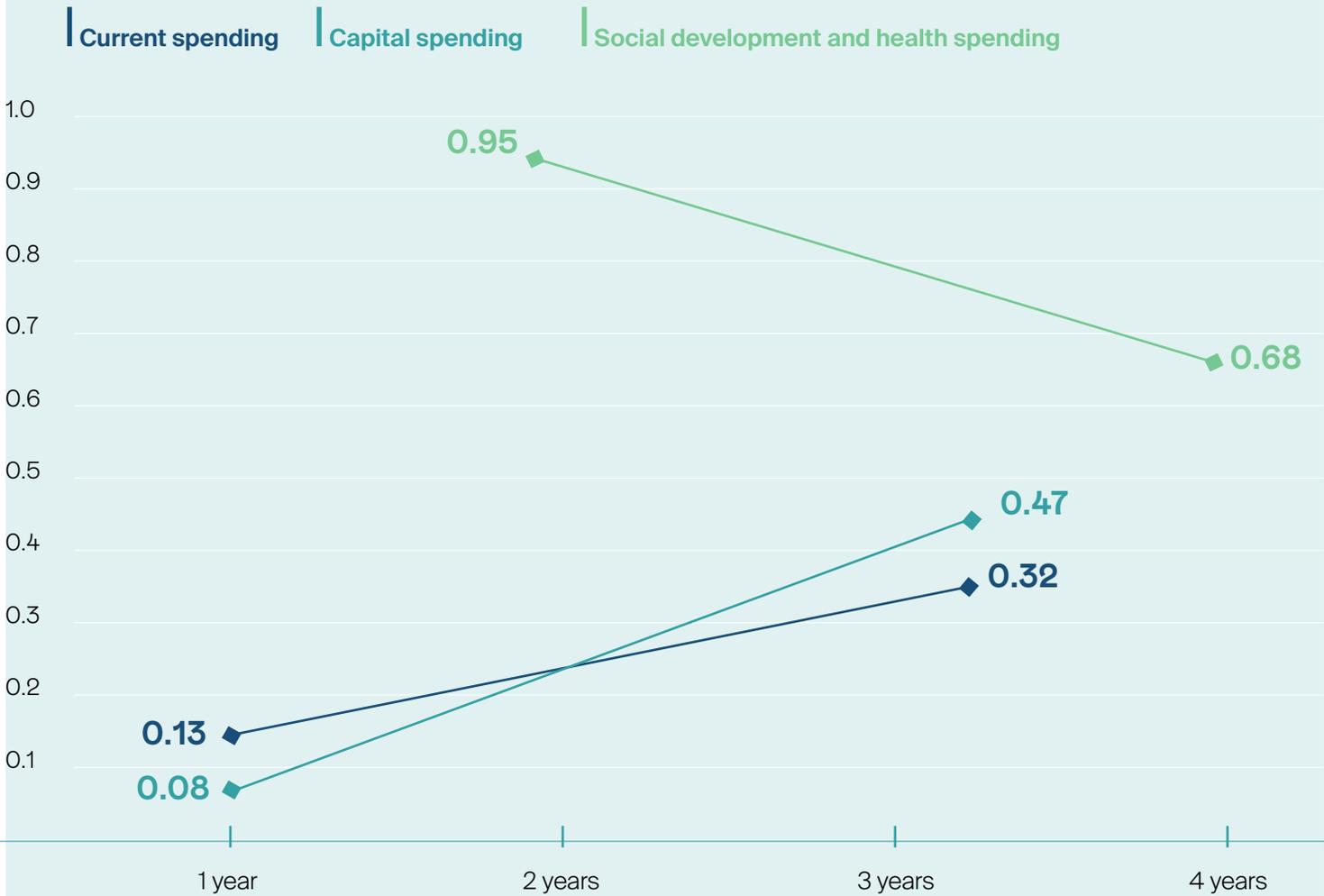


Source:
Majid Al-Muneef and Fakhri Hasanov: "Fiscal Multipliers for Saudi Arabia Revisited" (KAPSARC 2020), Table no. 1 (p. 8) and Table no. 3 (p. 16).

As for the short- and long-term performance of fiscal multipliers, studies confirm the superiority of the fiscal multiplier of social spending in the short term and its continued rise in the long term:

Graph no. 5

Comparison of the estimates of KAPSARC study of the capital and current spending multiplier with the IJEBR study of social spending in the Kingdom



Source:

Al-Muneef and Hasanov's study (KAPSARC 2020) and Hemrit and Benlagha study (IJEBR 2018, given that the short and long-term estimates of social spending are late by one year, which signifies that they may in fact be higher if years are equal.

It is universally recognized that the fiscal multiplier of social spending will decline in the long run, but the IJEBR study indicates that despite such decline, it will remain higher than the capital spending multiplier by 0.21 points and than the current spending multiplier by 0.32. This can be compared to the fiscal multiplier of total government spending at 0.11 in the short run and 0.41 in the long run, as indicated in the KAPSARC study.

It should also be noted that studies have shown that the value of economic stimulus of social transfers exceeds the effect of tax cuts in many countries, especially in times of crisis. For example, a comparative study in the United States showed that transfer payments had greater fiscal stimulus than tax cuts during the Global Financial Crisis.¹³

13

Source:

The New Zealand Institute of Economic Research (July, 2020). "Literature scan on the economic effects of social protection expenditure", p. 7.



