Main Messages

- Despite important progress, significant human capital deficit persisted before the pandemic and a durable recovery hinges on restoring human capital while bolstering service delivery systems to build, protect and utilize it.
- Unless addressed with decisive investments, the scars of the COVID-19 shock on human capital and future productivity could become permanent.
- This calls for ensuring the adequacy, efficiency, and sustainability of public spending toward human capital outcomes during periods of fiscal tightening and reimagined service delivery systems in a digital world.
- Strengthening governance will be critical to ensuring that spending has impact on human capital outcomes and restoring citizen trust.
- Securing resources for human capital involves placing human capital outcomes at the center of the budget process and prioritizing expenditure that contributes to human capital accumulation and utilization.
- Raising domestic revenues, debt restructuring and relief, and planning for future crises.
CHAPTER 1

Human Capital for Recovery and Resilient, Inclusive Development

PROTECT AND INVEST in people
Human capital is a key driver of growth that comes with substantial positive externalities and builds a rationale for rethinking the role of public finance in human capital investments.

The COVID-19 pandemic has unleashed a global health emergency and an unprecedented economic crisis, with impacts on multiple fronts from health, education, and nutrition to jobs, gender equity, and socioeconomic equality—impacts that have exacerbated preexisting human capital deficits and threaten to roll back a decade of progress in human capital accumulation.

By prioritizing human capital investments and improving the efficiency of the underlying delivery systems and institutions, public finance can not only help drive a green, resilient and inclusive recovery from COVID-19 but also provide a foundation for future productivity and growth.
CHAPTER 2
Public Spending to Build, Protect and Utilize Human Capital
Key Messages

- An outcome-oriented expenditure framework helps identify a coherent set of pro-poor, high-impact expenditure programs across sectors based on evidence and country contexts.

- To reduce permanent human capital losses due to the COVID-19 crisis, the immediate priorities are to restore health, protect young children from malnutrition and other harm, bring children back to school and recover learning losses, prevent the “scarring” of youth, and support labor income opportunities.

- Further improvements in universal health coverage, early-childhood development, learning, social protection and women’s economic empowerment can contribute to an inclusive, resilient and sustainable recovery.

- Recent innovations and technology can help strengthen service delivery systems.
## Restoring Human Capital

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<th><strong>Short-term priorities</strong></th>
<th><strong>Medium/long-term agenda</strong></th>
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<td><strong>Health</strong> &lt;br&gt; <em>Control the pandemic</em> through enhanced disease surveillance and vaccine rollout  &lt;br&gt;<em>Regain people's health</em> through essential, pro-poor health services (e.g., immunization/child nutrition; maternal/reproductive health; NCD, etc.) and better financial protection (e.g., reducing/eliminating user fees)</td>
<td><em>Restart progress toward universal health coverage</em> (e.g., Mexico increasing coverage from 31.1 million to following the global financial crisis to 55.6 million in 2013)  &lt;br&gt;Coverage expansion could extend to long-term unemployed (e.g., Bosnia &amp; Herzegovina) and undocumented migrants and asylum seekers (Sweden)</td>
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<td><strong>Education</strong> &lt;br&gt;<em>Minimize learning losses by</em> managed continuity of learning, well-planned school re-opening, pro-poor measures to facilitate re-enrollment/retention (e.g., reenrollment/retention campaigns in Madagascar with focus on girls/students at risk; national tutoring program in UK)</td>
<td><em>Accelerate learning</em> (e.g., Kenya’s Tusome Program) and meet future skill needs (upskilling/reskilling for green jobs)</td>
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## Restoring Human Capital

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<td><strong>ECD</strong></td>
<td>Prevent severe deprivations (e.g., acute malnutrition, toxic stress) and ensure continuity of access to basic health, complemented with cash transfers and support for parents/care givers</td>
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<td><strong>Jobs</strong></td>
<td>Prevent scarring through temporary employment subsidies, resumption/expansion of child/elderly care services, measures to allow students to stay in school longer, alleviation of firms’ cashflow (e.g., loan payment deferral in Pakistan; tax payment deferral in Russia), expansion of social assistance to low-income informal workers’ households and cash-for-work</td>
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CHAPTER 3

Governance to Translate Fiscal Policies into Human Capital Outcomes
Key Messages

- Achieving human capital outcomes requires policy prioritization, strong coordination across ministries, agencies, and jurisdictions, and an emphasis on evidence-based policymaking. This has been evident especially during the COVID-19 pandemic and will also be the key to recovery.
- The management of government budgets and human resources can benefit from an outcome orientation, with an emphasis on accountability for results, facilitated by digital technologies.
- Governments can renew the social contract around human capital, restoring the trust of citizens through greater transparency and opportunities for citizen participation in policymaking and resource allocation.
Managing Public Finances for Results

• Alignment between the budget and the needs of the sector/frontline service providers is critical.

