Global Solidarity Funding for Social Protection

Two country case studies

Zina Nimeh; Giulio Bordon; Mitja Del Bono; Guido Heins

United Nations University – MERIT

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Apart from warfare perhaps, four of the most devastating scourges of mankind are inequality, insecurity, poverty and avoidable ill health. What the four plagues have in common with warfare is that they are to a large extent avoidable. As the Sustainable Development Goals (SDGs) stipulate, absolute poverty and lack of access to essential health care should be abolished by about 2030. We are at the halfway point of the lifespan of the SDGs (2015-2030) and there is not much hope that we will make the mark as a global society. Not addressing at least absolute poverty and avoidable human suffering with full force has to be considered one of the biggest geopolitical scandals of the 21st century.

What is lacking is political will at the national and global level. We have known for decades what it takes to abolish poverty, avoidable ill health, and reduce inequality and insecurity. It takes effective and sustainable social protection systems carried by national and - to the extent necessary - global solidarity.

In the global debate on the role of social protection in development policy, that has intensified since about the turn of the century, two killer arguments were always brought forward when social protection was discussed as one of the potentially most direct and most effective means of action against poverty, inequality, insecurity and avoidable ill health. One was that redistribution through elaborate social protection systems cannot logistically be organized in a number of poorer countries. The argument is not convincing, since the exploitation of people and riches in these countries, and the waging of wars often associated with the latter can very well be logistically organized. So there is little reason to assume that the logistical challenge of redistribution of resources within and to the poorest developing countries is impossible to meet, provided we put our innovative minds and financial might to it.

The other killer argument is that many developing countries can simply not afford – even basic – social protection systems. Again, since about 20 years calculations have been made by a number of institutions that show that most countries in the world can afford to finance national social protection systems if due political priority is given to that purpose. However, a mere dozen of developing countries are probably presently too poor to afford the financing of their SP systems on their own. These countries need international solidarity and help. The others just need to muster the will to take care of all their residents in a socially responsible way. In this study we will leave them aside and to their own devices.

Since the early years of this century the need and feasibility of a Global Fund for Social Protection or a similar global financing mechanism has been discussed, inter alia in the ILO. Later, the UN *Special Rapporteur on the right to food and the Special Rapporteur on extreme poverty and human rights* as well as the Global Coalition for Social Protection Floors refined, reinvigorated and promoted the idea.

While global estimates of national social protection gaps exist, even if they do not all agree on the exact order of magnitude, there is very little quantitative evidence of how much money is needed at what point in time in those countries who need international solidarity to close their most pressing social protection gaps.

In any global campaign there is a point when proponents of a good idea have to move from convincing talks to sober analysis. This study set out to develop a methodology and undertake

concrete country calculations that make that step. It was designed to contribute to the facts base of the global discussion on the feasibility, the need and the potential social impact of global financing of social protection. It succeeded to do so.

This study shows for two sample countries, Nepal and Uganda, that there are concrete financial and fiscal pathways by which international co-financing of national social protection floors can be stepped up and consequently phased out within a decade. At the end of that support period national fiscal space should have been expanded in such a way as to self-finance the new social protection transfers (consisting, for example of universal child benefits, some support for the people in active age, universal pensions and free access to essential health care). International support would thus allow countries to implement national social protection schemes much earlier than they would otherwise be able to plan and finance. This would save at least a decade of avoidable poverty and ill health for millions of people.

How could international development resources be better invested?

It is early days. The analysis undertaken here should be replicated in at least 10 further countries before definite statements on the overall social impact and the necessary financial endowment of a Global Fund can be approached with some certainty. However, some back of the envelope reasoning can be undertaken here on the basis of what this study taught us. It seems that two countries similar - economically and in terms of poverty and demography - to Nepal and Uganda can be supported by annual subsidies that would peak around 2 billion US Dollars after about 5 years. Then subsidies can be phased out and could probably stop almost completely after 10 years. Let us assume for the moment that a permanent funding of annually 2 billion US dollars for a global Fund could be assured. The Fund or the Funding mechanism could start with two countries whose combined annual need of support is the order of 2 billion US dollars. After the peak of funding for the first couple of countries has been reached and the phasing-out starts, i.e. after say five years, it could start supporting another two countries with a combined financial need in the same order of magnitude, and so on. Roughly after 35 years some twelve most vulnerable countries in the world could have been pulled out of poverty and avoidable ill health to a large extent. If we could muster about 4 billion US dollars per annum, which is about equal to the expenditure of the Global Fund for Aids, Tuberculosis and Malaria, then twelve countries (in sets of fours) could be pulled out of misery in 20 years or so. This is a crude reasoning, agreed, but it demonstrates the potential power of a global Fund for Social Protection (or a similar financing mechanism). It maps out a concrete course of action, in a world where such concrete pathways still seem rare.

I had the privilege to work with my former colleague Zina Nimeh of the Maastricht Graduate School of Governance at UNU Merit and her team (Giulio Bordon, Mitja Del Bono, Guido Heins) throughout the project. It was a rewarding, mind-widening and pleasant exercise. They can be proud of their contribution to the global debate on solidarity financing against poverty, inequality, insecurity and avoidable ill health. It is a white feather in their caps that should never get dirty.

Michael Cichon,

Prof. Emeritus of UNU Maastricht and former Director of the ILO Social Security Department

Bocholt, April 2022

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Abbreviations

FES	Friedrich-Ebert-Stiftung
GCSPF	Global Coalition for Social Protection Floors
GDP	Gross domestic product
GFSP	Global Fund for Social Protection
IFF	Illicit Financial Flows
ILO	International Labour Organization
IMF	International Monetary Fund
ITUC	International Trade Union Confederation
OOP	Out-Of-Pocket
pp.	Percentage points
PPP	Purchasing power parities
SDG	Sustainable development goals
SPFI	Social protection floor index
TARGETED	Targeted benefits package
UGX	Ugandan Shillings
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
UNIV	Universal benefits package
UNIV/MOD	Universal modified benefits package
WB	The World Bank
WPP	World Population Prospects

Acknowledgements

1. Introduction

The challenge of universal social protection

Social protection systems (SP systems) are a proven direct and fast-acting mechanism that reduce poverty and inequality and can unleash the productive capacity of people. Social protection is a vital investment for socio-economic development and for the resilience of people faced with natural and climate disasters as well as economic and humanitarian crises.

Extensive coverage gaps in social protection worldwide still are associated with a significant underinvestment in social protection, particularly in Africa, Asia and the Arab States (see *Figure 1*). Depending on the specific regional and country context, one of the major obstacles in extending coverage is the real lack or perceived lack of fiscal space.

Fiscal space can be defined as space in a government´s budget or its theoretical taxing capacity that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy. Traditionally, a government can create fiscal space by raising taxes, securing outside grants, cutting lower priority expenditure, borrowing resources (from citizens or foreign lenders), or borrowing from the banking system (and thereby expanding the money supply). But it must do this without compromising macroeconomic stability and fiscal sustainability—making sure that it has the capacity in the short term and the longer term to finance its desired expenditure programs as well as to service its debt (Heller, 2005).

Figure 1. Public social protection expenditure (excluding health),

Region	Coverage rate (%)
Africa	3.8
Americas	16.6
Arab States	4.6
Asia and the Pacific	7.5
Europe and Central Asia	17.4
World	12.9

- ● 20% and above
- ● 15–20%
- ● 10–15%
- ● 5–10%
- ● Less than 5%
- ● No data
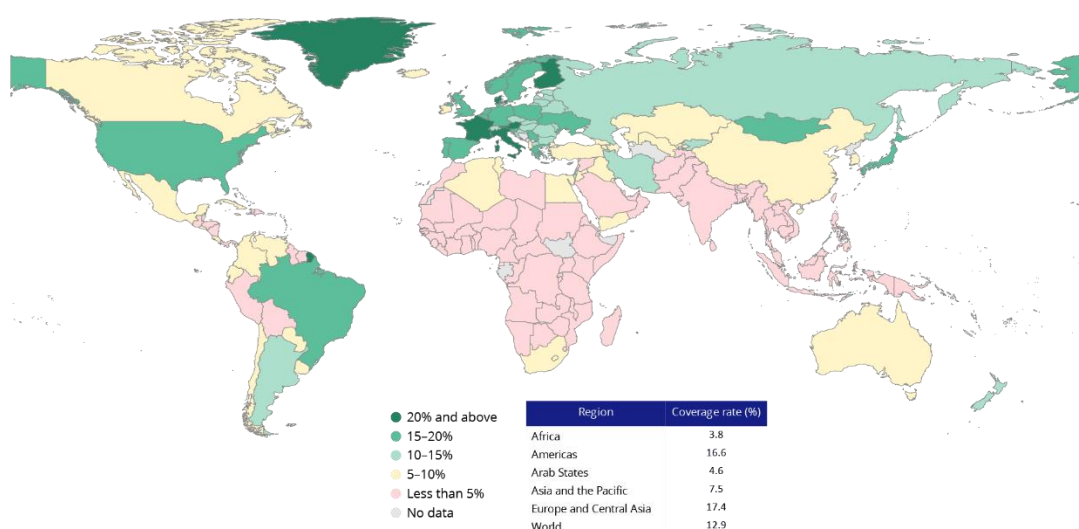
Note: Data in percentage of GDP, 2020 or latest available year
Source: International Labour Organization (2021).

Fiscal space for public spending requires a well-structured, transparent and efficient plan and system for taxation and spending. Establishing sound fiscal measures during booms and normal periods of growth and drawing on a dedicated stabilization fund during recessions are also good options for supporting public investments. Overcoming leakages of resources would also enhance the resource use efficiency, equivalent to mobilizing new resources.

Some argue that social protection policies are not affordable in developing countries. However, social protection is an important investment, it increases productivity and human capital, fosters domestic demand and promotes political stability - the most productive world economies committed to social spending in the early stages of their development. It is often argued that social protection is not affordable or that government expenditure cuts are inevitable during adjustment periods (Ortiz, Chowdhury, Durán-Valverde, Muzaffar, & Urban, 2019). But there are alternatives to expenditure cuts, even in the poorest countries. In a recent publication Ortiz et al. offered an array of options that can be explored to expand fiscal space and generate resources for social investments. These include: (1) re-allocating public expenditures; (2) increasing tax revenues; (3) expanding social security coverage and contributory revenues; (4) lobbying for aid and transfers; (5) eliminating illicit financial flows; (6) using fiscal and foreign exchange reserves; (7) borrowing or restructuring existing debt and; (8) adopting a more accommodative macroeconomic framework (Ortiz, Cummins, & Karunanethy, 2015).

It is essential not to confuse social protection expenditure with other social sector expenditures such as education and health. Expenditures in one social sector should never crowd-out expenditures in another social sector. Public investments in all social sectors are needed as part of national development strategies and governments should look to expand fiscal space to have adequate investments in all sectors (Ortiz, Chowdhury, Durán-Valverde, Muzaffar, & Urban, 2019).

A proposed Global Social Protection Funding mechanism

Effective Social Protection Floors provide access to essential health care and livelihood security in individual and collective crisis situations. Social protection thus protects the human rights of each individual, but at the same time has important impacts on society, in good times, but even more strikingly in times of crisis. In the case of Covid-19 for example access to health for all is essential to contain the pandemic within countries and globally. Only the access to social protection enables low-income groups (including those belonging to the informal sector) to stay away from work and thus contribute to reduce the number of infections. Counter-cyclical social protection measures reduce the depth and duration of economic recessions, and it is also the only viable way to protect more vulnerable families with children, persons with disabilities and older people in such times. A world with social protection and access to health for all could manage future crises in a socially much more effective as well as just way.

In June 2012 the global community of nations unanimously decided that governments should ensure that all people have access to at least a floor of social protection. All members of the International Labour Organisation have adopted the ILO recommendation No. 202 concerning National Floors of Social Protection. According to R.202 national social protection floors should comprise at least the following four social security guarantees:

- access to a nationally defined set of goods and services, constituting essential health care;
- basic income security for children, at least at a nationally defined minimum level, providing access to nutrition, education, care and any other necessary goods and services;
- basic income security, at least at a nationally defined minimum level, for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- basic income security, at least at a nationally defined minimum level, for older persons.

One of the most comprehensive information regarding the financial size of national social protection gaps[1] comes from the Social Protection Floor Index (Bierbaum, Schildberg, & Cichon, 2017), a monitoring tool developed by the Friedrich-Ebert-Stiftung on behalf of the Global Coalition for Social Protection Floors (GCSPF). The Index shows that for 133 countries the absolute minimum of resources required to close gaps in the financing of social protection floors equals investing less than five per cent of GDP (Cichon & Lanz, 2022).

According to recent ILO estimates (Valverde, Pacheco-Jiménez, Muzaffar, & Elizondo-Barboza, 2020), the lower income countries' financial requirements to close the coverage gap[2] equals to 92.5 billion US dollars annually. Thus, lower-income countries in the ILO's sample of 134 developing countries would have to spend a prohibitive additional 18.2 per cent of GDP to fill the coverage gap. It can be understood that, even despite determined political will, most of the low-income countries may face prohibitive financial requirements in short and medium terms, thus finding it impossible to finance their floors alone.

What is missing at this stage is a dedicated financing facility that enables the global community of nations to systematically, consistently and sustainably support national efforts in poorer countries to reduce poverty, insecurity and inequality through social protection.

Hence, the global Coalition for Social Protection Floors[3], a coalition of more than 100 civil society and faith-based organizations and trade unions called on governments worldwide to ensure – through national and global solidarity – that social protection floors are made available to all people with the help of of a Global Fund for Social Protection or a similar funding mechanism that is built on global solidarity.[4] Already in 2002 the ILO's Social Security Department proposed a "Global Social Trust" and in October 2012 the UN rapporteurs for the Right to Food and Extreme Poverty have jointly called for a Global Fund for Social Protection.[5] The present UN rapporteur for Extreme Poverty has just renewed that call.

The mandate of the funding mechanism would inter alia be to:

- o support the introduction or finalization of national social protection floors;
- o ensure that national social protection floors are sustainable and resilient in the event of shocks that affect entire communities;
- o co-finance – on a transitional basis – the costs of setting up or completing social protection floors in low-income countries where such transfers would otherwise require a prohibitively high share of the country's total tax revenue;
- o support the strengthening of domestic resource mobilisation.

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[1] The total minimum necessary additional expenditure for social protection benefits in cash and in kind. The SPF Index captures the cost of filling the individual poverty gaps and the costs of guaranteeing access to essential health care to all residents and children, taken into account whether sufficient resources are spent and whether these resources are allocated adequately.

[2] Estimating the costs and financing gaps for achieving targets 1.3 and 3.8 of the SDGs relating to social protection and health care in 2020 and projecting their incremental universal development to 2030.

[3] http://www.socialprotectionfloorscoalition.org

[4] The text of the background section is largely based on: Global Coalition for the Social Protection Floors (GCSPF) 2020: Civil Society Call for a Global Fund for Social Protection to respond to the COVID-19 crisis and to build a better future; http://www.socialprotectionfloorscoalition.org/civil-society-call/ and earlier sources from the Global Coalition and the FES.

[5] De Schutter, O., and Sepulveda, M. 2012: A Global Fund for Social Protection (GFSP), Executive Summary October 2012

This new international financing mechanism could play the role of a direct and fast-acting mechanism to reduce poverty that can save millions of lives and alleviate misery in further millions of cases, as well as protect and ensure the sustainability of social protection systems from the economic and social fallout of the next global, regional or national crisis.

Furthermore, a global financing mechanism for social protection would also have an important task in crisis situations. Even countries that already have functioning and adequately funded systems in place may be forced by external shocks to temporarily reduce or even completely suspend social transfers. The need to extend programmes to additional groups or to increase benefits may arise. For example, natural disasters, epidemics, or humanitarian disasters can put under stress the capacity of national social protection systems, thus impeding them from coping with the additional needs.