4

Role of Social Spending in Addressing Crises

Global View of the Social Spending Role in Times of Crisis

Social spending has a significant role in mitigating the economic consequences on citizens during crises. It primarily supports stimulating economic activity and purchase and sale transactions by increasing the proportion of household spending. Studies and research unanimously agree on the extended impact of social spending on achieving financial stability and balance for countries in times of economic crises. For example, the studies conducted by the Organization for Economic Cooperation and Development (OECD) and the International Labor Organization (ILO) on the impact of social spending on mitigating the consequences of the Global Financial Crisis in 2008 indicate that the expenditures of social transfers and job market programs contribute to stabilizing the economic growth of countries and mitigate the economic consequences on vulnerable groups.¹⁴

Given the role of social spending in the Coronavirus pandemic, it is found that many countries have resorted to significantly increasing their social spending as follows:

14

Source:

International Labor Organization (October, 2020). "Financing gaps in social protection: Global estimates and strategies for developing countries in light of the COVID-19 crisis and beyond".



3,333 Programs

Total social protection measures between March and May 2020 in 222 countries around the world¹⁵

%55 Percentage of social transfers

These constitute the largest share of social protection measures out of the total global social protection measures.¹⁶

15 16

Source:
World Bank Group (May, 2021) "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" (Version 15).



Graph no. 6

Composition of social protection across country income groups

■ Social Transfers

■ Social insurance programs

■ Job market programs



17

Source:

World Bank Group (May, 2021) "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" (Version 15).



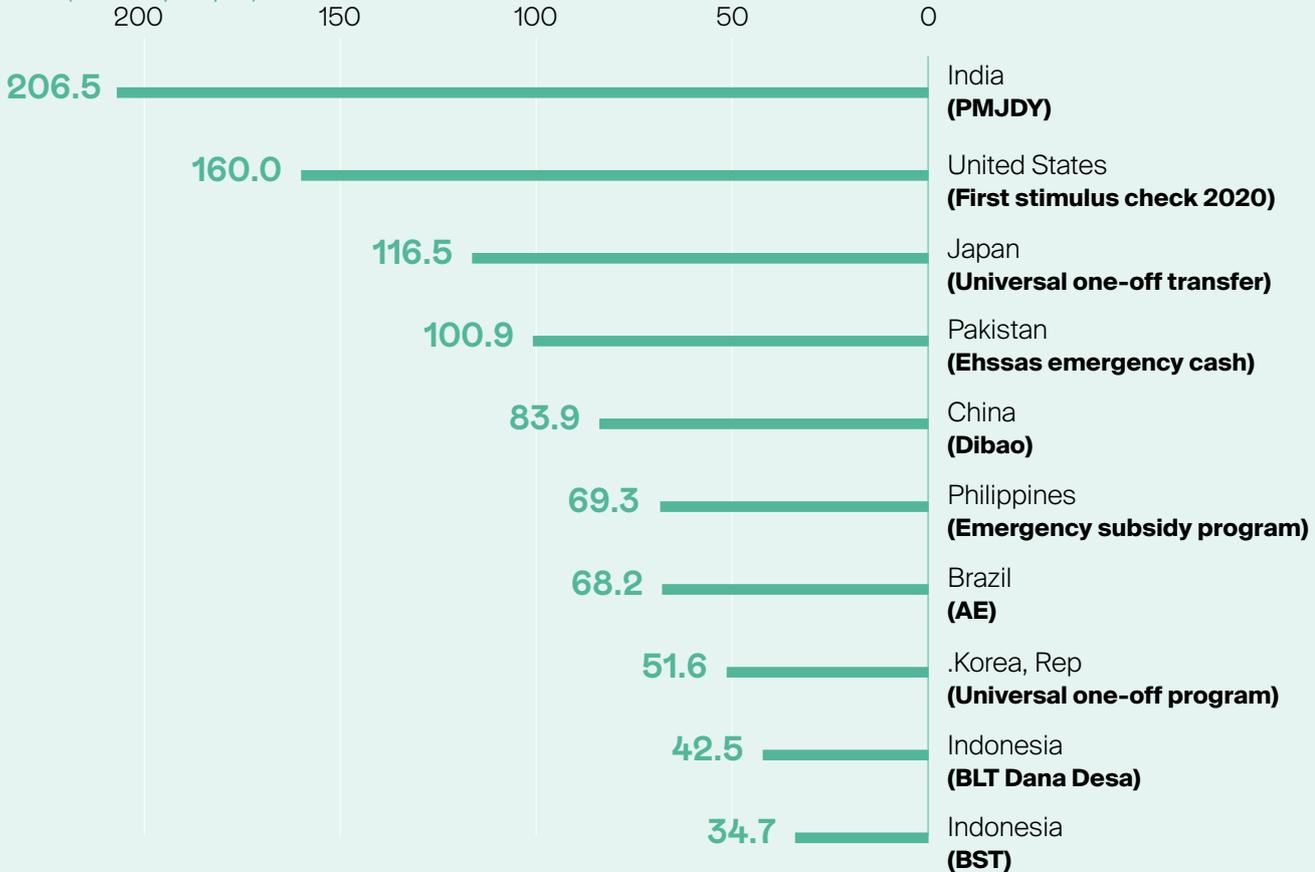
782 Social transfer programs

Currently, there exist 782 social transfer programs around the world, valued at \$2.4 billion, with a beneficiary number of more than 1.5 billion people in our present-day world.¹⁷

Graph no. 7

Top 10 cash transfer programs by actual coverage

(million people)



Source:

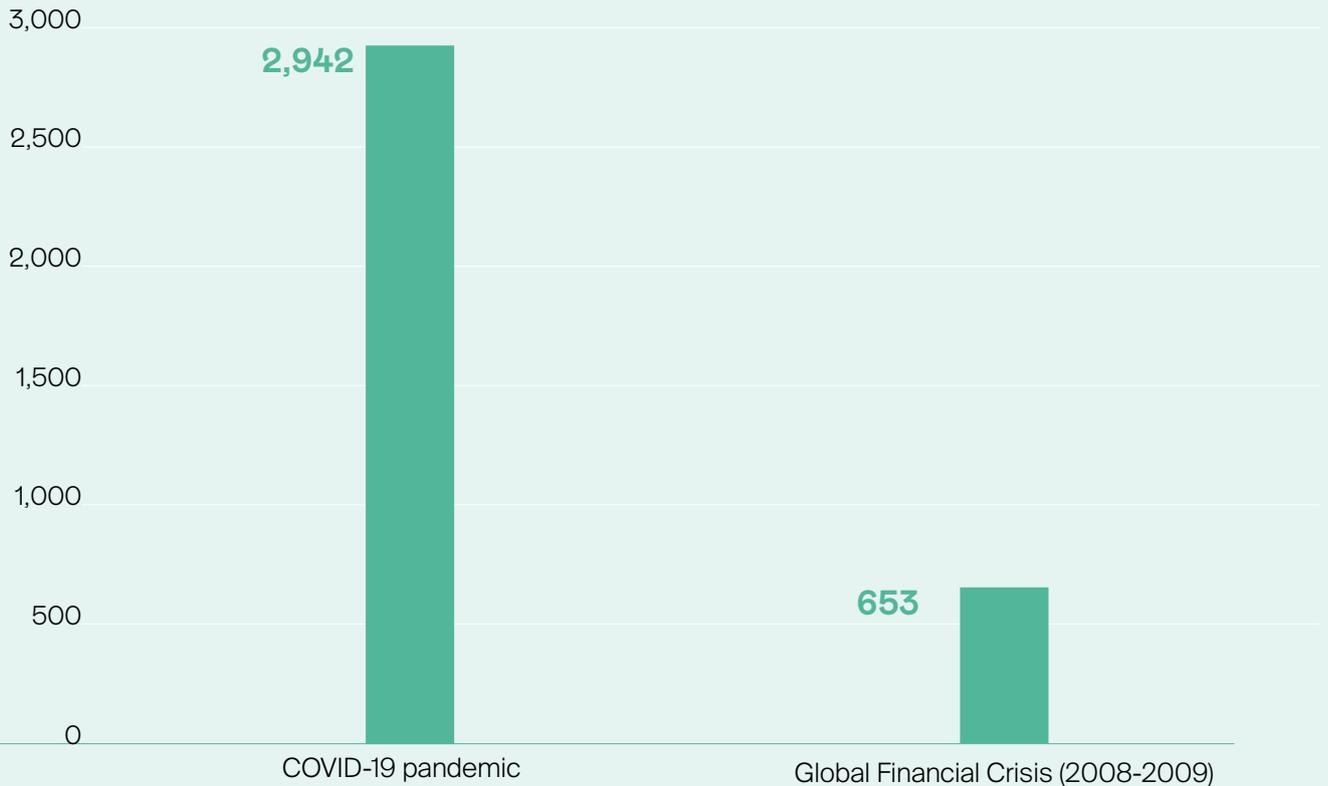
World Bank Group (May, 2021) "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" (Version 15).

%2

The rate of global social spending amounts to 2% of the GDP, according to World Bank estimates. However, during the COVID-19 pandemic, social spending witnessed an unprecedented historical rise, as it exceeded its rates during the Global Financial Crisis in 2008 by more than 4 times. The size of social spending since December 2020 is estimated at \$2.9 trillion, representing 3% of the global GDP in 2021.

Graph 8

Social spending during the COVID-19 pandemic vs. social spending during the Global Financial Crisis (in billions of US dollars)



Source:
World Bank Group (May, 2021) "Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures" (Version 15).

18

Source:

International Labor Organization (2021), "ILO Flagship World Social Protection Report," p. 39.



19

Source:

International Monetary Fund (July, 2020), "G20 Background Paper on the Implementation of the G-20 Action Plan to Address the COVID-19 Pandemic."



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Source:

International Monetary Fund (2020), "Budgeting in a Crisis: Guidance for Preparing the 2021 Budget".



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Source:

International Labor Organization (2000), "Social Budgeting Guide", p. 8



However, there are still large gaps in financing the coverage of the underprivileged segments around the world. According to ILO estimates, only 46.9% of the world's population has received at least one social benefit. Besides, there are large social spending gaps, not limited to developing countries only, but noticeably appear in middle-income countries as well. The size of this gap is even greater in upper middle-income countries compared to lower-income ones, which has led to an increase in inequality within these societies.¹⁸

Upon reviewing the financial policies and measures carried out by the G20 countries in 2020, we find out that the percentage of social spending to support and protect vulnerable groups increased to 2.5 percent of the GDP in high-income countries, which is equivalent to 1.1 trillion US dollars. The same percentage amounted in developing countries to 0.6% of the GDP, with a total value of 128 billion US dollars.¹⁹

General State Budget Preparation in Times of Crisis

It is a challenging task to prepare the general State budget in times of crisis due to the lack of clear vision and the state of instability which affects the global economy. Therefore, one of the recommendations of the International Monetary Fund is to focus on a permanent and continuous assessment of fiscal space in order to support the identification of spending priorities during the crisis, including measures from outside the general budget. To address the state of economic instability, general budget planning requires preparing multiple scenarios to identify the various risks and subsequent measures for mitigating the repercussions of these risks. In particular, during the times of crisis, there arises a need to prepare scenarios for the strategic sectors, among which social spending is listed. Budgeting in times of crisis requires to focus on increasing the capacity of fiscal policy in terms of agility, responsiveness, follow-up and monitoring.²⁰

To ensure balanced financial planning for social spending, many European Union countries, for example, adopt social spending allocations through the so-called social budgeting by adopting a social accounting system.²¹ This social accounting system relies on categorizing all social expenditures and revenues in one chapter (See the following table for illustration), thus providing an inclusive assessment of the financial situation and supporting the financial planning of social spending in the medium and long term.