• Effective expenditure prioritization requires reconciliation of the cost of delivering policy objectives with available resources.

• Budgetary decisions are political, yet they can be better informed through a more results-oriented budgeting toward human capital outcomes
  - Budgeting for results in Peru
  - Fiscal rules that govern the budgeting process and medium-term framework
  - Rethinking the current concept of current and capital spending

• Once budget is aligned to human capital outcomes, Public Financial Management (PFM) system needs to deliver resources to local end-users.
  - Challenges include: delayed and unpredictable releases of funds, fragmentation of cash balances, cumbersome procurement, weakness in timely reporting
  - Use of digital systems to improve budget execution
  - Intergovernmental fiscal frameworks (i.e. grants and learning outcomes in Mozambique)

• Accountability and M&E framework to monitor human capital progress
CHAPTER 4
Securing Resources for Human Capital Priorities
Immediate fiscal pressures imposed by the COVID-19 crisis call for protecting resources for human capital priorities, especially in financially constrained low-income countries.

Over the medium term, domestic resource mobilization will be a primary source of human capital investments and of a resilient recovery.

It is important that governments review budgets across and within sectors to cut unproductive expenditures and strengthen fiscal resilience.
Protecting Resources for Human Capital in Times of Crisis

• Fiscal imbalances linked to the COVID-19 shock will entail adjustments, making it crucial to protect spending that supports human capital and longer-term development;

• In many sectors, the easiest budget items to cut are often critical for the continuation of services and defunding them could have immediate and long-term implications on human capital outcomes;

• A granular approach to fiscal adjustment would focus on outcomes and the role of specific spending categories for the efficiency of a specific sector and its overall medium-to long-term social returns;

• Clear planning and program classifications within the budget can enable better understanding across sectors of the impact of spending changes on results beyond the current year.
Mobilizing Domestic Resources for Human Capital

- Domestic resources will be a primary source for driving a resilient, green and inclusive recovery over the medium term;

- Countries that fall short of the 15-percent-of-GDP minimum domestic resource mobilization (DRM) rule of thumb need to increase overall DRM to be able to spend on human capital;

- Options include:
  - Increasing overall revenue collection through broadening the tax base;
  - Improving tax equity where tax burden rises with income or wealth of a taxpayer;
  - Including soft earmarks to provide an additional and ringfenced funding stream for human capital investments;
  - Introducing health taxes to discourage harmful consumption through financial disincentives;
  - Offering incentives to taxpayers for investing in human capital;
  - Introducing environmental taxes that generate health and climate co-benefits.

- The increased devolution of human capital related spending, essentially education and health, toward local governments highlights the importance of local finances and especially of property taxes.
Finding Space within Budgets

- Energy subsidies are an example of how regressive spending that promotes inefficient use of fossil fuels with negative consequences for both the environment and health, can be redirected to serve people:
  - Egypt successfully reduced fossil fuel subsidies from 7 percent of GDP in 2013/14 to 2.7 percent in 2016/17;
  - The fiscal space was used for cash transfer programs, expand school lunch program, and reallocate resources to health and education;
  - Education spending out-stripped spending on energy subsidies in FY2015;
  - In Indonesia, energy subsidies dropped from 3.2 percent of GDP in 2014 to 1 percent in 2015.
    - In 2014, Indonesia spent US$28.9 billion on energy subsidies. In 2017, this declined to US$7.3 billion, while spending on health reached US$8 billion and on infrastructure US$30.1 billion.

- Lowering energy subsidies generates large co-benefits, including the reduction of climate risks;

- Reallocations within sectoral budget can protect frontline services;

- The private sector can be a source of funding of human capital as well as a provider of human capital related services.
Borrowing, Debt Management and International Support for Human Capital Priorities

- Commercial and official bilateral creditors need to engage in debt restructuring and relief to protect human capital expenditures and prevent periods of fiscal austerity that can lead to erosions of human capital;

- Identifying parts of spending as long-term investments in human capital accumulation enhances the prospects for mobilizing domestic and foreign savings for human capital investments;

- International support for human capital remains key, during and beyond the COVID-19 crisis, especially for LICs and the most fragile among them:
  - In LICs (651 million people), average GDP per capita in 2018 was US$796 and average per capita spending on health is US$40;
  - Hence, in LICs this alone would correspond to 5 percent of GDP for a mere minimum of health spending;
  - For many of these countries, this is more than half their domestic revenue collection;
  - Therefore, these countries require protracted and at scale international support.

- Where possible, streamlining human capital spending within the rules of sovereign wealth funds (SWF) can help with both sheltering this spending from downturns and planning over the medium term.
Thank you

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