In such situations, which would mean the loss of basic protection for many millions of people, a global financing mechanism could stabilise social protection systems and respond to the increased financial requirements due to exogenous shocks.

In its inception idea, a global financing mechanism for social protection floors is envisaged as a non-vertical fund able to back up national social protection floor guarantees in exceptional situations, allowing participating countries to adopt rights-based social protection systems. Consequently, the maintenance of such systems could also be fiscally sustainable in the face of shocks (Global Coalition for Social Protection Floors, 2020; Global Coalition for Social Protection Floors, 2021).

The governance structure of this mechanism, based on the principle of national ownership, should be such that decisions concerning programs' definitions and priorities can remain the responsibility of governments from recipient countries, leveraging on existing administrative structures, and coordinating with development and humanitarian aid organizations active in the country.

Moreover, based on the principle of accountability (especially towards end-line beneficiaries), a proper representation of recipients and donor states in the organization's highest decision-making body is critical, as is the inclusion of civil society organizations representing the affected population. On the other hand, the establishment of effective monitoring and evaluation procedures is necessary. These include both internal and external audits, as well as evaluation and complaint mechanisms (Global Coalition for Social Protection Floors, 2020; Global Coalition for Social Protection Floors, 2021).

Alongside the efforts of the GCSPF, the UN Special Rapporteur on extreme poverty and human rights recognises the pivotal role in the global efforts to extend social protection for a Global Fund for Social Protection. He suggests in particular:

"*Establishing a Global Fund for Social Protection is doable, and it is affordable, but it requires political will,*" De Schutter said. "*The ILO estimates that less than $78 billion would be needed for low-income countries to establish social protection floors, including healthcare, covering their population of 711 million. While that might sound like a high figure, it is actually less than half of what developed countries are already providing in development aid. The question is therefore not about affordability, but about setting the right political priorities.*" "*Moreover, social protection is not just a cost weighing on public budgets,*" he added. "*It is an investment that benefits societies over generations, helping increase education levels, improving food security and health, and yielding economic benefits for local economies. It is a stepping stone towards more equal and resilient societies*" (UN, 2021).

The Global Fund for Social Protection will allow recipient countries to gradually increase their own levels of funding devoted to social protection. Rather than creating a new form of dependency, the Fund will both help identify new sources of domestic revenue and ensure sustainable levels of support to countries committed to these programs.

"In *fact, the Global Fund should gradually make international support redundant, and it can be phased out once countries have enhanced their capacity to raise taxes progressively and to redistribute them equitably in the form of universal social protection*" (UN, 2021).

To support the global debate on the Global Fund and extend its factual base, Friedrich-Ebert-Stiftung (FES) has decided to commission this study which aims at exploring the potential costs, social impacts and resilience to shocks of such a Fund in concrete country contexts.

The Terms of reference for the study

The central objective of the study is to support the global discussions of the feasibility and necessity of a Global Fund for Social Protection through providing two country-based analyses that demonstrate the potential effects of a global social protection funding mechanism. In the following chapter we may refer to this funding mechanism as a Global Fund just for the sake of brevity. The actual institutional and organisational form of the external solidarity funding for national SPF expenditure is not a major issue for this study. What matters here is to show how external funding can support and accelerate the build-up of national floors of social protection.

The study will establish in both cases

- o The cost of the Global Fund support, i. e. how much it will cost to co-finance the closure of national gaps in social protection floors including access to essential health care during a support period of say 10 years. During that period the Global Fund support will proportionally taper off. This will include the establishment of the fiscal implications for the receiving countries during the support period and beyond.
- o The redistributive impact of the supported SPF benefits in terms of poverty reduction and the reduction of inequality;
- o The effects of the fund support on the achievability of the SP related SDG targets by the sample countries;
- o The effects of the Global Fund support on the resilience of countries in the event of future crises.

The study will contribute in principle to the global knowledge base on the financial and administrative feasibility of a Global Fund of Social Protection and its desirability.

Independently of the contribution of the study to the global debate on the Fund and its outcomes the two concrete country cases will help national interest groups to formulate national policy demands for the implementation or completion of national floors of social protection.

2. Methodology and case selection

Methodology Brief

The analytical framework for costing and estimating the financing as well as the redistributive potential of the proposed policy reforms is manifold, as shown by the analytical and modelling architecture adopted (*Figure* 2). The main components of the architecture are a macro-economic model (MEM) and a micro-simulation model (MSM) which serve for the fine-tuning

of their counterpart and the estimation of the results under various scenarios.[6] These follow the assessment of the performance of the countries under study, with respect to their respective social protection system and targets, and the design of two comprehensive policy packages to be assessed.

Figure 2. Analytical and Modelling Architecture
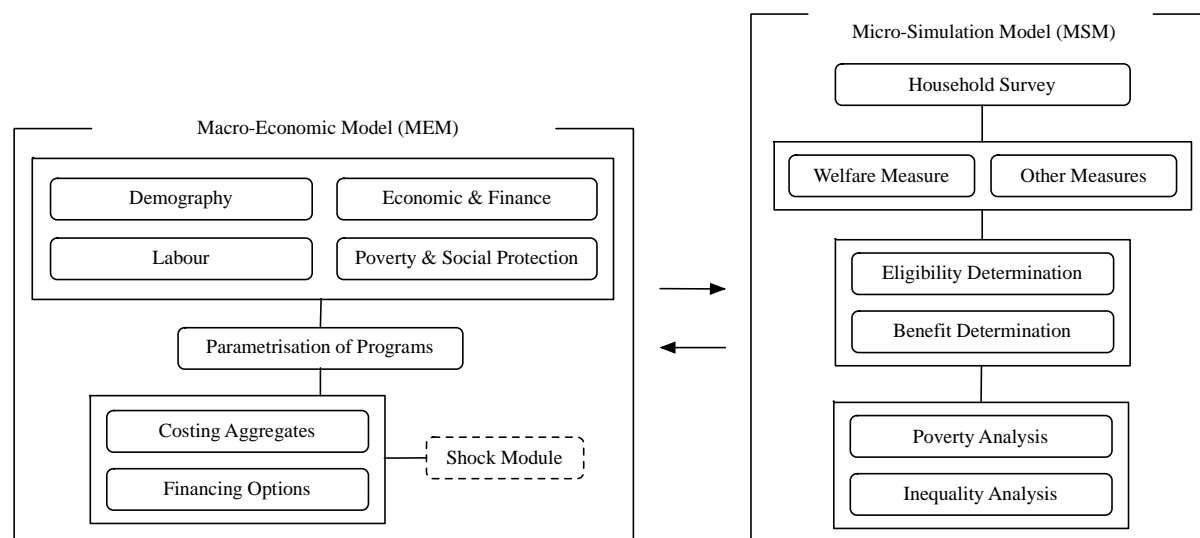
Source: Authors' elaboration

The static micro-simulation model (MSM) analyses at the extent to which the implementation of such policies has a redistributive potential, mainly on poverty and inequality measures. The micro-level analysis is performed on a representative household survey that allows to assess pre- and after- transfer welfare measures. Respectively, in this study, the Nepal's 2018 Household Risk and Vulnerability Survey (HRVS-2018) and the Uganda National Panel Survey 2018-2019 (UNPS-2018) are used.

The prospective cost of the policy packages, as well as the hypothetical mechanisms to be employed for financing them and related fiscal implications are instead estimated by a macro-economic model (MEM). The information required for its functioning is drawn on data from national and international sources and forecasted for the defined projection period. The model relies on demographic, labor, economic and finance, poverty and social protection environments that are separately built. Yet, these interplay with one another and, with a set of assumptions, interact with a programs dashboard in which the features of the proposed policies are parametrised. In turn, these translate into the direct costs that are anticipated as necessary for an implementation of the proposed reforms.

In addition to the above, the macro-economic model includes the possibility of modelling an exogenous shock, either on the economic or the labor environment. In a given year, and when the module is activated, the status-quo is affected by an instant decline in the economic growth in terms of real GDP for the former environment, or an instant decline in the employment rate for the latter environment. The operation of the module is based on the parametrisation of these features as well as the rate of the recovery for the environment affected. The module

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[6] A more comprehensive description of the methodology used, as well as limitations, decisions and assumptions made can be found in the technical appendix, while this section is proposed as non-technical and for the reader to understand the analytical approaches adopted.

has been designed as it allows to assess the fiscal and social protection implications in case of an unanticipated crisis.

Following the costing of the reforms, the estimated social protection expenditure is analysed in comparison to the governmental capacity with respect to the fiscal environment. Accordingly, and for the projected period, the module estimates the financing options in relation to national tax-based revenues, sovereign debt management and development assistance as well as key parameters for the Global Fund for Social Protection.[7]

Case Selection

The study explores the feasibility and necessity of a Global Fund for Social Protection funding option by providing two diverse country cases. In selecting the country, the data availability is the main obstacle for the analysis, especially the survey-based micro-analytical impact simulations.

Several countries were considered for the study. The final selection of Uganda and Nepal as case studies was based on four main criteria: (1) The social protection coverage gap in these countries; (2) the broader geographical coverage of the study; (3) the availability of microdata; and (4) the availability of macrodata.

(1) Both Uganda and Nepal have wide gaps in coverage of the most vulnerable population, respectively only 2.8 per cent in Uganda and 17 per cent in Nepal are covered by at least one social protection benefit (excluding health) (SDG indicator 1.3.1), a datum that makes these countries ideal candidates for the scope of the study (ILO, 2021).

(2) While prioritizing the availability of the data, the team sets a broader geographical scope as one of the main features of the selected countries. In particular, while Uganda's choice comes from its availability of data, the first best choice between non-African countries is Nepal.

(3) Both Uganda and Nepal include household-level economic indicators in the form of aggregable consumption modules to analyse poverty headcount, gaps and the redistributive effects of the social protection benefit packages.[8] The Uganda National Panel Survey 2018-2019 (between the most recent in the possible country cases) allows for evaluating the health, redistribution effects and poverty headcount and gaps impact and other potential areas of interest such as education, housing conditions and employment if necessary. The Household Risk and Vulnerability Survey, Full Panel 2016-2018 Nepal dataset, as the Uganda dataset, includes all the areas of interest in the scope of this research. However, it excludes households

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[7] Further resources can be mobilized by additional ways such as expanding social security coverage and contributory revenues, eliminating illicit financial flows, using fiscal and foreign exchange reserves, and adopting a more accommodative macroeconomic framework. However, these options cannot be modelled due to the lack of reliable data and benchmarks.

[8] The team identified the relevant datasets for the microsimulation and divided them into three groups based on their availability. In the first group, we inserted Malawi, Uganda and Rwanda, for which the datasets are publicly available. Senegal and Cameroon are part of the second group for which the data are available depending on approval from the respective databases. The remaining countries represent the third group (Nepal, Bangladesh, Lao PDR, Haiti and Zambia) that do not have publicly available data or data that match the minimum requirements for the assignment at hand. The Household Income and Expenditure Survey for 2021 and 2016-2017 are not accessible for Bangladesh, while the Bangladesh Integrated Household Survey (BIHS) 2018-2019 data representativeness is limited to rural areas. Similarly, Nepal's Household Risk and Vulnerability Survey is not nationally representative but only excludes metropolitan areas. Lao PDR and Haiti have available data only from the Demographic and Health Surveys (DHS), in Haiti (2017), and Multiple Indicator Cluster Surveys (MICS), in Lao PDR (2017), for which economic and employment indicators are not available, excluding them from the analysis.

in non-metropolitan areas, particularly those in the Kathmandu valley (Kathmandu, Lalitpur and Bhaktapur districts).

(4) A comparative advantage in this domain for Uganda and Nepal is the presence of national budget data, respectively provided by the Ministry of Finance Planning and Economic Development (MoFPED) and the Ministry of Finance (MoF), which are fully available and up to date. This data will allow the contextualisation of expenditures related to the social protection packages in the general government expenditures and verify the state of the art of social protection expenditure by programs. Both countries have recent Article IV IMF, ILOSTAT, World Bank and UNU-WIDER GDR data to elaborate the projections and conduct the benefit package analysis.

The final choice of Uganda and Nepal justifies under various aspects. In the case of Uganda, the microsimulation data can be considered equivalent to the other Sub-Sahara African countries, while the availability of budget data on general government expenditure from the MoFPED yield the country as the team's first choice in the region. Considering a broader regional coverage of the study, the lack of data availability for the remaining countries suggests Nepal as a best-case based on the availability of budget data. Such country-specific review serves the purpose of understanding the status-quo and facilitates the calibration of the macro- and micro- models adopted during the analysis. Further and to assist the reader, the review of the country takes into consideration both the socio-economic environment of the country it's the social protection system.

3. Nepal

Country Context

In 2018, the population of Nepal was 29.6 million, with 19.3% living in urban areas (WHO, 2018). The country has a young and expanding population, as for every 100 adults (age 15-64), there are 47.6 children and 9 old persons. Hence, the country's total dependency ratio is 56.6%, meaning that per every 100 working-age individuals, there are almost 57 dependents (The World Bank, 2021a). Life expectancy at birth increased from 60.9 in 2000 to 70.7 in 2019, and maternal mortality rates[9] declined from 553 for 100,000 live births in 2000 to 250 in 2017 (The World Bank, 2021a).

The 2017 Labour Force Survey reported a labor force participation rate of 41.4% for those between the age of 15 and 64, and more precisely 57.9% for men and 28.4% for women (ILO, 2021). In the same year, the unemployment rate for women was 13.1%, or 2.8 percentage points more than men.[10] Moreover, 80.8% of the employed are working in informal employment, with higher shares for women compared to men.

GDP per capita slightly decreased in the last two years due to the global economic contraction, yet, it reached USD 1,155 in 2020 through a steady growth from early 2000 (The World Bank, 2021a). Considering the latest data at the national level of 2010 and the national poverty line of NPR 19,262, 25.2% of the population is living in poverty. In the same year and adopting the absolute poverty line, 15% of Nepalese lived with less than $1.90 PPP a day and the poverty gap stood at 3%. The latest available data on inequalities and human development show that

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[9] Referring to deaths due to complications from pregnancy or childbirth per 100,000 live births.

[10] And 2.2 additional percentage points considering the 25+ age category.

Nepal had a Gini coefficient of 32.8, and the Human Development Index (HDI) reached 0.602 in 2019, ranking Nepal 142nd out of 189 countries (The World Bank, 2021a; UNDP, 2020b).

At the time of writing, the COVID-19 outbreak has caused 971,000 cases and almost 12,000 deaths in Nepal (Worldometer, 2021). Stringent lockdown measures have been enacted by the Government as soon as March 2020. The impact of the pandemic on the Nepalese economy and the livelihoods of the most vulnerable are significant, especially due to the reliance of the economy on both tourism and migrant workers. Remittances, which account for 25% of GDP, are estimated to have decreased by 14% (International Policy Centre for Inclusive Growth, 2020). The number of people living in poverty is likely to have soared. However, a more recent measurement is not available due to the lack of a recent survey round since the latest reliable data was recorded about a decade ago from the time of this study (World Bank, 2021).

Social Protection Overview

The share of the population receiving social protection[11] and social assistance[12] transfers in Nepal in 2010 was 43.5% and 40.1%, respectively (World Bank, 2018). The programs are oriented towards the most deprived, as, for example, 53% of individuals in the bottom quintile of the welfare distribution received transfers from national social assistance programs, against 27.9% in the wealthiest quintile (see *Table 1*). Moreover, one-fourth (26.5%) of all those assisted were among the bottom quintile, and almost half were in the bottom two quintiles.