Table 1

A summary of the general form of the social State budget

(illustrative example)

Item	1995	1996	1997	1998	1999
	% of the nominal GDP				
Spending					
1. Retirement	3.4	3.6	3.7	3.9	4.1
1.1 Social Security Pensions	3.3	3.5	3.6	3.7	3.9
1.1.1 Old age pensions	2.3	2.5	2.2	2.5	3.3
1.1.2 Orphan's pension	3.3	2.3	2.1	2.0	1.5
1.1.3 Grants	0.5	0.4	0.8	0.6	0.5
1.2 Operational aspect	0.1	0.15	0.13	0.11	0.10
2. Unemployment	0.0	0.1	0.0	0.0	0.0
3. Social security pensions	0.3	0.2	0.2	0.2	0.2
4. Health expenses	4.3	4.2	4.6	4.5	4.8
5. Social spending on military personnel	0.8	0.5	0.7	0.8	0.7
Total	18.3	17.45	18.3	18.3	19.1
Revenues					
1. Social insurance contributions	2.5	2.8	2.9	2.9	3.0
1.1 Retirement	2.0	2.0	1.9	2.0	2.0
1.2 Health	0.6	0.6	0.6	0.6	0.7
1.3 Unemployment	0.0	0.3	0.3	0.3	0.3
2. Revenues from investments					
2.1 Retirement	0.0	0.1	0.3	0.5	0.1
2.2 Health	0.0	0.2	0.1	0.05	0.0
2.3 Unemployment	0.0	0.1	0.3	0.4	0.2
Total	5.1	6.1	6.4	6.7	6.3

Role of Social Spending in Addressing the Coronavirus Pandemic in the Kingdom

The Kingdom has managed to address the new Coronavirus pandemic, as certified by all relevant international organizations such as the World Health Organization (WHO) and the International Monetary Fund (IMF). In its Article IV Consultations Report (July 2021), IMF commended the measures taken by the Kingdom to address the pandemic. It is worth noting that the 2021 budget statement emphasized the provision of all means to deal with the crisis, restore the pace of economic growth, and strengthen the social support and assistance system and basic services. This exceptional and effective response to the economic impact of the pandemic has been estimated at 258 billion riyals. The Kingdom has adopted several measures to address the pandemic and ensure economic recovery, including the following:

- 1 The Saudi Central Bank has provided support programs to the private sector amounting to 130.6 billion riyals, and pumped 66 billion riyals in the form of deposits to support the provision of liquidity to commercial banks, in addition to an amount of 18.5 billion riyals provided by the National Development Fund to finance the private sector.
- 2 Allocation of additional extrabudgetary expenditures to support health in an amount of 40 billion riyals and an amount of 30 billion riyals as expenditures to mitigate the consequences of the pandemic on the private sector, including exemptions and postponement of some government dues to provide liquidity to private sector enterprises so that they can continue their business activities.
- 3 Making use of the Unemployment Insurance Program (SANED). SANED is a social protection program to which Saudi private sector workers contribute a subscription not exceeding 2% of their monthly wages in favor of the General Organization for Social Insurance (GOSI), as a kind of insurance against unemployment. The amount of subsidies disbursed for the wages of Saudi workers in threatened jobs at the private sector during the pandemic amounted to 6 billion riyals in 2020.

Role of SANED Program in preserving threatened jobs of Saudis during the pandemic

The SANED program played a crucial role in protecting the wages of Saudi workers during the crisis, which stresses the importance of investing in social protection programs such as SANED. A Royal Order was issued in April 2020, providing for exempting the workers in private sector establishments affected by the repercussions of the Coronavirus pandemic from the implementation of Articles 8, 10 and 14 of the Unemployment Insurance Law. That is, the employer, instead of terminating the employment contract of a Saudi worker, has the right to apply to GOSI for a monthly compensation for his workers, estimated at 60% of the wages registered with GOSI for a period of three months, with a maximum amount of 9,000 riyals per month, and with a total value of 9 billion riyals.²²

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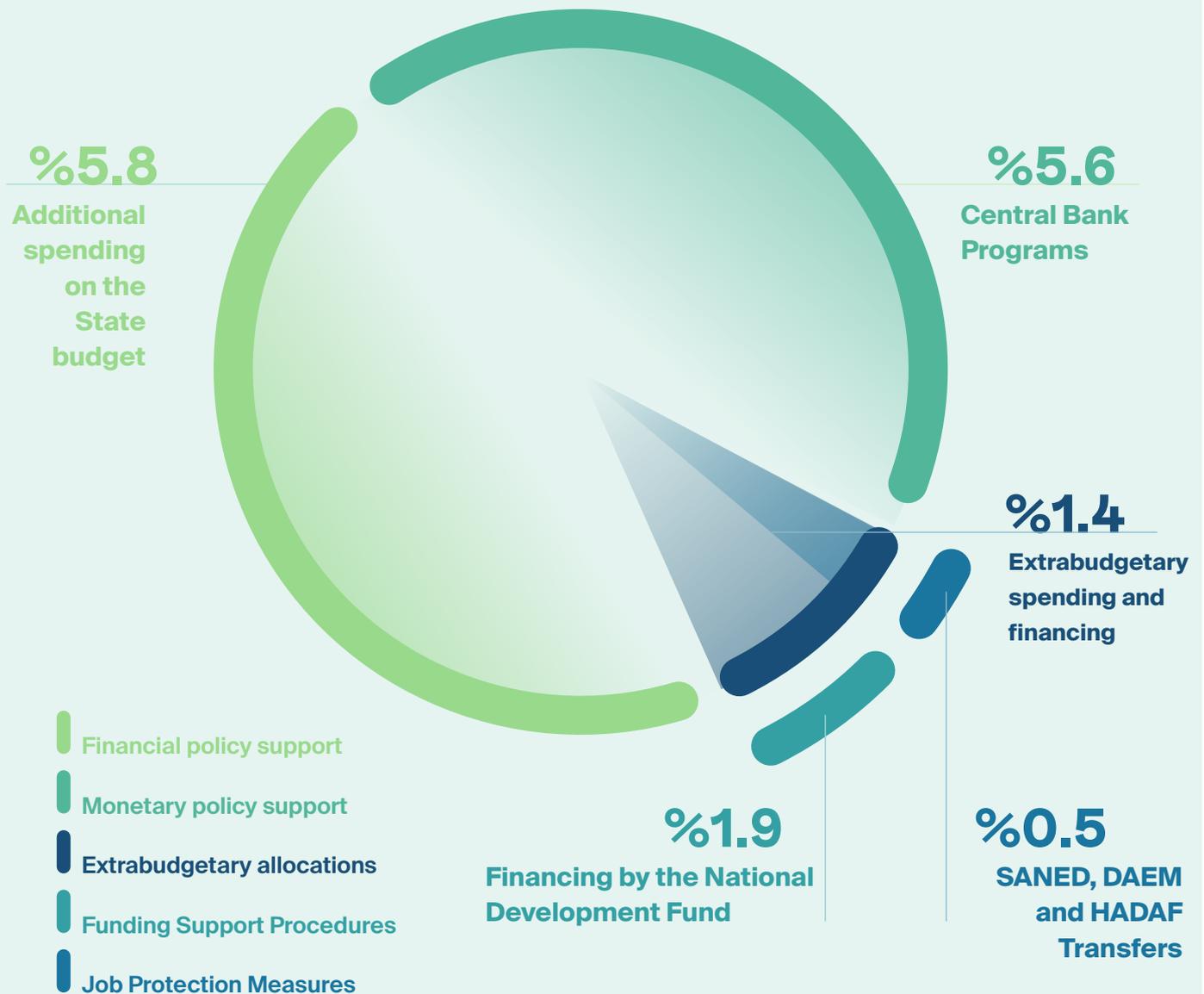
Source:

Saudi Press Agency (April 3, 2020), "Economics/Pursuant to the Order of the Custodian of the Two Holy Mosques, the government shall, through the SANED system, bear 60% of the wages of Saudi private sector employees".



Graph no. 9

Size of support policies and additional financing allocated to counter the effects of the COVID-19 pandemic (as a percentage of non-oil GDP)



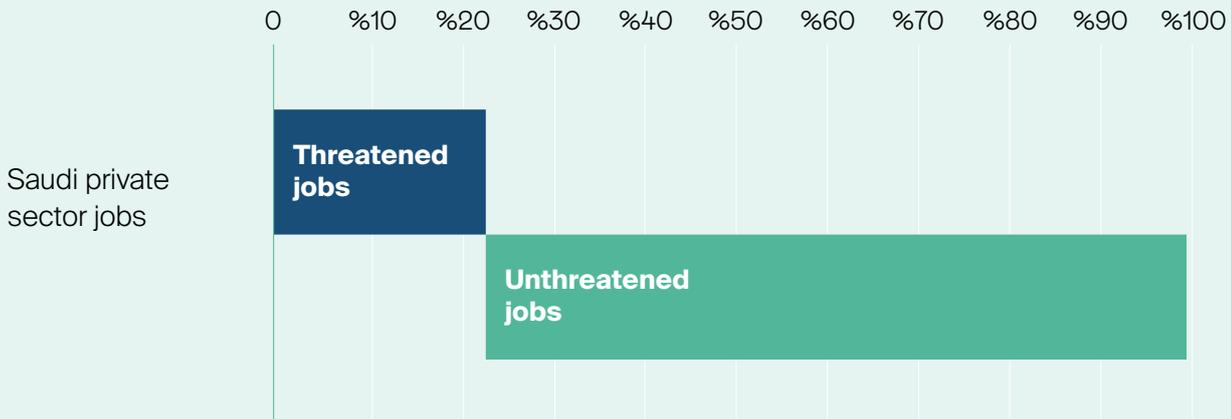
Source:

IMF estimates: From Saudi Arabia: Article IV Consultations Report and the IMF COVID Policy Tracker, after re-classifying extrabudgetary spending and financing.

The number of beneficiaries of SANED compensations has exceeded one million Saudi workers, with a total value of 9 billion riyals through the SANED system. During the first month, the assistance covered more than 80,000 establishments, and more than 400,000 Saudi beneficiaries, representing more than 23% of the total Saudi employees in the private sector.

Graph no. 10

Percentage of threatened Saudi private sector jobs in April 2020 that the SANED program helped to preserve



Source:
GOSI official website (April 2020).
The number of beneficiaries has certainly increased over the subsequent months after the extension of the Royal Order.