> **Sustainable Development Goal (SDG) Review**
> *SDG 1. No Poverty. End Poverty in All Its Forms Everywhere (target 1.3)*
>
> *17% of the population in Nepal receives at least one social protection benefit (excluding health care)* **(ILO, 2021a)**.[13] *Overall, 22.9% of children and 84.2% of older persons benefit from at least one social protection transfer, while specific categorical benefits are received only by 9.8% of new mothers and 13.7% of persons with disabilities* **(ILO, 2021a)**.

However, considering the entirety of social protection benefits (including contributory), the lowest quintile receives the second-highest share of benefit (21.9%), while the richest comes first, receiving 34.7% of total benefits. One of the reasons lie in a higher and better social security coverage among formal workers, a relatively wealthier social group.

In Nepal, although the system provides relatively higher benefits to the most vulnerable, low benefit marginal contribution to household's consumption is a substantial issue and challenge. Social assistance provides to those living in extreme poverty 5.9% of their total income, and total social protection (including social security, assistance and labor market policies) programs 15.2%, which is rather low. The relevance of transfers for households' budgets decreases for higher quintiles. Overall, in 2010, the national social protection system contributed to a 1.3% reduction of the GINI through a 16.9% reduction of the poverty gap of those living in extreme poverty conditions.

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[11] Contributory, non-contributory, and active labor market programs.

[12] Non-contributory programs only.

[13] Figures on social protection coverage from institutional sources (ASPIRE data and SDG tracker) do not match.

Table 1. Nepal, Social Protection and Social Assistance in Numbers

	Social Protection	Social Assistance
Coverage		
Coverage (%)	43.5	40.1
Coverage in 1st quintile (poorest) (%)	54.3	53.2
Marginal contribution to consumption		
Marginal contribution to consumption of benefits (%)	6.0	2.5
Marginal contribution to consumption of benefits in 1st quintile (poorest) (%)	11.7	4.9
Distribution		
Beneficiary incidence - 1st quintile (poorest) (%)	25.0	26.5
Beneficiary incidence - 5th quintile (richest) (%)	16.5	13.9
Benefits incidence - 1st quintile (poorest) (%)	21.9	24.6
Benefits incidence - 5th quintile (richest) (%)	34.7	20.9
Outcomes		
Gini inequality index reduction (%)	1.3	1.4
Poverty Headcount reduction (%) - 1st quintile (poorest)	7.6	4.8
Poverty Gap reduction (%) -1st quintile (poorest)	13.3	7.2

Note: Coverage calculated as the number of benefit recipients in the group or quintile divided by the number of individuals in that quintile, including direct and indirect beneficiaries. Marginal contribution to consumption is defined as the total transfer amount received by all beneficiaries in a quintile as a share of the total consumption of beneficiaries in that quintile. Beneficiary incidence defined as the percentage of program beneficiaries in a quintile relative to the total number of beneficiaries in the population. Benefit incidence defined as the percentage of benefits going to each group or quintile of the pretransfer welfare distribution relative to the total benefits going to the population. Data from 2010.
Source: The World Bank (2021b)

The Social Protection Floor Index (SPFI) (Bierbaum, Schildberg, & Cichon, 2017) indicates that Nepal has an income and health gap sized 5.9% of GDP to bridge in order to allow all its citizens to reach the $3.20 (2011 PPP) per day minimum.[14] The gap declines to 2.7% of GDP, considering the $1.9 (2011 PPP) per day. The SPFI fixed health component accounts for 2.5% of GDP, smaller than neighboring countries like India and Bangladesh. However, the income gap for Nepal is the highest in the region (Friedrich-Ebert-Stiftung, 2021). Social protection expenditure was 2.1% of GDP in 2019 and the functional component that the Government most invests in (1.8% of GDP) is the provision of social pensions (ILO, 2021a).

Figure 3. Disaggregation of Social Assistance Spending (Nepal, % of GDP)

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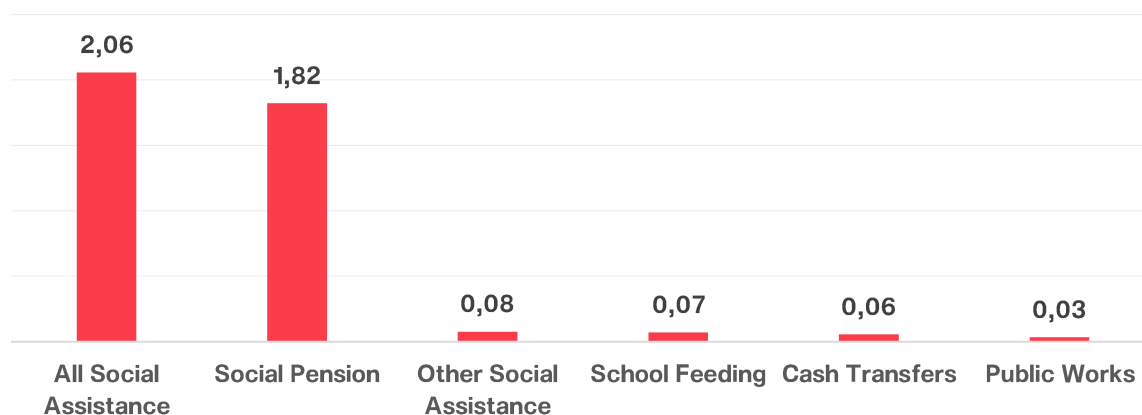
[14] Underlying survey year 2003 (Friedrich-Ebert-Stiftung, 2021).

Sustainable Development Goal (SDG) Review
SGD 10. Reduce Inequality Within and Among Countries (targets 10.2 and 10.4)

In 2010, 7% of the population lived under half of the median income **(UNDESA, 2021b)***. The usage of fiscal, wage and social protection policies to reduce structural inequalities echoes in Target 10.4, measured by the share of labor in GDP comprising wage and social transfers, which stood at 37.1% in 2017* **(UNDESA, 2021b)***.*

The country spends more than the regional average on working-age social protection programs (see *Figure 4*) and overall, expenditures (relative to GDP) are higher than in Bangladesh and India, both neighboring countries. The expenses for health stand at 5.8% of GDP, but general government expenditure in the sector is slightly lower than 1.5% of GDP (The World Bank, 2021a). Thence, the Government contributes 26% of the total, while out-of-pocket expenditures account for 50.8%, and donors provide the remaining share.
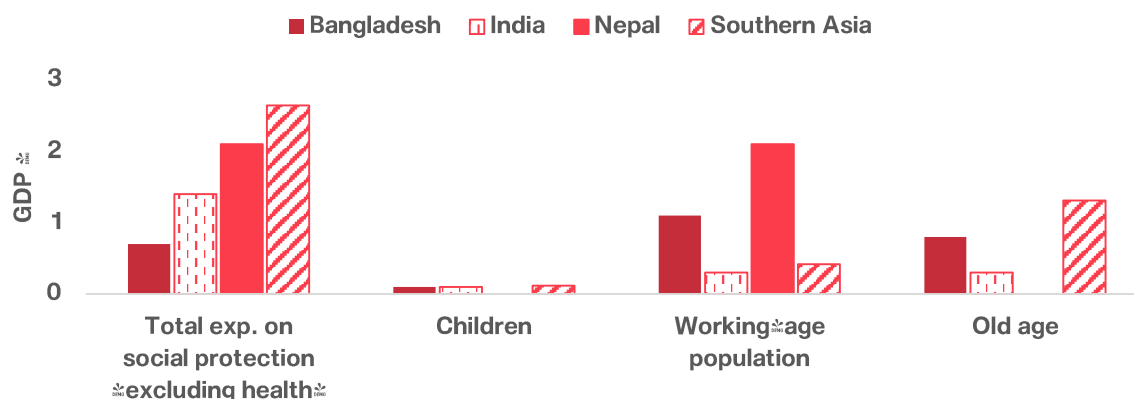
Note: 2020 or latest available year. Total excludes health expenditure; Health expenditure is the domestic general government health expenditure.
Source: (ILO, 2021).

Nepal integrates the provision of its social protection system in its national legislation, yet guarantees on adequate living standards are not enshrined in the constitution, which creates challenges on the adequacies of the provisions (Lazzarini, 2020). Additional challenges remain the difficulties faced in attempting to reach a significant number of individuals in remote areas (Arruda, Markhof, Franciscon, Silva, & Bilo, 2020).

SPF Pillar 1: Access to essential healthcare, including maternity care

Coverage and adequacy

As of 2019, Nepal's most significant health program is the National Health Insurance (NHI), administered by the Ministry of Health and Population. Although the NHI is supposed to cover all households nationwide, it only had 2.7 million members in 2019. Its expenditure in 2019 was 0.16% of GDP and covered 51 of the 77 national districts. The coverage is shallow (9.5% of the total population), and while the program is being quickly scaled up to cover new districts[15], as of 2021, it is estimated that 84.4% of the population is de facto not covered due to a lack of skilled personnel (ILO, 2021b).

Specific groups such as persons aged 75 or older, disadvantaged, destitute, underserved, with a physical or psychological disability, or living in certain remote or mountainous regions or specific vulnerable districts are entitled to comprehensive, free-of-charge health services. These vulnerable groups are legally entitled to free-of-charge health services under the NHI and the Poor Citizens Medical Treatment Fund (PCMT). Access to the PCMT is based upon identification from the *Poor Household Identification Board,* and in 2019 beneficiaries were 0.3% of those living in poverty. Other small-scale and non-contributory health programs exist and target Tuberculosis, STDs, cardiovascular diseases (CVDs), cancer patients and children in need of nutritional supplements.

Sustainable Development Goal (SDG) Review
SDG 3. Ensure Healthy Lives and Promote Well-Being for All at All Ages (target 3.8)

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[15] In June 2021, 75 of the 77 districts are covered, and over 3 million individuals are covered, i.e., 10.5% of the total population (The World Bank, 2021).

The provision of essential health services reached 48 % of the population in 2017, constantly rising from 24% in 2000 **(UNDESA, 2021b)**. *In addition, the total number of physicians, nurses and midwives per 1,000 individuals in 2018 was 3.9, exceeding the regional South Asia and world average* **(The World Bank, 2021a)**. *Yet, the population spending more than 25% of their total expenditures on health services rose from 0.8% in 2003 to 2.4% in 2017, highlighting higher financial risks for households facing sudden health shocks or needs* **(UNDESA, 2021b)**.

The employed in the private sector are covered by the Social Security Fund[16] (SSF), within which, upon payment of a contribution rate of 0.7%, members are entitled to the medical treatment and health scheme. Alongside the SSF, public sector workers are insured under the Employees Provident Fund (EPF). The combined coverage of SSF and EPF does not reach 3% of the entire population (4.7% of the employed). However, under both schemes, the dependents are entitled to the same care as the insured individuals.

The main non-contributory maternity care program, the *Safe Motherhood Program* (SMP), provides monetary transfers, and includes free of charge medical assistance. The Ministry of Health and Population (MoHP) administers the program, providing lump sums conditional to the birth being delivered in a health facility and attending health check-ups. The program covers transportation, check-ups, and delivery services-related costs in combination with health fees exemption. The benefit levels are defined on a geographical basis. [17] In 2019 the SMP had 425,000 beneficiaries (78.2% of newborns) and costed 0.03% of GDP. While the amount of the benefits has recently doubled, these remain inadequate for the delivery expenses and appropriate to only partially cover the transportation costs (The World Bank, 2021), not to mention that they do not have any income substitution effect for employed women.

Maternity benefits are also granted by both the SSF and the EPF. The employer's liability scheme covers both cash sickness and maternity benefits for employees in the private sector, granting 100% of the employees' wage for 60 days (at least two weeks before childbirth) (ILO, 2021b). Since 2017, the Government has aimed to shift private-sector employees' contributions from the provident funds to the SSF. Under the new scheme, 1% of the monthly wage of the private sector employees contributes to the medical, health and maternity protection benefit. Moreover, the 2017 Labor Act introduces a paid paternity leave for 15 days, and workers in the public sector are covered under the provident fund that provides (data from 2018) a lump sum of NPR 7,500 (or about US$ 61) for up to two births (ISSA, 2021b).

Legal, conceptual, and implementation gaps

Articles 35, 38, 40, and 42 of the 2015 Constitution mention the rights to free basic healthcare for all, the right to maternity care for all women, and the right to special provisions in terms of health for indigent citizens, endangered ethnicities, and especially Dalit communities. The NHI and the PCMT aim to support the most vulnerable with health subsidies and benefits, but this might cause duplication of beneficiaries, though the insurance scheme has not yet started subsidizing the poor population due to the unavailability of a correct targeting mechanism (NHRC, 2018; The World Bank, 2021).

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[16] Established in 2011 and administered by the Ministry of Labor, Employment and Social Security.

[17] Beneficiaries living in the low-land Terai region receive NPR 1,000, in the Hills region 2,000, and 3,000 in the mountain (respectively 7.5%, 15%, and 22.5% of the minimum wage). Moreover, NPR 400 are given to each pregnant woman to complete four antenatal care visits (MoHP, 2021).

Also, the NHI and the SSF are deemed lacking in coherence and integration (The World Bank, 2021). While the NHI has the objective of covering all Nepalese households, the Social Security Fund aims at insuring the employed in the private sector. However, the two schemes differ significantly for their contribution rates and expenses covered.

On the implementation side, a recent assessment of the NHI reveals that despite the great efforts to include a larger number of members in the scheme, this is hampered by critical unavailability of drugs, the inadequacy of laboratory services, and the inadequacy of human resource awareness and social interactive skills (NHRC, 2018). The payment schedule of the SMP program follows antenatal care visits and delivery, but this is often hindered by the different schedules of fundings from local governments to health facilities resulting in delayed receipt of benefits by mothers (The World Bank, 2021).

SPF Pillar 2: Basic income security for children

Coverage and adequacy

In 2019, the Child Grant (CG, part of the Social Security Allowances program, administered by the Ministry of home affairs) provided child allowances to about 25% of the total number of children under 5. The grant was instituted in 2009 for Dalit children or children up to 5 years of age from five districts and progressively expanded to fourteen more districts for all children (ISSA, 2021b). In 2019, the transfer was NPR 400 per month (13% of the national poverty line inflated to 2019) for each eligible child (ISSA, 2021b).

Sustainable Development Goal (SDG) Review
SDG 4. Quality Education. Ensure Inclusive and Equitable Quality Education and Promote Lifelong Learning Opportunities for All (target 4.5).

The bottom to top wealth quintile index for those completing primary education increased from 0.6 in 2006 to 0.9 in 2016, raising opportunities for the most vulnerable.[18] Moreover, the rural to urban parity index followed a similar growth path (reaching 0.9 in 2016), and the female to male parity index almost reached parity (1) in 2019 **(UNDESA, 2021b)**. *While the expected years of schooling for the male population is 12.6 and for the female population is 13, the current mean years of schooling for the former group is 5.8 and for the latter is 4.3* **(UNDP, 2020b)**.

The Ministry of Education, Science and Technology (MEST) further provides several scholarships for children above 5 and pertaining to vulnerable groups. In 2019, the number of children aged 5-14 receiving a scholarship was 3.15 million (54.9% of all children), meaning that the families of 45% of all children are responsible for out-of-pocket education expenditure. To encourage and incentivize families of children aged 5-11 to enroll children in school, the MEST (with the support of WFP) implements school feeding for 36.7% of children 5-11.

Legal, conceptual, and implementation gaps

The Nepalese constitution commits to education and children's rights and enshrines it in articles 31 and 39. While the country has since long enacted child-focused legislation and the child grant has proven effective in improving birth registration rates (an eligibility criterion), impacts on the intended outcome have not materialized due to the inappropriate amount of the benefit. In addition, both vertical and horizontal coverage of the child grant are strongly limited by the financial resources allocated and available (The World Bank, 2021).

SPF Pillar 3: Basic income security for persons of active age

Coverage and adequacy

Persons of active age in Nepal are members of a broad set of social protection and active labor market programs. There are two disability allowances providing benefits to individuals living with partial or full disabilities. In 2018/2019, the programs covered 41,884 people living with total disabilities and 73,784 living with partial disabilities (in total, 20.8% of persons with disabilities received a cash transfer). However, according to a 2019 survey of Oxford Policy Management (OPM) administered in 6 districts, 13 percent of those registered as suffering from profound and severe disabilities do not receive any allowance (Bhandary, Carraro, Hebbar, Singh, & Thapa, 2020). The authors further estimate that solely 43 percent of those eligible under the scheme indeed receive the allowance. In 2019, the Government announced to raise the benefit adequacy, increasing the allowances respectively to 100% and 50% of the poverty line, NPR 3,000 and NPR 1,600 per month (ILO, 2021b).

Upon verification from a means-testing mechanism, all unmarried and divorced women and all women above 60 are entitled to the Single Women and Widow's Allowance (SWWA). The first component (described in the SPF Pillar 4 section below) targets women aged 60 and above, while a second component targets all widowed women. The second segment of the program covered around 600,589 women in 2018/2019, delivering a benefit of 2,000 NPR per month, equal to 70% of the poverty line (ILO, 2021b).

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[18] Calculated as the ratio between the completion rate of children in the bottom quintile and that of children in the top quintile.

Sustainable Development Goal (SDG) Review
SDG 5. Achieve Gender Equality and Empower All Women and Girls (target 5.4)

Nepal has introduced domestic workers in its Labour Act only after 2017, thereafter giving them legal privileges **(ILO, 2021)** *but reliable data on domestic and unpaid care is lacking. However, it is estimated that there are 250,000 domestic workers in the country, with the majority being women and about 80% without a contractual agreement* **(WIEGO, 2020)**[19]. *Most of these are in live-out arrangements, yet the live-in workers are mostly adolescent girls that do not hold the same rights as their live-out counterparts. Anecdotal evidence has revealed that many female domestic workers suffer from labor violations, non-payment of salaries and working excessively* **(Kanel, 2016)**.

Since the introduction of the 2017 Labor Act, employers have been obliged to provide severance pay to dismissed employees (ISSA, 2021b) with a sum equal to one monthly wage for each year of employment. All components of the 2017 reform apply only to private industries with more than ten employees, excluding self-employed, family business and informal workers (ILO, 2021b).

The country has other small-scale employment programs for labor activation targeted to the unemployed. In 2019, the Prime Minister Employment Program (PMEP) was introduced, which guarantees 100 days in public works programs or a subsistence wage to registered unemployed individuals. As of 2019, 60,000 unemployed persons participated in the PMEP (12.7% of the unemployed) for a total cost of 0.08% of GDP. Overall, unemployment programs only cover 22.5% of the unemployed.

Legal, conceptual, and implementation

Although the programming seems comprehensive, the national legislation and guarantees for active age persons are relatively scarce compared to the other pillars. Nepal does not include statutory unemployment benefits within its legislation, and while article 34 of the Constitution grants every citizen the right to work, there are no employment programs for persons with disabilities. The share of the population that suffer from disabilities, besides being excluded from the labor force, mostly do not have full access to income replacement benefits.

Sustainable Development Goal (SDG) Review
SDG 8. Promote Sustained, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All (target 8.5)

In Nepal, the proportion of informal employment was 80.8% in 2012 **(UNDESA, 2021b)**. *While waged and salaried workers take 36% of the total employment for men, only 12.1% of female workers are waged or salaried workers* **(The World Bank, 2021a)**. *In 2017, women earned on average NPR 87 per hour against NPR 102 for men* **(ILO, 2021)**. *In 2018, about 20% of female youth (aged 25-34 years old) were outside the labor force in comparison to 7% of male youth, while it is estimated that a million out-of-school youth aged 15-34 work less than 10 hours weekly* **(Ruppert Bulmer, Shrestha, & Marshalian, 2020)**. *Moreover, 50% of the work done by women in their late twenties remains unpaid.*

While the benefits and services targeting unmarried and divorced women can have a positive impact on female-led households, these provisions are tied to verification on a means-tested basis which is not possible to assess. Moreover, while well-intended, these measures leave behind other deprived households that do not have access to this poverty preventative measure.

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[19] Note that there are about 3 million women in the labor market of Nepal.

Further, from the present mapping, the status of short-term sickness benefits for employees is not clear. The SSF pays "*accident and disability benefits*", hence, presumably, this might be missing from the current legislation.

SPF Pillar 4: Basic income security for older persons

Coverage and adequacy

Since 2011, with the establishment of the Social Security Fund (SSF) and the contribution-based Social Security Act (2017), Nepal started expanding membership to the SSF and pension coverage for older individuals (ILO, 2021b; ISSA, 2021b). The primary contributory schemes are the SSF, Employees' Provident Fund (EPF) and Citizen Investment Trust (CIT).

Contributions to the SSF, mandatory for all industry employers with more than ten employees, grant membership to four different schemes. As of 2019, employees pay a contribution rate of 11% (over their gross wage), while employers pay 20% of total labor costs. Total social security contributions are then 31% (ISSA, 2021b). Payrolls' contributions fund four schemes,[20] and the most significant share goes to the Old Age Security Scheme. The SSF covers under all its schemes 169,275 workers, a persistently low coverage rate (1.0% of total 15+ employed population), especially between medium and small-sized industries (de Toma, 2021). Individuals can access their old-age benefit after 15 years of contribution, having reached the retirement age of 65. The funds might as well be withdrawn before under specific conditions.

The EPF is the mandatory scheme for public sector workers (a parallel scheme to the SSF) to which private employees can participate depending on their companies' size (ILO, 2021b). Under this scheme, around 600,000 workers (3.7% of total 15+ workers) from the education sector, civil servants, police and army are covered and can access the old-pension, disability and survivors' benefits (ILO, 2021b). The CIT scheme instead offers coverage for all types of workers, that can participate by contributing one-third of the salary or annual NPR 300,000 with the incentive of tax exemption for the contributed amount (ILO, 2021b).

In addition to the contributory schemes, Nepal has a non-contributory social pension called Senior Citizen Allowance (SCA). Eligibility criteria are defined at 70 years of age with exceptions for individuals from Dalits ethnicity, Karnali Zone and single women (60 years). The Government raised the benefit level to NPR 2,000 plus NPR 1,000 (per month) for medical expenses in the past years and announced a further increase to NPR 4,000 (per month) in 2021 (ILO, 2021b) (Ojha, 2021). The NPR 2,000 transfer represents 68% of the poverty line (NPR 19,261 yearly per person in 2011, inflated to 2019 prices) and 15% of the current minimum wage (NPR 13,450 per month, with a foreseen increase to NPR 15,000) (Himalayan News Service, 2021). Although designed as a universal social pension, it only reaches three-fourths of the potential beneficiaries. In 2019, the allowance covered only 988,041 of the 1,276,137 eligible beneficiaries. Moreover, all single women over 60 are entitled to the Single Women's Allowance, covering 116,334 beneficiaries in 2019 with a monthly benefit of NPR 2,000.

Legal, conceptual, and implementation

While legally all workers are required to pay contributions for their old age pensions, coverage under the contributory system is negligible. Nepal's state counterbalances this issue with a

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[20] The contribution rate of 31% (20% from employer and 11% from employee) divides between four elements. The Old age contribution account for 28.33%; Disability and work injury benefits for 1.40%, Dependent protection 0.27%, and medical health and maternity protection benefits account for 1% (ILO, 2021b)

social pension with a universal legal entitlement, although not yet effectively so. Therefore, a relevant share of elders does not receive any old-age transfer and is vulnerable to poverty and deprivation.

In 2012, an evaluation of Senior Citizen Allowance (SCA) estimated that possible exclusion errors are caused by challenges in age verification processes, delays in the administrative procedures, and reduced administrative capacity in remote areas (Samson, 2012). Moreover, the benefits are not transferred in a timely and periodic manner, and delivery mechanisms rely heavily on in-person withdrawals at local offices, hampering some elders' ability to collect their entitlements (Sony, et al., 2014).

Simulated new social protection benefits

Following the review of the social protection system in Nepal, various reforms are proposed for costing and financing its expansion as well as assessing its potential impact on household and individual-level welfare. Two contrasting variants are proposed paralleling the debate on targeting and universalism. One variant (called UNIV package) provides a set of universal benefits, such as universal pensions, child benefits and essential health services delivered by public providers.[21] A second variant (called TARGETED package) assumes that the existing individual poverty gaps can be closed by social assistance benefits targeted to the poor, coupled with essential health services delivered by public providers (similar to the Social Protection Floor Index methodology).[22] Hence, both packages include the same health component, projected to reach the total cost of 3.7% of GDP in 2030 (Friedrich-Ebert-Stiftung, 2021), and differ in their core social protection component.

While TARGETED package closes the gap measured with the National poverty line, the UNIV package includes the following new benefits:

- Universal Package Pillar 1: Access to essential healthcare, including maternity care.
- Universal Package Pillar 2: Basic income security for children.
    - Child allowance
    - Child disability allowance
- Universal Package Pillar 3: Basic income security for persons of active age.[23]
    - Unemployment benefit
    - Disability allowance
    - Maternity (parental) benefit
    - Public works program
- Universal Package Pillar 4: Basic income security for older persons.
    - Senior citizen allowance

All *Universal* package benefits are expressed as a share of the national poverty line, ranging from 40% of it for the child allowance, to 100% for the active and old age population benefits, as presented in Annex B.

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[21] With due consideration to existing national SPF components the choice of the universal benefits orients itself to the standard package that is often used by the ILO, i.e. universal benefits for all children, maternity benefits, disability benefits, unemployment benefits, old age benefits all set at 100% or a fraction of the national poverty line as well as access to essential health care as estimated by the World Health Organization (WHO); and administrative cost for all benefits.

[22] See Friedrich-Ebert-Stiftung (FES): *Social Protection Floor Index Update and Country Studies* 2017.

[23] Sickness, accident, and employment injury benefits were not included, because of insufficient data both at the micro and macro level.

Furthermore, a set of existing programs already in place are maintained and expanded (by coverage and amounts) over the projection period, to ensure a gradual expansion of the existing social protection system. These benefits are included in pillar three of the model and include:

- The Endangered Ethnicity Allowance program, maintained as present coverage and amount, due to its socio-economic specificity.
- The Safe Motherhood Programme, considered as an additional component of the Maternity (parental) allowance, covering the essential medical expenditures.
- Beneficiaries of cash for work programs[24] are excluded from the newly implemented unemployment package, while total expenditures of the same programs are included in the costing analysis.

Moreover, both the child allowance and the old-age allowance account for already existing beneficiaries of the children and old-age benefits, as described in Annex B. The same annex presents more comprehensive information on existing programs, e.g., the eligibility criteria, benefit levels, and administration costs.

Costing of benefit packages

This section provides an overview of Nepal's economic and fiscal environment and the cost analysis of the simulated policy packages. The costing is established following a classical social budgeting methodology, projected over a ten-year period. Costs are presented in absolute and in relative figures, such as in Purchasing Power Parity currency units (Nepalese rupee to USD) and as a share of GDP. Moreover, this section assesses the long-term returns to investments in social protection, based on the assumptions of economic growth and revenues elasticity to social protection expenditure.[25]

The macroeconomic profile of the country at hand is of the highest relevance to contextualize the cost of social protection and comprehensively evaluate the changes that the proposed reforms could mean, both in terms of expenditure and financing. While growing at a steady average rate of 7% in the period 2015-2019,[26] real GPD growth experienced a sharp fall to -2.1 percent in 2020 due to Covid-19 pandemic outbreak. The latest IMF projections (International Monetary Fund, 2021) estimate a fast recovery rate reconverging to ca. 5% in the medium-term. Following the substantial economic growth of the past years, the Consumer Price Index (CPI) growth rate constantly decreased in the past decade. In 2020, a sharp rise in food-related prices drove a CPI change of 6%. Moreover, the CPI growth rate is expected to steadily remain above the real GDP growth rate, which may be a source of concern, especially if growth will not be pro-poor.

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[24] Cash for work program list: *Rural Community Infrastructure Works Program (RCIW), Karnali Employment Project (KEP), Rural Access Program (RAP), Cash for Work Program, Food for Work Program.*

[25] The elasticity is estimated in the order of 0.7 to 1.9 additional pp. on real GDP growth per each pp. increase of social protection expenditure. See: ITUC (2021).

[26] Excluding 2016, the year following the earthquake, when Nepal economy substantially decreased.

Table 2. Nepal, key economic indicators 2020-2030

Indicators	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (%)	-2.1	1.8	4.4	6.3	5.4	5.1	5.1	5.1	5.1	5.1	5.1
CPI growth (%), period average	6.2	3.6	5.7	5.7	5.6	5.5	5.4	5.4	5.4	5.4	5.4
Employed (% of Pop.)	52.5	53.7	54.8	55.9	57.0	58.1	59.1	60.1	61.1	62.2	63.2

Source: IMF World Economic Outlook October 2021 Projections until 2026. Projection period 2026-2030, assumption from the Authors.

The main macro-economic indicators that the model adopts (see *Table 2*), are estimated for the projection period if not extracted from secondary sources. Under such settings, the model estimates what the determined packages could mean in monetary terms and compare them in relative and absolute terms to the status quo social protection expenditures.[27] Accordingly, the adoption of the set of universal benefits (UNIV) cost a total of 7,213 million USD in 2030 and 5,421 million USD[28] for the TARGETED package, respectively, yielding an increase of 119 and 65 percent compared to status quo total social protection costs.

Figure 5. Total Social Protection Cost as share of GDP by packages options
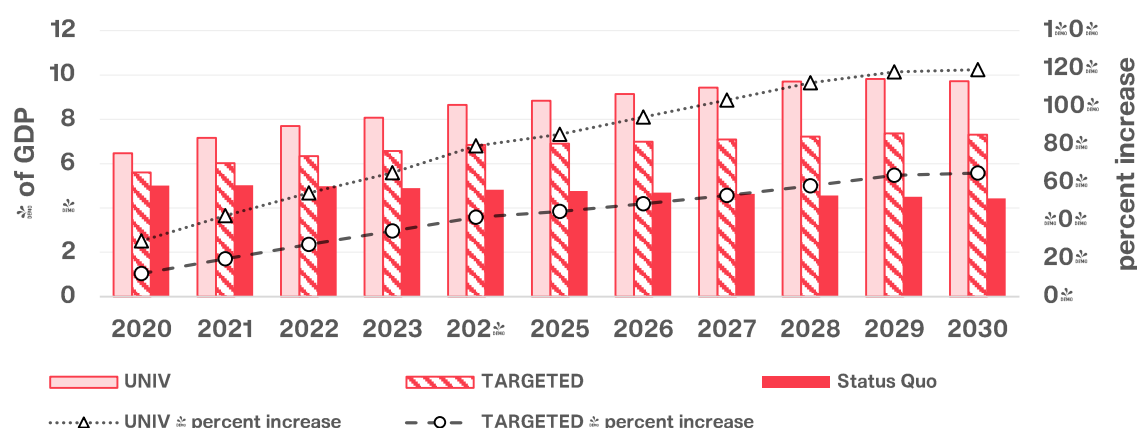
Notes: Bars (Primary axis) refer to the total cost as a share of GDP; Lines refer to the percentage increase in total expenditure from the base scenario
Sources: Authors' elaboration

With the adoption of the universal benefits (UNIV), the total cost of the social protection system (including health) can attain 9.7% of GDP in 2030. Instead, costs are lower by adopting the TARGETED option, accounting to about 7.4% of GDP in 2030 (see *Figure 5*). Across the projected years, the alternative expenditures exceed status-quo expenditures, as these are accounted for in both packages. Therefore, the average monetary efforts throughout the projection period that would be required to implement these packages are 3.9 additional GDP pp. (UNIV) or 2 additional GDP pp. (TARGETED).