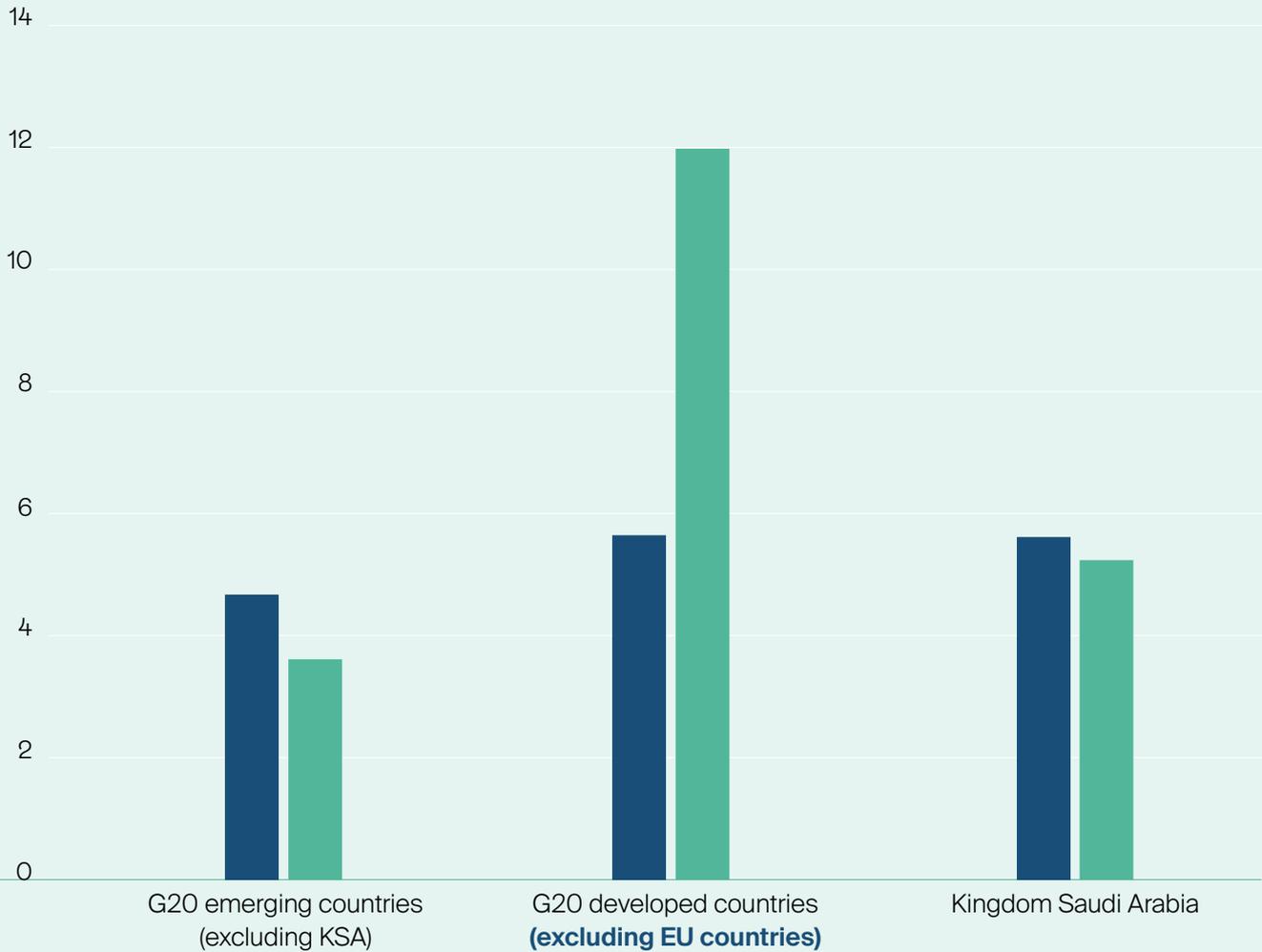
Saudi Arabia’s Economic Response to the Effects of the Pandemic as Compared to Other G20 Countries

Based on IMF tracking of the response of the G20 countries to the pandemic, the Kingdom has pumped monetary assistance that is parallel to that provided by the G20 developed countries. However, it is noticeable that the financial aids were less than the spending average of the G20 developed countries, and slightly higher than the G20 emerging countries.

Graph no. 11

Fiscal policy response and additional liquidity support provided by central banks to the banking system (as a percentage of 2020 GDP)

Fiscal policy response **Additional liquidity support provided by central banks to the banking system (without EU countries)**



Source:

IMF estimates: From Saudi Arabia: Article IV Consultations Report and the IMF COVID Policy Tracker, after re-classifying extrabudgetary spending and financing.

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Source:

International Monetary Fund (July 2021),
 “Saudi Arabia: Article IV Consultations
 Report”, p. 15.



As for fiscal policies, it is noticed that the Kingdom lags behind in this respect from the G20 developed countries, as these countries allocate greater spending on fiscal policy compared to monetary policies.

The IMF Article IV Consultations Report commended the financial reforms to ensure financial stability in the medium term related to the rationalization of capital spending, and the gradual removal of subsidies on energy and water products. At the same time, IMF highlighted a fiscal space estimated at 0.5% of the GDP, which approximately amounts to 1520- billion riyals. The Fund recommended using this space to increase social transfers and mitigate the repercussions of increasing the value-added tax rate from 5% to 15%, and the consequences of suspending the cost-of-living allowance.²³