Such commitment is deemed as ideal and assessed in the following paragraphs, yet a modified version of the package, thereafter referred to as *Universal Modified* or UNIV/MOD,

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[27] The status quo establishes the base scenario for comparisons, it is based on the projection of the existing social protection system, building on the latest available information about coverage and amounts, dynamized with demographic and economic assumptions.

[28] 1,023,289 NPR million the UNIV package and 769,120 NPR million the TARGETED package, converted to USD PPP through IMF implicit exchange rates (International Monetary Fund, 2021)

is further added to the study. The reason for adding the UNIV/MOD variant is to present a more financially sustainable option. Indeed, *Universal package* social protection expenditures in Nepal are expected to reach about 10% of GDP in 2030, meaning a sharp increase compared to 2020 expenditures (about 5% of GDP) and Southern Asia regional average (2.7% of GDP in 2020), raising concerns on the present affordability and future sustainability of such package. While the best alternative (in terms of costs) to UNIV is the TARGETED benefit package, the latter is considered as hardly administratively implementable due to necessary elaborate and often failing means-testing procedures. Moreover, these hardships at the implementation stage, can result in significant exclusion errors, capable of making the final cost of TARGETED sensitive to significant variations. Hence the integration of the UNIV/MOD, whose adjusted parameters listed below are based upon an ex-ante assessment of financing and impact of the packages initially presented. The following introduction of UNIV/MOD allows for further comparative evaluation of the presented policy reforms.

UNIV/MOD considers the distribution of poverty in the country to ensure an adequate selection of benefits. The revised transfer amount is set to 75% of the national poverty line for those benefits ensuring basic income security for the active and old age individuals (Pillar III and IV). For the income security of children (Pillar II), a benefit equal to 20% of the poverty line is distributed to children aged 0 to 12 (increasing coverage by one year of age per calendar year). Children with disabilities receive a supplementary benefit equal to 70% of the poverty line. Moreover, the health expenditure target is lowered and set to attain the SPF Index *allocation gap* (Friedrich-Ebert-Stiftung, 2021), i.e., 2.86% of GDP in 2030.[29]

Following the described modification, the UNIV/MOD generates an increase in expenditure of 69% compared to the status quo, attaining a total of 20,123 million PPP$ in 2030, or an additional 3.1% of GDP in the same year. The package will grow at a similar pace as the UNIV package, but at a consistently lower pace of the TARGETED package. Hence, while the UNIV/MOD will have higher costs over the projection period, these will match the TARGETED costs by 2030. On average, the UNIV and UNIV/MOD packages differ by 1.3 GDP pp., as shown in *Figure* 6.

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[29] The health expenditure target by 2030 is defined by summing the general government health expenditures from the last year available (1.46% of GDP in 2018) and the allocation gap for Nepal of 1.4% of GDP (Friedrich-Ebert-Stiftung, 2021).

Figure 6. Costing of UNIV and UNIV/MOD, by social protection pillar.
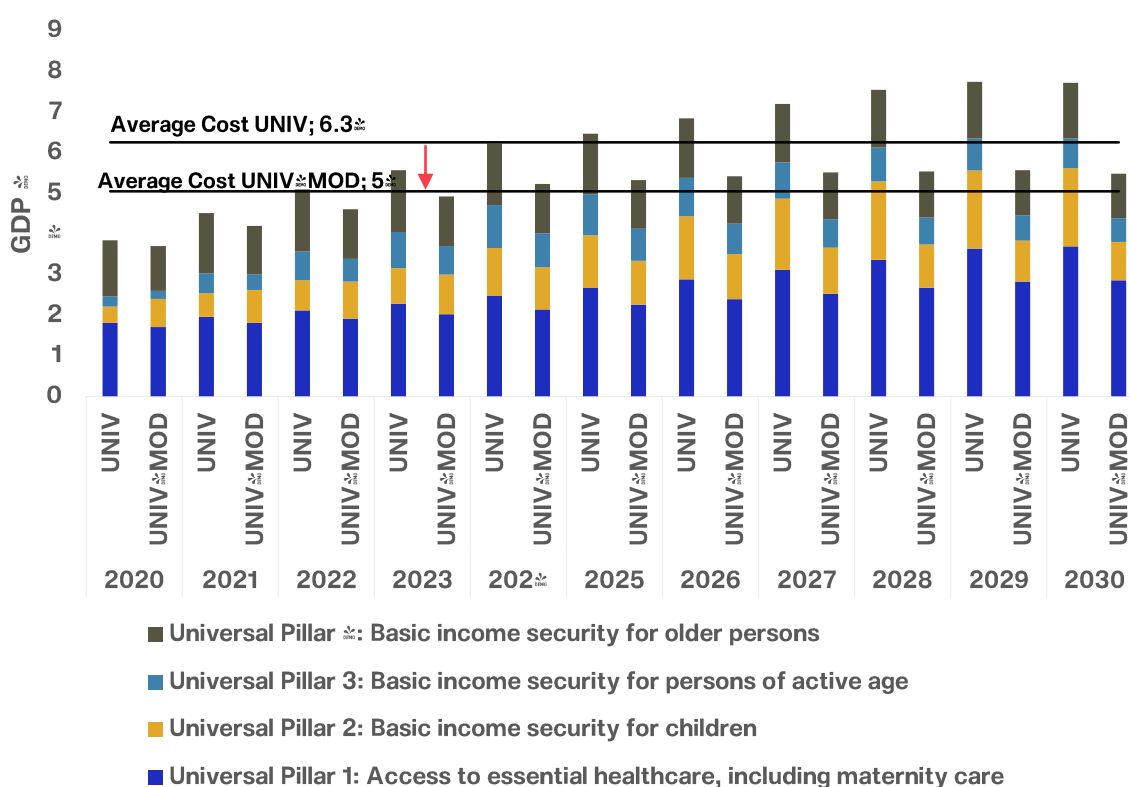
Notes: Yearly additional cost for the implementation of the UNIV and UNIV/MOD packages disaggregated by pillars
Sources: Authors' elaboration

At the end of the projection period, the implementation of UNIV implies investing an additional 7.7% of GDP while UNIV/MOD requires 5.5%, due to a reduction of 0.8 pp. of GDP in the health component jointly with a consistent reduction in the child benefit (-1.0% of GDP) and other social protection programs.

The future costs per benefit package, expressed in present value and as a share of the base year GDP, can help understand the magnitude of the investment needed. All three packages and their specific options' total costs (2020-2030) actualized to 2020 prices represent a total ranging between 95 and 122 percent of 2020's GDP (see *Table 3*). Total health expenditures account for 14% of 2020 GDP for both UNIV and TARGETED, while only 8% in the case of UNIV/MOD. The analysis of the ten-year total cost unveils underlying differences sharply distinguishing the categorical and poverty-targeted packages. Indeed, while the UNIV and UNIV/MOD administrative expenditure component costs respectively 9.9% and 8.6% of GDP in 2020, in the case of TARGETED, this item attains 13.1% (see *Table 3*).

Table 3. Present value of total future expenditures, as share of 2020 GDP.

	UNIV	UNIV/MOD	TARGETED
Health component	34.0	28.3	34.0
Existing SP component[30]	28.9	28.9	40.7
Additional SP component	49.5	38.1	7.5
Admin Cost	9.9	8.6	13.1
Total	122.3	103.9	95.3

Notes: The column represents the total ten-year total expenditure for each of the packages as share of GDP 2020. The difference in existing SP expenditures included in the packages is due to the inclusion (and expansion) of specific benefits as the Child Grant and the Senior Citizen Allowance in the UNIV and UNIV/MOD packages. See Annex on specific policy packages.
Source: Authors' elaboration.

The UNIV package costs, over the projection period, far more than the other packages, with a total of 122.3% of 2020 GDP, followed by the UNIV/MOD. Notably, TARGETED additional SP expenditures are quite low. Indeed, these reach a maximum of around 1% of GDP in 2030 due to a combination of three factors: a low poverty gap rate for the poor (19%), the poverty headcount expected to decrease over time, and a national poverty line indexed annually by inflation.

Investments in social protection foster social development, enhance conditions of the most vulnerable, and ensure society's stability, making a case for extensive coverage of the social protection system. Among other impacts, such measures are also expected to stimulate government revenues and strengthen the overall macroeconomic context   (ILO, 2021). On the one hand, through an elasticity of GDP growth to social protection investment, the analysis simulates the effects of direct income support to households on GDP growth. An effect that typically occurs through the aggregate demand increases (ILO, 2021); on the other hand, a second elasticity establishes the additional expected government revenues during the projection period. Thus, through the evidence acquired from a study simulating returns on social protection investments in eight lower-income countries (ITUC, 2021), the model simulates the potential increase in revenues. This return on investments is expected to (partially) absorb the incremental additional social protection costs.

The expected rates of return from social protection over the projection period can generate an economic output ranging between 4% and 11% of 2020 GDP (see *Table 4*). Furthermore, social protection investments can generate additional government revenues that can account for up to 2.9% of 2020 GDP.

Table 4. Rates of return on Social Protection Investments, as share of 2020 GDP

	Return on GDP (%)	**Return on Gov. Revenue (%)**
UNIV	10.6	2.9
UNIV/MOD	6.8	1.8
TARGETED	3.9	1.1

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[30] All packages include existing social protection expenditure (status quo), with the difference that the Universal packages excludes the child and the old-age allowance from existing SP, and expand coverage and benefit amount of the same under the "Additional SP" expenditures. The "Additional SP" expenditures are all the new programmes (or expanded once) social protection components.

The ongoing onset of the COVID-19 pandemic and the advent of climate change have highlighted the imperative need for social protection systems and the burden they sustain when hazards strike. The impact of such ever-growing events on livelihoods and the reflected downturn on economies is evident. Nevertheless, preparedness and expectations are lacking. The simulation models include a shock-responsiveness module estimating to what extent potential crisis can affect the social and economic outlooks, therefore affecting the sustainability of the proposed social protection reforms (see *Box 1. Shock Resilience of Social Protection expenditures*).

Box 1. Shock Resilience of Social Protection expenditures

A hazard has the potential to appear under differing conditions and it is often by nature difficult to anticipate its magnitude, as this remains beforehand unknown. For such reasons, the simulation of shock-induced changes in the economic and, in turn, social protection settings of the country under study is undertaken under different assumptions. Accordingly, the occurrence of a shock in a given year would lead to a reduction in GDP that could range between 3% and 6% over the projection period (2020-2030), with longer and more persistent effects in a severe and slow-recovery scenario. As a direct consequence, the job losses over the same period could vary between 0.5% and 1.6% of the employed population over the shock period.[31] Both the shrinking of the economy and the losses in occupation would exacerbate existing vulnerability conditions, driving increases in poverty and leading to an overall downturn on the country.

In the aftermath of such events, the three simulated packages would need to be scaled-up in order to ensure both the mitigation of the consequences caused by the hazard as well as a recovery from it. Implementing such response would serve the purpose of counteracting the potentially long-lasting impact that a widespread shock could lead to. On one side, the UNIV and UNIV/MOD include a temporary emergency program for those losing their employment and a public work program targeted towards the most vulnerable. On the other, the TARGETED package will extend its coverage to all the new families and individuals falling into poverty.

The TARGETED package would experience a year-on-year percentage increase in cost that ranges from 0.3% to 0.8%. The additional temporary coverage of the shock-induced unemployed individuals would instead yield an additional cost that ranges between 0.6% and 4.2% under the UNIV package, and between and 0.6% and 3.9% under the UNIV/MOD package. A more protracted hazard would lead to a considerable increase in expenditures, causing the need of supplementary resources for three additional years in comparison to a faster recovery scenario, either mild or severe. Such measures would aim to stabilize incomes for the most affected, support the aggregate demand in the country, and counter the worsening of poverty and vulnerability conditions.

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[31] The model forecasts different scenarios (intensities) of GDP reduction in year 2024. These generate a decrease in employment calculated through an assumption on real GDP per employed individual and cause an increase of the poverty rate. Social protection programs are modeled to include new individuals falling into poverty (TARGETED package) or individuals losing their employment (UNIV and UNIV/MOD packages). The length of timeline on which the shock protracts is the result of the assumption on a "fast" or "slow" recovery, as presented in the technical appendix.

Figure 7. Year-on-year increase in UNIV/MOD expenditures by shock scenario
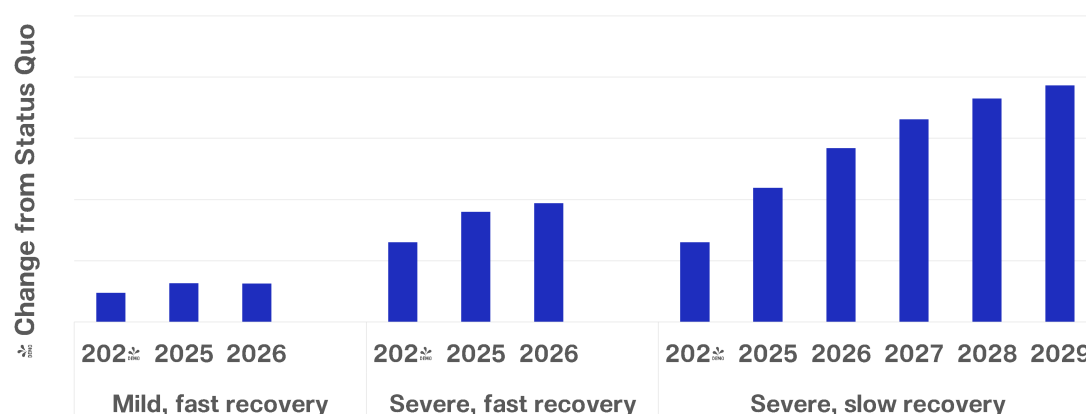
Note: the figure presents three different scenarios of shock, displaying year on year UNIV/MOD cost percentage changes from the base scenario. Years where the difference is 0 are not displayed.
Source: Authors' calculations

The projection of social protection costs is followed by an ex-ante assessment of the potential redistributive impacts of UNIV, UNIV/MOD, and TARGETED packages. In this step, the packages are evaluated on the basis of their contribution to poverty and inequality reduction and the achievement of social protection-related SDGs. Drawing from both the costing and the impact analyses results, Nepal's case study is concluded by the development of a specific financing strategy regarding the benefits package that is expected to yield the highest impact on poverty and inequality, while being affordable for the national economy and ensuring their long-term financial sustainability.

Analysis of the redistributive impacts

Impact on Poverty

The simulated estimates that follow underscore the potential impact of the proposed policy reforms on poverty. As of 2018, the year of the survey, the number of rural[32] Nepalese living below the national poverty line of 2,926 Nepalese rupees per month was 5.97 million, or 31.2% of the rural population. The number of people living in poverty could decrease by 4.24 million, reducing the poverty headcount by 22.1 percentage points (a relative difference of 71%) if the government were to implement the *Universal package*. Thus, the poverty headcount would be 9.0% (1.73 million Nepalese). In view of the simulated effects, implementing the *Universal package* can decrease the poverty gap index[33] from the current 6.0% to 1.1%. Moreover, universal benefits decrease the aggregate poverty gap from 1.17% of GDP to 0.22% of GDP. That is, Nepal's fiscal challenge[34] can be reduced from 5.3% of government revenues to 1.0%.

Adopting the *Universal modified package*, the poverty reduction effect slightly decreases. However, this benefits' package still has high poverty reduction effects (see *Table* 5). Indeed,

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[32] The Nepal's 2018 Household Risk and Vulnerability Survey (HRVS-2018) is representative of non-metropolitan areas in Nepal. In the following paragraphs by "population" it is meant the sampled population.

[33] This measure is the average percentage shortfall of the population from the poverty line.

[34] The fiscal challenge that a country faces is indicated by setting the size of the poverty gap in relation to the country's general government revenue in the same year.

the *Universal modified package* reduces the poverty headcount to 11.0%, lifting out of poverty 3.86 million Nepalese, reducing the poverty headcount by 65%. The poverty gap index reduction effect of this set of universal benefits is still large (-76%), closing the gap by 4.6 percentage points. In terms of GDP, the remaining poverty gap equals to 0.28%, i.e., a fiscal challenge of 1.2% of government revenues.

Figure 8. Nepal poverty headcount rates pre- and post-transfers comparison
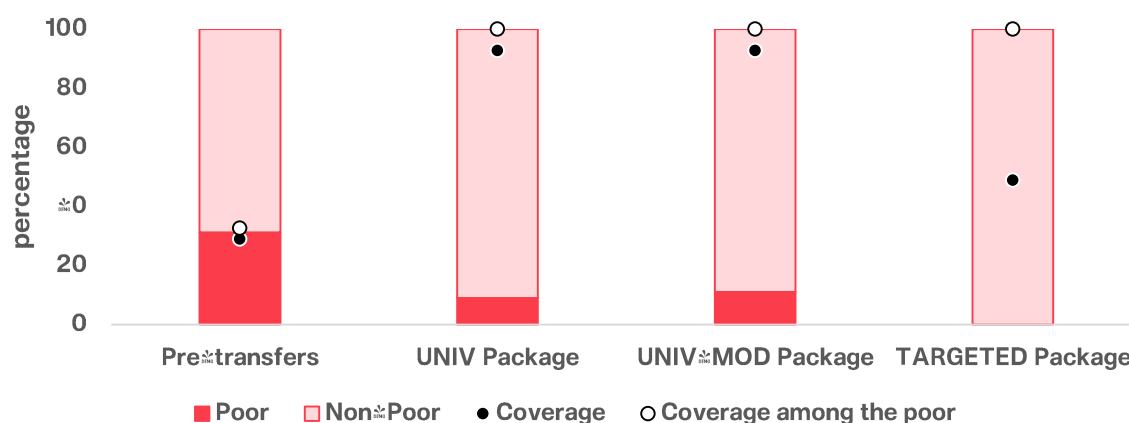
Notes: Poverty measured with the national poverty line. The values displayed in the bars refer to the share of poor and non-poor population.
Source: Authors' elaboration

As of 2018, Nepal had 10.5 million children aged 0-17 (37% of the population) and the micro-level estimates show that 2.3 million children lived under the national poverty line. According to the simulation, the UNIV package would lift 1.7 million out of poverty, while the UNIV/MOD 1.6 million. If we instead look at the elderly population (65+), the poverty rate among rural elders is 26.7%, i.e., 374,000 individuals. Through the provision of UNIV, Nepal can significantly reduce this headcount to 47,000 (3.4%) whilst UNIV/MOD is less effective in reducing old-age poverty (93,000 poor elders after transfers, or 6.7% headcount rate).

On the other hand, if the government were to implement the *Poverty targeted package*, the social assistance program allocating benefits equal to the individual poverty gaps, 5.97 million Nepalese would be lifted out of poverty, nullifying (-100%) the poverty headcount among the sampled population. Consequently, this package entirely closes (-100%) the poverty gap index too. More details on the poverty reduction effects of all three packages can be seen in *Annex* E.

Table 5. Poverty reduction estimates in Nepal

	Poverty Headcount	Poverty Gap Index	Poverty Gap as GDP%
Pre-Transfers	31.18%	6.01%	1.17%
UNIV package	9.04%	1.13%	0.22%
Relative Difference	*-71.0%*	*-81.2%*	*-81.2%*
UNIV/MOD package	11.03%	1.42%	0.28%
Relative Difference	-64.6%	-76.4%	-76.4%
TARGETED package	*0.00%*	*0.00%*	*0.00%*
Relative Difference	*-100.0%*	*-100.0%*	*-100.0%*

It has to be noted that the striking effects of TARGETED benefits on poverty reduction are based on the bold assumption that the relative administrative processes (and costs) are effective and efficient in identifying and reaching "the poor", and that the characteristics of this group are non-reactive to targeting (Gassmann & Timar, 2020). In reality, perfect targeting accuracy is a chimera (Devereux, 2016) and a recent review of targeting mechanisms estimates that even the most performing targeted programs still present exclusion errors[35] above 30% with respect to intended recipients (Kidd & Athias, 2019). Moreover, the same review assesses that inclusion errors[36] (with respect to non-intended beneficiaries) can range from 40% to 90% of beneficiaries.

In light of these findings, the redistributive impacts of TARGETED can be intended as exhibitive and overoptimistic estimates. These effects, as well as the overall cost of TARGETED, would deserve a sensitivity assessment on the basis of the inevitable targeting errors.

Contribution to the achievement of the SDGs (including access to health)

The Sustainable Development Goals' *Target 1.1* "*Eradicate extreme poverty*" measures the proportion of population falling below the poverty line of $1.9 PPP per day. Estimates made using Nepal's HRVS-2018 survey indicate that the current $1.9 PPP poverty headcount is 14.9%. Because the Nepalese national poverty line corresponds to 1.22 times the $1.9 PPP per day, by implementing the *Poverty targeted package*, the country would succeed at achieving *Target 1.1*. On the other hand, the poverty headcount measured with the $1.9 PPP line after simulating the *Universal modified package* can be reduced by -81%, down to 2.9% (see *Annex* E).

With both social protection reform packages, Nepal can substantially advance towards achieving *Target 1.3*[37] of *SDG 1*. The survey estimates that 28.9% of the population (32.6% of the poor) currently live in households receiving at least one social protection benefit. The *Universal package* (in both its variants) increases this rate to 92.8% of the population, and of 100% for the nationally defined poor. The *Poverty targeted package* increases this target to 48.9% of the population, and 100% of the poor (see *Figure* 8).

A common feature of UNIV and TARGETED packages is the financing and development of Essential Health Coverage. On the one hand, the redistributive impacts of this policy are simulated in the micro model through the reallocation of household health-related expenditure to the lower half of the income distribution.[38] Thus, the impact on poverty and inequality concerning all policy scenarios presented in this chapter include these monetary transfers too.

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[35] The share of intended recipients being erroneously excluded.

[36] The share of actual beneficiaries being non-intended recipients thus erroneously included.

[37] *"Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."*

[38] See the technical appendix to this document.

On the other hand, the 2030 target of 3.7% of GDP allocated to health public health expenditure is expected to allow filling the country's resources and allocation gaps in health.[39] According to the SPFI,[40] by reaching this target, a country can guarantee access to essential health care to all residents and children, achieving *Target 3.8[41]* of *SDG 3,* and contributing to the attainment of the other targets.

Impact on Inequality

In regard to consumption inequality, all inequality indexes are significantly reduced by all social protection packages (see *Table* 6). However, the impact on consumption inequality measured by the Gini coefficient holds a higher potential for the *Universal package* (-12.7%) and the *Universal modified package* (-11.5%) than for the *Poverty targeted package* (-10.4%). Due to its universal approach, UNIV reduces the Gini coefficient from 36.73 to 32.08. On the other hand, concentrating all transfers among the lowest quintile, TARGETED reduces the Gini coefficient to 32.93.

Table 6. Consumption inequality reduction estimates in Nepal

	Gini	D9/D5	D9/D4	D8/D2
Pre-Transfers	36.73	1.60	2.21	7.79
UNIV package	32.08	1.26	1.70	5.80
Relative Difference	*-12.7%*	*-21.0%*	*-23.1%*	*-25.6%*
UNIV/MOD package	32.51	1.30	1.76	6.02
Relative Difference	*-11.5%*	*-18.7%*	*-20.5%*	*-22.7%*
TARGETED package	32.93	1.38	1.83	5.57
Relative Difference	*-10.4%*	*-14.0%*	*-17.2%*	*-28.5%*

Notes: Relative differences calculated in respect to pre-transfers values. D stands for deciles. Deciles calculated using pre-transfers household equivalent consumption.
Source: Authors' elaboration

Before transfers, the total consumption of the richest quintile equaled to 7.79 times that of the poorest quintiles (D8/D2 decile ratio[42]). Because 88.2% of TARGETED transfers are received by the lowest quintile only (see *Figure* 9), TARGETED is the most effective of benefit packages in reducing the D8/D2. Nonetheless, UNIV and UNIV/MOD hold a high potential for reducing the D8/D2 ratio too (see *Table* 6), despite being distributed fairly equally across quintiles. This happens because the marginal effect of the transfers is higher for poorer households than for richer ones: on the one hand, the average equivalised monthly consumption of the lowest quintile increases by 41% after both UNIV and TARGETED, and by 35% after UNIV/MOD; on the other hand, the average consumption of the richest quintile is not affected by TARGETED and increases by ~5% only with UNIV and UNIV/MOD (see *Figure* 9).

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[39] The target refers to the 2017/2018 gap and is extracted from the Social Protection Floor Index homepage (Friedrich-Ebert-Stiftung, 2021).

[40] Bierbaum, Schildberg, and Cichon (2017).

[41] *"Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all."*

[42] Decile ratios are calcualted as the ratio of the total consumption of the richest X decile of the population to the total consumption of the poorest X decile.

Similarly, UNIV and UNIV/MOD are more effective in reducing D9/D5 and D9/D4 (Palma ratio) dispersions than TARGETED. That is, universal benefits are more effective in reducing the distance between the top 10% and the bottom 40% and 50% of the population. Thus, while TARGETED efficiently distributes benefits to the poor (all and only), UNIV and UNIV/MOD have a higher redistributive effect among the population.

Figure 9. Increase in post-transfers average equivalised household consumption, Nepal
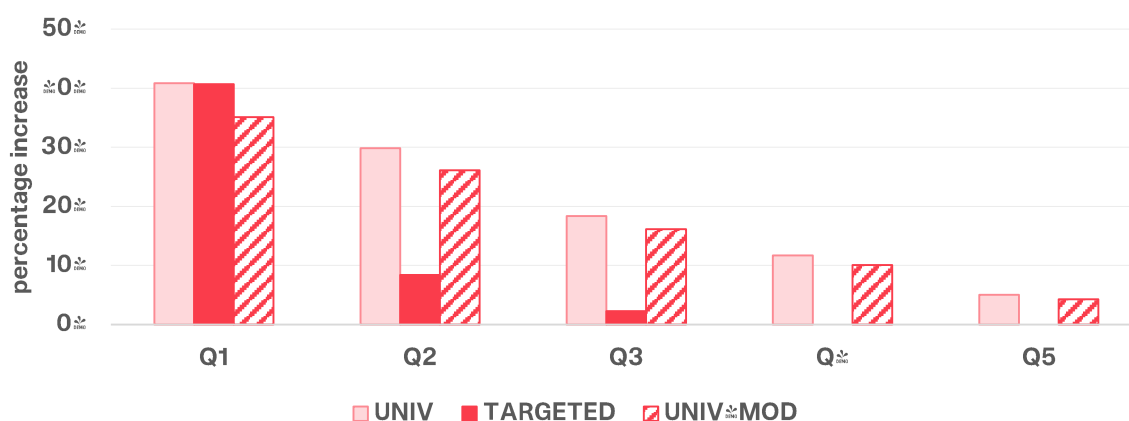
Notes: Q stands for quintile. Quintiles calculated using pre-transfers household equivalent disposable consumption.
Source: Authors' elaboration

Despite the promising results obtained from all benefits simulation, the implementation of any social protection reform must deal with realistic considerations on the issue of affordability and allocation of public resources in Nepal. According to these principles, the State could adopt a specific financing strategy to mobilize sizeable and sufficient domestic resources to finance its national social protection system, at least from a medium-term starting point.

The following section discusses a financing strategy, during and after the support phase, tailored to Nepal's fiscal space analysis. According to the current fiscal framework and the dramatic impacts to the economy induced by potential exogenous shocks, the strategy is developed around a progressive implementation of the Universal modified package (UNIV/MOD). In the framework of its financing strategy, said benefit package has the comparative advantage of being organizationally implementable and financially sustainable, and displaying attractive results in terms of coverage extension and poverty and inequality reduction.

Financing strategies for the additional benefits.

The costing model establishes the monetary burden that the simulated benefits would produce on the projected government budget, during the ten-year support period. This section explores the financing options for Nepal, from the perspective of the two main actors, to discuss the possible commitment and long-term sustainability of the revised social protection strategy. One source of revenues is the Global Fund or a similar funding facility and the other is the National Government.

The global contribution to the realisation of the proposed reform was developed by considering a scheduled taper-off. From a starting point in which the global financing mechanism contribution would guarantee to cover all additional required expenditures, the contributions decrease at a programmed pace, attaining 50% of additional expenditures in 2025, and finally reaching 0% in 2030. This approach circumvents concerns that might arise because of the

absence of a scheduled commitment as well as the absence of clearly defined phase-in levels of the external support. The just-listed features might result in counter-productive outcomes, weakening incentives to achieve national self-sufficiency. Thus, the funding contribution may weaken the national responsibility for benefits realization and sustainability in the long run, rendering the revised reform unsustainable.

While global contributions play a fundamental role in triggering an initial investment, its scalability and long-term financial viability, especially under the first option described, relies on the Government capacity of mobilizing additional domestic revenues. Main public financing options (not only) include taxation, eliminating illicit financial flows, expenditure reprioritization, managing sovereign debt, and use a more accommodating macroeconomic framework, foreign assistance and foreign currencies reserves (Ortiz, Chowdhury, Durán-Valverde, Muzaffar, & Urban, 2019). In the case of Nepal, the analysis detects the space for: (1) an expansion of tax revenues, (2) foreign assistance contribution, and (3) managing the sovereign debt.

Nepal has been able to steadily increase its revenue in the past years, from 15.7% in 2010 to 22.1% of GDP in 2020, and is further expected to raise it to 27.2% of GDP in 2030. Since 2017 its primary balance has been negative, and the yearly deficit is only expected to decrease marginally over the projection period. Furthermore, Nepal remains at a Low risk of debt distress, with a low rate on interest repayments and with a debt as share of GDP expected to start declining by 2026 (see *Table* 7) (IMF, 2021) (IMF, 2020).

Table 7. Public Finance Indicators Nepal, as share of GDP

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues	22.1	24.2	24.4	25.6	26.5	27.1	27.2	27.2	27.2	27.2	27.2
Expenditures	29.9	29.9	29.9	29.8	29.7	29.7	29.6	29.5	29.5	29.4	29.4
Budget Surplus/Deficit	-7.8	-5.7	-5.4	-4.2	-3.3	-2.7	-2.4	-2.4	-2.3	-2.2	-2.2
Gross Government Debt	42.2	46.7	52.7	55.2	56.5	56.6	56.3	53.2	50.3	47.7	45.2

Note: IMF Data arrive until 2026. Interest rates for Nepal are estimated to average 5% of debt between 2026 and 2030 (Equal to average CPI growth).
Sources: IMF WEO data until 2026. Calculation by the authors 2026-2030.

Taxation related revenue also constantly increased in the past years. Indeed, in 2019, Taxes on Goods and Services reached 105% of the average regional share of GDP, while performed income-related taxes stood at a lower 59% of the regional average (OECD, 2021). Hence, the first reviewed financing approach increases income taxes as a share of GDP (100% of regional average), with no increases in VAT and overall goods taxation.

Furthermore, the analysis includes the overall amount of global ODA allocated to social protection and the ODA received by Nepal. Although net ODA received by Nepal reached over 3% of GDP between 2010 and 2019, the share was revised to 2.9% by excluding those years in which calamitous events occurred, such as 2015 earthquakes and 2017 exceptional rainfalls (World Bank, 2021). The difference between the 2019 actualized value of net ODA and the same project as a share of GDP represents future additional mobilized financing. Although there is expected to be a constant contribution of ODA as a share of GDP in the next ten-year period, the constant growth of Nepal's economy will steadily decrease its dependency on external funding.