Overview of the Development of Social Assistance Benefits over the Past 14 Years

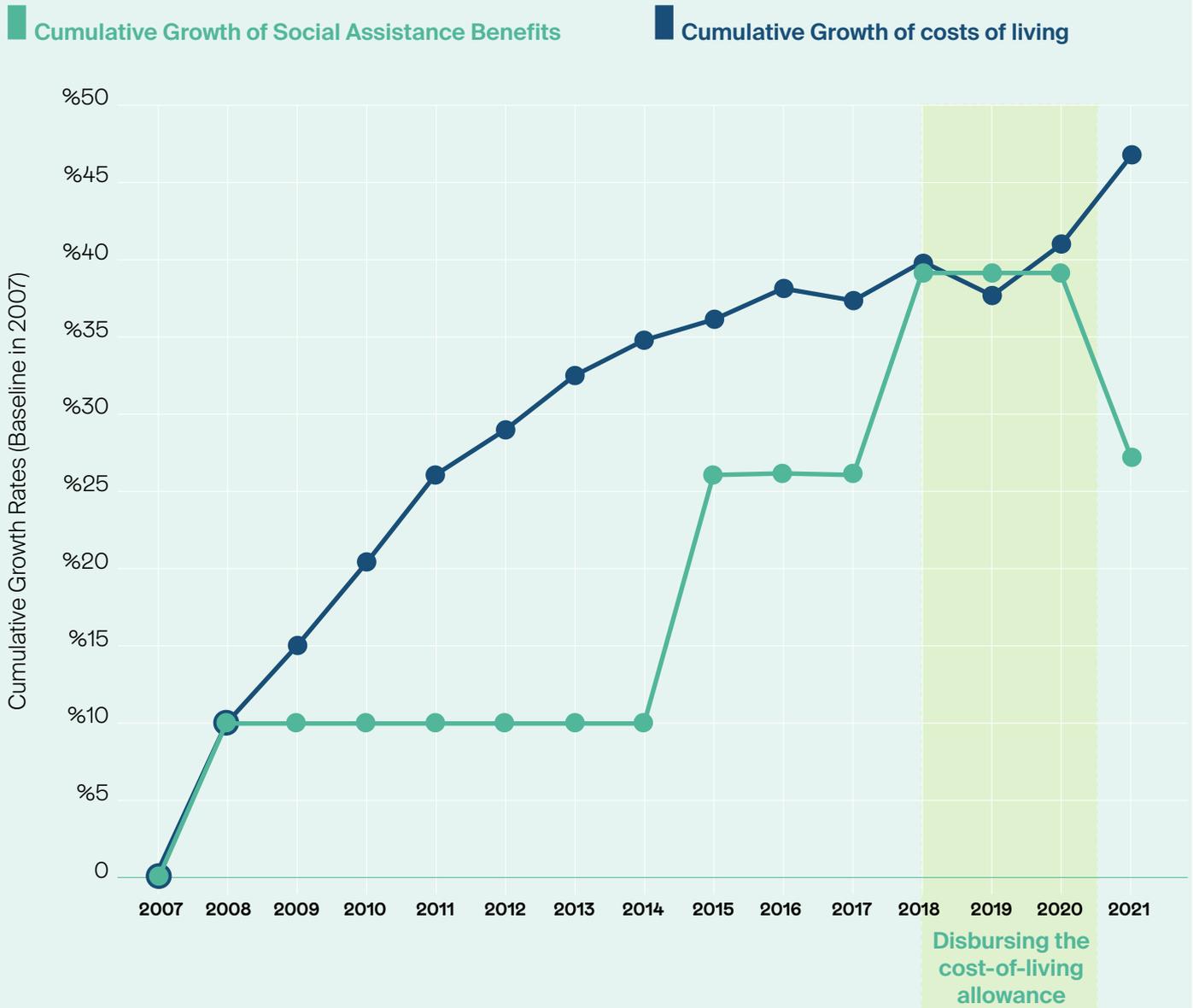
The social security pension has undergone a number of adjustments over different periods of time pursuant to Royal Orders in the years 2008, 2014, and 2017 as follows:

- The pension amount in 2007 was 783 riyals for the beneficiary per month, as determined by the Social Security Law.
- In 2008, the social security pension rose to 862 riyals, as a Royal Order was issued to increase its amount by 10% to keep pace with the inflation rise.
- In 2015, a Royal Order was issued to raise the social security pension to 1,000 riyals per person.
- In 2018, a Royal Order was issued to add a cost-of-living allowance to the pension in an amount of 500 riyals. It is worthy of note that this cost-of-living allowance helped to make the social security pension catch up with the average costs of living for the first time since 2008.

However, after suspending the cost-of-living allowance in the middle of 2020, the social security benefit has fallen behind inflation rates, which is expected to bring about a decline in the living conditions of social security beneficiaries. On the other hand, the multiple reforms of the social security pension at different times show a weak mechanism for reviewing the adequacy of social security. The same applies to the rest of social transfers, such as the jobseekers allowance (Hafiz), which was adjusted during the year 2021.

Graph 12

Cumulative average of the growth of social assistance benefits (per individual) compared to Increasing Costs of Living (2007-2021)



Source: "Social Spending and Consumption-based Taxation Policies" (King Khalid Foundation, 2017: Policy Paper, together with an analysis of subsequent years).

Energy and Water Price Reform Governance model

The Kingdom's fiscal policy has witnessed many changes and reforms as a result of Saudi Vision 2030, with the aim of strengthening the financial management of the State, restructuring the financial situation, and developing mechanisms for reviewing revenues, expenditures, projects, and the method for their approval. The State sought to increase the share of non-oil revenues. The current fiscal policy has, previously according to the fiscal balance program 2020 and currently based on the financial sustainability program 2022, established controls and measures to mitigate the impact of economic changes on both families and the private sector. The Citizen Account Program was launched to raise the efficiency of targeting government benefits and subsidies provided to the citizen. That is, instead of the direct subsidies of energy and water products, social assistance was directly delivered to its eligible beneficiaries by disbursing cash allowances to eligible families through bank transfers.

By adjusting the prices of energy and water products, the State aims to redistribute the subsidy to reach the actually eligible groups, instead of its distribution to all income groups in society equally. The old prices did not stimulate rational consumption of these products, and did not encourage efficient investments in the private sector.²⁴

The water price reform process was subject to several controls to manage the price adjustment process as follows:

1 Setting guidelines for energy and water prices reform

These guidelines were developed after reviewing the best regional and global experiences in 25 countries to re-direct subsidies for energy and water products, in addition to studying the behavioral practices of local consumption and consumer needs. Nine guidelines were approved for the families and industrial and commercial sectors. In addition, inclusive and general controls observing the needs of the groups and sectors most affected by the price reforms were adopted.²⁵

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Source:

"Fiscal Balance Program 2020 Document".



Guidelines for families

1. Encourage the rationalization of consumption;
2. Disburse allowances for families in proportion to rational consumption;
3. Redirect part of the savings to initiatives of importance to families (e.g. health care, housing);

Guidelines for industrial and commercial sectors

4. Reduce the impact of the price reform on strategic labor-intensive industries/sectors and/or those having a high contribution to the GDP;
5. Redirect part of the savings to priority emerging industries;
6. Increase prices on a gradual basis to allow affected sectors to adapt;

Inclusive controls

7. Update energy and water prices regularly based on market changes;
8. Raise the level and efficiency of services, together with the implementation of the price reforms; and
9. Involve all stakeholders and ensure transparent communication before and after the price reform.