Moreover, the model focuses on the use of government debt as a financing mechanism for social protection on the basis of its current sustainability and expected development. The model includes the possibility to adopt debt as a tool for prompt response to increases in expenditure, augmenting the amount of absolute debt by the difference of additional financing and additional expenditures.

Although the additional costs of implementing a universal package seem prohibitive, both the TARGETED and UNIV/MOD package will be financially sustainable if Nepal reaches 100% of the regional average taxation by 2030 (see Figure 10). Thus, global contributions can offer an essential opportunity to achieve the implementation of more extensive and inclusive social protection systems in the short term, allowing Nepal to further develop its revenues and independently finance the packages in the long term.

Figure 10. Packages Options and Additional Financing Capabilities
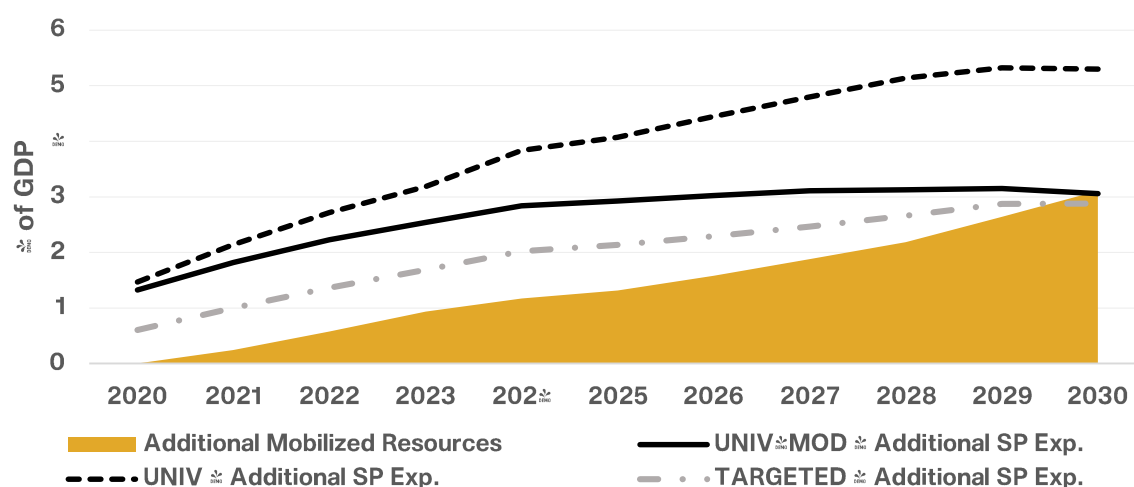
Source: Authors' elaboration.

While all packages' additional costs are presented in *Figure* 10 only in relation to additional resources mobilized by the Government, the following analysis focuses on the global financial contribution to the funding of social protection investments referring to the UNIV/MOD. This is due to two concerns on the TARGETED program: the organizational implementability and exclusion errors. Although the TARGETED option seems financially sustainable in the long term, effects on poverty reduction rely on the perfect functioning of the administrative processes in reaching individuals living in poverty. Indeed, this reflects a bold assumption. A recent review estimated that even the most efficient implementations of targeted programs still present exclusion errors above 30% (share of eligible beneficiaries that are not targeted), as well as including a large number of individuals that are not intended to be recipients of the transfer (Kidd & Athias, 2019). These errors could mean that cost estimates could sharply increase if accounting for inclusion and exclusion errors.[43]

Thus, due to these organizational and targeting caveats, the model results concerning the global financing tapering-off contribution will hereafter be presented uniquely with reference to the UNIV/MOD package.

The moderate expected increase in revenues as a share of GDP, by the end of 2030, Nepal will be able to cover almost the entirety of the additional costs, leaving unfunded a marginal

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[43] Respectively, actual beneficiaries being non-intended recipients thus erroneously included and intended recipients being erroneously excluded.

deficit only (see Figure 11). While financing social protection with debt might seem counterintuitive because of the intergenerational weight shifted to future citizens, Nepal's debt dependency is expected to reduce in the short to middle term. Hence, by this mean, the period average debt levels would only rise 0.3% points of GDP, with low expected interest rates.

Figure 11. Financing Option for the Additional Cost of the UNIV/MOD package
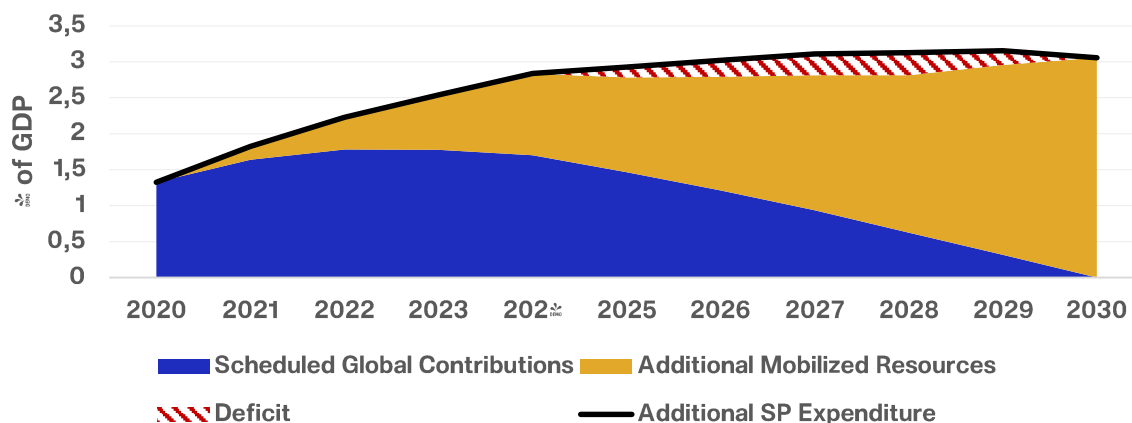
Notes: The yellow area includes both the additional tax related revenues and ODA.
Source: Authors' elaboration
Furthermore, debt is not the only additional resource available, but due to the unavailability of data options like foreign currency reserves, changes in the macroeconomic framework and IFFs related revenues recovery[44] were not included.

Nevertheless, debt can be a tool to finance sudden costs outbursts and fill short-term gaps. Indeed, the ongoing onset of the COVID-19 pandemic and the rise of climate change have highlighted the imperative need for social protection systems and shock responsive mechanisms. Jointly with the relation between shocks and social protection costs (see *Box 1. Shock Resilience of Social Protection expenditures*), the analysis includes estimates on the potential room for additional resources to be mobilized in times of crisis (see Box 2. Financing Strategies' Resilience to shock).

Box 2. Financing Strategies' Resilience to shock

Following the potential exogenous shocks outlined in *Box 1*, the expected impacts on the macroeconomic environment can significantly and dramatically increase the initially foreseen social protection costs. In light of these sudden financing gaps, the combined intervention of both the Fund and the Government can ensure the social protection resilience to crises. The main objective here is to quantify the mechanisms by which new temporary resources can be mobilized to cover the emergency gap.

Considering the deepest of the three kinds of shocks simulated (severe shock with slow recovery) the UNIV/MOD benefit package shock-related increase in expenditure is expected to range between 1.0% and 4.0% of total social protection expenditure. As a consequence, Nepal may face additional funding requirements up to 1.2% of GDP annually. While this amount may not seem significant, it sums up to the current costs of UNIV/MOD, which already put under stress the financial capacity of the country. Moreover, in times of a crisis, already scarce resources may be even harder to ensure, and competitive priorities may challenge the sustainability and resilience of social protection systems.

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[44] Global Financial Integrity calculation. Nepal is estimated to have a total Value Gap of 1,367 USD Million in 2017 (4.2% of GDP) (Global Financial Integrity, 2021). IFFs are mobilized as average Value Gap as share of GDP in the period 2010-2017. The average share is applied to the yearly GDP and multiplied by share of Taxes on Good and Services (% of GDP). Of the calculated resources that are generated, only 5% is considered in the table.

By revaluating the debt-to-GDP ratio based on the new (lower, due to the crisis) GDP levels, Nepal automatically experiences a sharp increase in the relative debt burden, setting the country on a moderately negative risk of debt sustainability. Moreover, tax revenues, the main component that can lead to sufficient funding, are likely to be affected by the shock too.

Thus, it is by recurring to a mixed approach of domestic and international sources, capable of financing ca. 1.0% of GDP annually that Nepal can respond to a crisis by maintaining the direction towards expanding its social protection system. This is not only needed to preserve the efforts done so far, but also to ensure the recovery from the shock by keeping up aggregated demand and social stability.

4. Uganda

Country overview

Uganda's total population in 2019 was 44.3 million, 46% of Ugandans are children 0-14, and 2% are adults aged 65 and above. The resulting total demographic dependency ratio is 94%, meaning that per every 100 working-age individuals, there are 94 potentially dependent individuals (children or elders). The children dependency ratio is 90.2%, while the older person dependency ratio is 3.8% (The World Bank, 2021a). By 2019, life expectancy at birth had increased steadily from 2000, reaching 63.4 years, and the maternity mortality ratio reached 375 per 100,00 live births (The World Bank, 2021a). The adult literacy rate was 76.5% in 2018; women over 15 who could read and write were 70.8% against 82.7% of males.

In 2017, the labor force participation rate for those aged 15 to 64 was 50.3%, 57.8% for men and 43.2% for women, and 80.9% of the employed worked in informal activities (ILO, 2021). Unemployment stood at 11.9% for women and 8.7% for men. In 2020, GDP per capita reached USD 817 after experiencing a drop in 2016 (The World Bank, 2021a). Parallel to the fall in GDP, the national poverty rate increased by 1.7 percent points from 2012, rising to 21.4% of the population living below the national poverty line in 2016.[45] Concerning the international extreme poverty line ($1.90 2011 PPP a day), the poverty headcount was 41.3% of the population, and the poverty gap stood at 13.1% of the poverty line. Since 1999, inequalities in Uganda decreased only marginally, as the country had a Gini index of 42.8 in 2016 and a Human Development Index (HDI) of 0.544 in 2019, ranking Uganda 159th of 189 countries (The World Bank, 2021a; UNDP, 2020a).

The COVID-19 outbreak has caused 126,000 counted cases and 3,000 thousand attributed deaths at the time of writing (Worldometer, 2021). Even before the national outbreak, the Government had announced measures to constrain the spread of the virus. The economic downturn caused by the COVID-19 outbreak, coupled with stringent mitigating measures, has severely affected the livelihoods of Ugandans and their economy. The poverty rate in the country is estimated at 26.8% post-crisis, from 18.9% pre-crisis, adding 3.3 million people to the headcount (OPM, 2021).[46]

Social Protection overview

As of 2019, 2.9% of Ugandans received at least one social protection benefit, excluding health care (ILO, 2021a). Recipients have increased since 2016, at the time reaching 1.2% of the population. Yet in the same year, the highest rate of benefit receipt could be found among the wealthiest in the top quintile (2.2%), while coverage among those living in poverty was 0.8%

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[45] UGX 30,611 per month (equivalent to 8.7 USD).

[46] The figures are simulated poverty rates with national poverty line, the pre-crisis refers to the year 2020.

(The World Bank, 2021b). In 2019, the social protection system provided benefits to 5.3% of mothers with newborns and old age social protection benefits to 11.2% of adults above 65 years (ILO, 2021a). In 2019, the population above retirement age receiving an old-age benefit rose to 24.1%, while no significant child and unemployment benefits are in place (UNDESA, 2021a).

Sustainable Development Goal (SDG) Review
SDG 1. No Poverty. End Poverty in All Its Forms Everywhere (target 1.3)

Overall, Uganda has a limited social protection provision: only 2.8% of Ugandan receives at least one social protection benefit (excluding health care). That is, 11.2% of senior adults and 5.3% of new mothers receive social protection benefits **(ILO, 2021a)**.

Overall, social protection[47] and social assistance are skewed towards the more affluent shares of the population, as also seen by the lack of coverage among the most deprived (*Table 8*). Social assistance benefits received by the bottom quintile constitute 15.9% of the household's pre-transfers income, against 20.6% of those received by middle-quintile households (constituting a larger percentage share of their income). In 2016, social assistance schemes effectively reduced the number of individuals living in poverty and their poverty gap only by 0.2% (The World Bank, 2021b). The contribution of such component to the GINI reduction is 0%, while social protection and labor policies contribute to a 0.1% increase of inequalities (GINI) in the country (The World Bank, 2021b).

Table 8. Uganda, Social Protection and Social Assistance in Numbers

	Social Protection	Social Assistance
Coverage		
Coverage (%)	1.2	0.6
Coverage in 1st quintile (poorest) (%)	0.7	0.6
Marginal contribution to consumption		
Marginal contribution to consumption of benefits (%)	20	11.8
Marginal contribution to consumption of benefits in 1st quintile (poorest) (%)	59.9	15.9
Distribution		
Beneficiary incidence - 1st quintile (poorest) (%)	12.1	19.1
Beneficiary incidence - 5th quintile (richest) (%)	36.9	25
Benefits incidence - 1st quintile (poorest) (%)	9.4	7
Benefits incidence - 5th quintile (richest) (%)	53.7	44.8
Outcomes		
Gini inequality index reduction (%)	-0.1	0
Poverty Headcount reduction (%) - 1st quintile (poorest)	0.5	0.2
Poverty Gap reduction (%) -1st quintile (poorest)	0.8	0.2

Note: Coverage calculated as the number of benefit recipients in the group or quintile divided by the number of individuals in that quintile, including both direct and indirect beneficiaries. Marginal contribution to consumption defined as the total transfer amount received by all beneficiaries in a quintile as a share of the total consumption of beneficiaries in that quintile. Beneficiary incidence defined as Percentage of program beneficiaries in a quintile relative to the total number of beneficiaries in the population. Benefit incidence defined as the percentage of benefits going to each group or quintile of the pre-transfer welfare distribution relative to the total benefits going to the population. Data from 2016.
Source:The World Bank (2021b)

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[47] By social protection the analysis refers to the social protection and labor policies denomination used in the ASPIRE data that includes active labor market policies and public works.

The Social Protection Floor Index (SPFI)[48] indicates that Uganda would have to invest at least 18.8% of its GDP in financing a social protection floor to close the poverty gap based on the $3.20 (2011 PPP) per day poverty line, and 6.7% of GDP when considering the absolute poverty line of $1.90 (2011 PPP). [49] This disbursement splits into 3.9% plus 2.7% of GDP to close respectively the income and health gap[50] (Friedrich-Ebert-Stiftung, 2021).


Sustainable Development Goal (SDG) Review
SGD 10. Reduce Inequality Within and Among Countries (targets 10.2 and 10.4)

In 2016, 13% of the population lived under half of the median income **(UNDESA, 2021b)**. *Even if disaggregated data on poverty distribution are not available, some evidence shows that female-headed households are more deprived under a monetary and multidimensional perspective* **(UBOS, 2018; UNICEF, 2020)**. *The usage of fiscal, wage and social protection policies to reduce structural inequalities echoes in Target 10.4, measured by the share of labor in GDP comprising wage and social transfers, which stood at 38.8% in 2017, considerably lower than regional and LDC benchmark averages* **(UNDESA, 2021b)**.

The latest available data indicate that total social protection expenditure (excluding health care) equals 0.7 per of GDP (ILO, 2021a). The budget allocated to social assistance is 0.67% of GDP (*Figure* 13), with the most significant chunk of the expenditure taken by not specified social assistance programs (0.22% of GDP), followed by public works (0.18% of GDP) and conditional cash transfers (0.15% of GDP). Overall, the country spends consistently less than regional averages for all functional categories of social protection (*Figure* 12).