2 Developing a phased time plan for reforming the prices of energy and water products

3 Establishing an executive committee for the governance of energy and water products price reforms, to be chaired by the Minister of Energy.

Accordingly, the process of approving the energy and water products price reforms will be subject to a controlled balance of studies and periodic reviews to ensure flexibility and adequacy and to protect families and the industrial, commercial and agricultural sectors from any negative consequences. This model is worthy not only of praise, but also of replication with regard to achieving balance for the lowest-income families in our society in order to realize the objectives of the Kingdom's Vision 2030. Therefore, we call for adopting the energy price reform governance model to develop a model for the governance of social transfer amounts in the Kingdom.



“We will continue modernizing our social welfare system to make it more efficient, empowering and just. Subsidies for fuel, food, water and electricity will be better utilized by redirecting them towards those in need”.

Kingdom's Vision 2030

5

Recommendations

This paper has provided a financial and economic analysis of the financial return on financing social protection programs, and highlighted the economic returns of social spending in the medium and long term in the Kingdom of Saudi Arabia. In this part of the paper , King Khalid Foundation (KKF) presents its vision of the means to achieve financial sustainability of social spending in the Kingdom in the short and medium term to support comprehensive economic recovery for all segments of society, especially the underprivileged.

First:

Increasing government spending on social transfers by 15 to 20 billion riyals annually, starting from the 2022 budget

The purpose of this step is to mitigate the repercussions of the increase in the costs of living on lower-income families due to the rise of inflation rates, the increase in the value-added tax rate, and the suspension of the cost-of-living allowance.

Second:

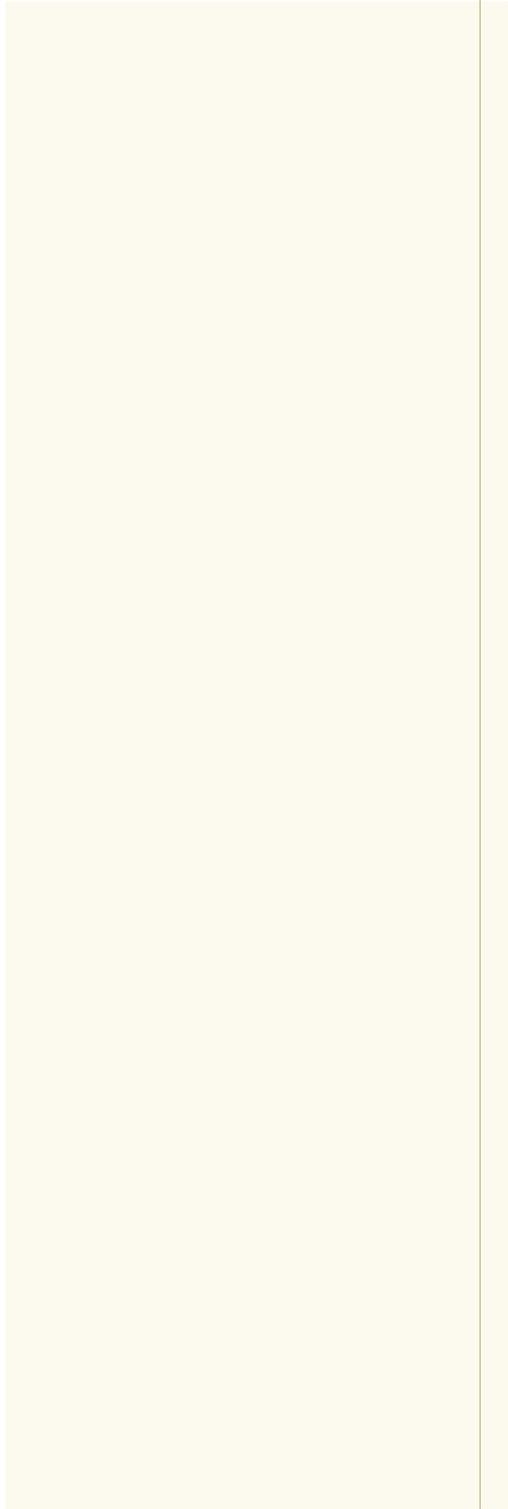
Forming a committee for the governance of social transfer benefit size reforms

1. Be guided by the model and working mechanism of the Committee for the Governance of Energy and Water Products Price Reforms. That is, this committee will establish a standing committee that would meet periodically every 6 months and set up specific upper and lower ceilings for raising and lowering benefit size not exceeding 10% with each reform;
2. Establish specialized work teams within the committee to study the impact of economic changes on lower-income families to ensure that the social transfer benefit size catch up with the costs of living and economic developments; and
3. This committee will have the competence to study all governmental social transfer amounts in the Kingdom. It will coordinate for integration purposes with non-governmental donor and support agencies to provide social transfers. The committee, however, will not have the competence to study reforms of the social transfer policies, the size and number of programs, or the criteria for eligibility, management, grievance, evaluation and follow-up. These latter competencies are already assumed by existing ministerial committees whose work terminates with the completion of their tasks and duties.

Third:

Developing the fiscal policy tools of social spending in the Kingdom

1. Include social spending estimates within the medium-term estimates of the general State budget, in line with the estimates monitored and analyzed for both capital and current spending;
2. Adopt the social accounting system to provide a quantitative analysis of social spending as well as future estimates for the development and reform of social protection programs;
3. Calculate the fiscal multiplier of the governments capital, current and social spending on a periodical basis, to ensure an estimate of the financial sustainability of each form of spending. Accordingly, this will make it possible to monitor budgets efficiently and direct budget shares to spending items with a higher fiscal multiplier and economic return.





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