Figure 12. Regional Comparison of Social Protection Expenditure (% of GDP)

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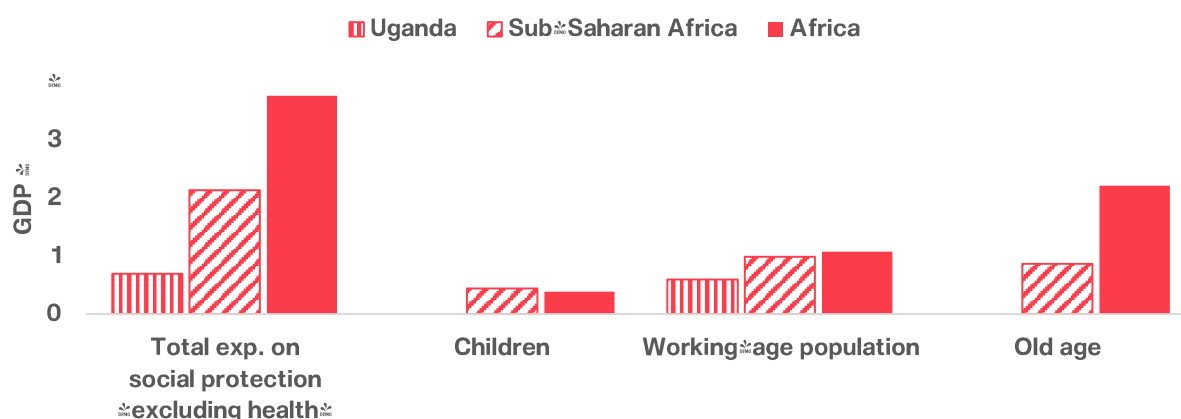
[48] The Social Protection Floor Index represent the total investment on social protection floor programs needed by a Government to close the poverty gap to a specific poverty line. There are three levels of poverty lines: the extreme $1.90 (2011 PPP) per day poverty line, $3.20 (2011 PPP) per day and the 50% of median income in the country (Bierbaum, Oppel, Tromp, & Cichon, 2016). Refer to note four for the composition of the index.

[49] Underlying survey year 2016 (Friedrich-Ebert-Stiftung, 2021).

[50] The health gap has two components: (1) The resource gap, if public expenditure in the country is lower than the normative benchmark; (2) the allocation gap, comparing the share of birth attended by skilled personnel against a normative benchmark, the difference is then multiplied by the health expenditure benchmark. The health gap indicator takes the higher value between the resource and the allocation gap (Bierbaum, Oppel, Tromp, & Cichon, 2016).

Moreover, WHO provides an outlook on Uganda's health care system that shows a significant gap in general government expenditure (WHO, 2016). Current health expenditure amounts to a total of 6.5% of GDP and less than 1/6 of such figure is covered by the government, while Individuals' out-of-pocket payments cover 38.4% (The World Bank, 2021a).[51] Overall, the social assistance budget is 0.67% of GDP (*Figure* 7), with the most significant part of the expenditure taken by not specified social assistance programs (0.22% of GDP), followed by public works (0.18% of GDP) and conditional cash transfers (0.15% of GDP).

Figure 13. Disaggregation of Social Assistance Spending (Uganda, % of GDP)
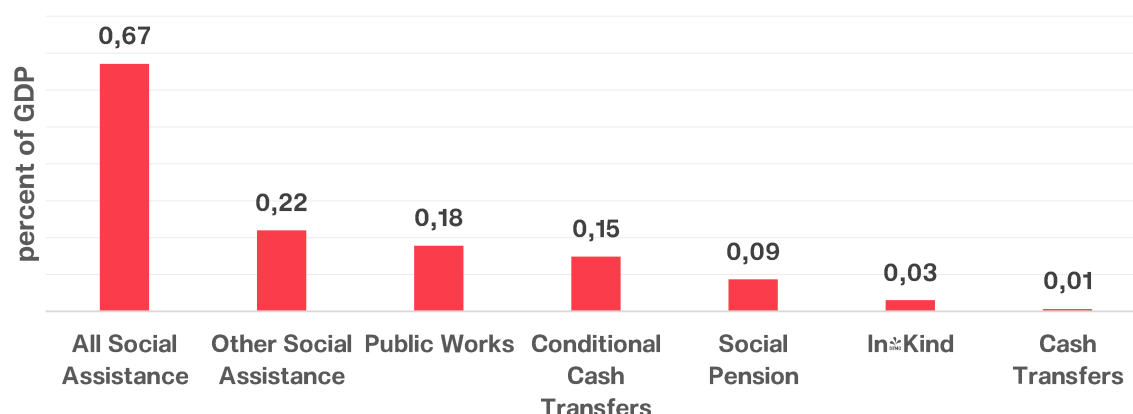
SPF Pillar 1: Access to essential healthcare, including maternity care

Coverage and adequacy

Ugandans are entitled to free health care in public facilities. The healthcare system provides parish- and district-level services, and ideally, all districts should have a hospital (Kavuma, 2009). While the public system covers 44% of the health services, Uganda strongly relies on private health providers.[52] In turn, high individual out-of-pocket expenditures (38.4% of current health expenditures) are a substantial burden for Ugandan families dealing with the state of inefficiencies of the health care system at a local level (Kavuma, 2009; Ecorys & Unicef, 2018). In recent years, there has been a steady decline in the allocation of public funds for health despite rising demands, with health as a percentage of the total budget amounting to 7.2% in 2019-20 (MoH, 2020). This amount falls short of the annual target of 15% pledged by African countries under the Abuja Declaration (WHO, 2010) and amounts to 1.87% of nominal GDP according to the latest budgetary figures (MoFPED, 2020).

Sustainable Development Goal (SDG) Review
SDG 3. Ensure Healthy Lives and Promote Well-Being for All at All Ages (target 3.8)

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[51] The remaining share being ODA.

[52] Private sector includes: the private not-for-profit health care providers, private health practitioners, and traditional and complementary medical practitioners (WHO, 2016).

In Uganda, the essential health services coverage reached 45% of the population in 2017 and the share of the population spending more than 25% of their total expenditures on health costs increased from 2.6% in 2002 to 3.8% in 2016 (peaking at 3.9% in 2009) **(UNDESA, 2021a)**. *Although essential health care is free of charge in Uganda, access to quality care is limited. In 2017,[53] Uganda had 1.6 physicians, nurses and midwives per 1,000 individuals, lower than the 2.5 staff per 1,000 recommended by the WHO as necessary for a universal provision of essential health care* **(The World Bank, 2021a**; **WHO , 2006).**

The inadequacy of services relevant to the determinants of health contributed to up to 75% of the preventable diseases in the country (MoH, 2020). While 86% of the population lives within 5km of a health facility providing basic health services, the rate of physicians per 1,000 individuals stands at 0.1, psychiatrists per 100,000 individuals at 0.05 and surgeons per 100,000 individuals at 0.6 (MoH, 2020).[54] The quality of sanitation also remains low, with improved toilet coverage solely at 19% and unimproved toilet coverage at 55%. Throughout the country, there are on average 5 hospital beds per 10,000 individuals.[55]

The share of the population with health insurance is negligible, with the majority of health insurance schemes being private, apart from some Community-Based Health Insurance (CBHI) schemes (MoH, 2020). Currently, 138,000 persons (0.3% of total population) are covered by the 21 CBHI Schemes and financing models for them vary between loans, insurance and there is some support from donors (MoGLSD, 2020). In addition, 700,000 persons (or 1.5% of total population) have arranged private health insurance.

Legal, conceptual, and implementation

For its decentralized and fragmented nature, the public health sector suffers from weak coordination with other sectors and low accountability at the local level, with shortages of both health workers and supplies, which degrade the functionality of health facilities, especially in rural areas (MoH, 2020). While 118,000 health workers are registered in the Professional Councils, only 57% of these have active licenses and are therefore legally practicing (MoH, 2021). Absenteeism and inadequate practicing are largely practiced and the staffing rate in Health Centers in rural settings is only 55%. These issues reflect the lack of pre-service training as well as weak regulation, supervision and support. The Human Resource for Health (HRH) Policy currently in operation is from 2006, thus overdue. In order to be on track for Universal Health Coverage (UHC), the country is estimated to need additional 11,000 hospital beds, 29,000 skilled healthcare workers and 20 general hospitals (World Bank, 2020).

SPF Pillar 2: Basic income security for children

Coverage and adequacy

Uganda faces the challenge of implementing child benefit programs for children. Inter alia, due to the lack of adequate benefits in the country, almost 2 million children (15% of children 5-14) are involved in labor activities, hindering their development and fundamental rights, harming Uganda's future productivity potential (ILO, 2021c).

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[53] Data collected from the World Health Organization's Global Health Workforce Statistics, OECD and supplemented by country data.

[54] In the same order, the ideal scores are 2.3, 0.1 and 1 (MoFPED, 2020).

[55] The ideal amount is 30 and for more and detailed indicators, see *Table* 1 and *Table* 2 in the "A Roadmap Towards Universal Health Coverage In Uganda 2020/21 to 2029/30" (MoH, 2020).

The Ministry of Gender, Labour, and Social Development (MoGLSD) implements a program (Orphans and other Vulnerable Children, OVC) that supported 5,643,654 children in 2017 through various interventions (MoGLSD, 2019). About 89.5% of OVC children received social services like food security & nutrition, psychosocial support & basic care, health, water, sanitation & shelter, and education. Close to 3% received economic services, and 8% legal services. The criteria through which a child is selected for the program are based on the level of vulnerability, which is a composite of multiple conditions.

Legal, conceptual, and implementation

The Children Act (Cap 59) and the Children (amendment) Act 2016 provide a legal framework for the protection of parental rights and duties, as well as the protection of children's rights and their protection against harmful practices and employment (MoGLSD, 2016). Yet, while interventions such as the OVC are ongoing, a situational analysis found that children's vulnerability remained high, at 96% for all children, of which 43% were moderately vulnerable and 8% critically vulnerable (Kalibala & Elson, 2009).

Sustainable Development Goal (SDG) Review
SDG 4. Quality Education. Ensure Inclusive and Equitable Quality Education and Promote Lifelong Learning Opportunities for All (target 4.5).

The ratio of lower-income individuals completing primary education divided the number of those reaching the same attainment among the wealthiest increased from 0.1 in 2006 to 0.3 in 2016, raising opportunities for the most vulnerable children in Uganda **(UNDESA, 2021a)**. *Conversely, the Gender parity index always showed substantial equity, with more girls completing primary education than men* **(UNDESA, 2021a)**.

Despite a consolidated legal framework enacted to protect children's rights, implementation challenges are faced by the lack of coordination capacity. As a result, the Government has planned the introduction of direct income support for young and school age children, through a new child disability and child benefit program, along with a family package (MoGLSD, 2020).[56] Further, the MoGLSD reports that it is developing a child policy to replace the current OVC program (MoGLSD, 2020). The latter has previously seen the creation of OVC Committees at the local level, which appear to be operational, but with unknown capacity and quality. The MGoLSD has also approved the adoption of social work case management for children, but these remain systematically not in operation or rolled out (MoGLSD, 2014). In part, the issue is caused by the limited scope and resources allocated to these initiatives.

SPF Pillar 3: Basic income security for persons of active age

Coverage and adequacy

Overall, only 1% of the Ugandan population received income support in the year 2018-19, and the Northern Uganda Social Action Fund 3 (NUSAF 3) is the only income support program for working age persons. The scheme covers 55 districts (out of 111 districts that the country is divided into, plus Kampala) in the Northern and Eastern regions (MoGLSD, 2020). The program provides Labour Intensive Public Works (LIPW) and cash to households that are labor-constrained. While previous rounds (NUSAF 1 and 2) were centered around infrastructure rehabilitation, the third phase integrates climate change adaptation and the building of resilience among the poor and most vulnerable households. A shock-responsive element (named Disaster Risk Financing (DRF) component) is included and intended to scale up LIPW and cushion consumption of households when in need.

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[56] With, potentially, the NSSF as administering body.

The program covers districts characterized by high rates of poverty and conflicts (MoGLSD, 2020). Community-Based Targeting (CBT) is applied to identify households within watershed areas. While the operation is well planned, there are no concrete guidelines available on how CBT is applied, and issues regarding social cohesion have been raised. Overall, the LIPW of the NUSAF 3 program reached 173,525 beneficiaries in 2019. In total, the program is expected to enroll 2,995,500 persons during its five-year period from 2016, and the LIPW component reached 475,935 persons up until 2018-19. In addition, whereas the DRF is supposed to select 10% of the recipients, the current rate appeared to be 4% in 2018-19. In terms of adequacy, the NUSAF 3 provides, as part of the LIPW, UGX 4,000 (USD 1) per day for 54 days and UGX 1,500 in mandatory savings. These amount to 18 days of work per month for 4 months for each recipient. Overall, the program's LIPW and direct support components amount to UGX 51.5 billion in 2018-19, or 0.05% of GDP.

Under the employers' liability system, public and private sector employers are bound to provide 100% of employees' wages during a maternity period of 60 days (ISSA, 2021a). Likewise, employers are entirely in charge of sick leave payments (ISSA, 2021a). The labor directorate in the MoGLSD maintains a Consolidated Fund to provide for the accident and illness-related benefits for public sector employees (MoGLSD, 2020). The 2006 Employment Act (Act No. 6) regulates severance payments for employees who worked continuously for six months in the formal sector. The payment is provided only in the case of unfair dismissal; employees (or unions) and the employers negotiate the amount (ISSA, 2021a). In the public sector, this role is covered by the Consolidated Fund of the MoGLSD (2020).

Under the contributory schemes, the National Social Security Fund (NSSF) also provides invalidity and survivorship benefits. For a total disability, a lump sum that amounts to 60 times the employee's average monthly earnings previous to the disability is paid. For a partial disability, the benefit amount is decided upon the degree of the invalidity. For the survivorship benefit, a lump sum corresponding to 60 times the deceased's average monthly earnings before the death is paid[57] (up to a maximum) to fully dependent survivors. According to the latest figures, the NSSF disbursed UGX 33.7 million and UGX 8 million under the invalidity and survivorship programs, respectively (NSSF, 2020). The NSSF has declared that it is also disbursing invalidity benefits to admitted COVID-19 patients of Intensive Care Units (ICUs) of health facilities (NSSF, 2021). In addition, the fund provides withdrawal benefits, emigration grants, and exempted employee benefits under different circumstances to its members.[58]

Various programs administered by the MoGLSD complement the social security system and aim to target the most vulnerable population, by addressing and mitigating vulnerabilities, and attempting to create and sustain economic activities (MoGLSD, 2021). Among such initiatives, the Youth Livelihood Program (YLP) was introduced in 2013-14 and provides training on vocational skills and entrepreneurship and soft loans for employment activities, targeting poor and unemployed persons aged 18-30 years (MoGLSD, 2020). In 2020, the program reached

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[57] "minus 50% of the value of any disability benefits paid to the deceased for the same work injury or occupational disease before his or her death."

[58] According to NSSF (2020), these are: Withdrawal Benefits - payable to a member who has attained the age of 50 years, and is out of regular employment for one year; Emigration Grants – Payable to a member (Ugandan or Expatriate) who is leaving the country for good. Such a member must have been contributing for a minimum of four financial years; else will have to forfeit the 10% employer contribution; Exempted Employment Benefits – Payable to a contributing member who joins employment categories that are exempted.

242,000 thousand youths with 20,000 projects in total. The 2019-20 budget was UGX 3.3 billion, a considerable decrease from UGX 39 billion in 2016-17. [59]

In addition, the Uganda Women's Entrepreneurship (UWEP) program delivers soft loans and skills training to female entrepreneurs and encourages vulnerable women's participation. It is planned to last five years; it started in 2015-16, with a budget of UGX 33 billion in 2019-20, and has so far reached 445,000 beneficiaries (MoGLSD, 2020). Other small-scale programs exist under the Office of the Prime Minister (OPM) with the objective of supporting communities in building resilience and livelihood diversification.

> **Sustainable Development Goal (SDG) Review**
> *SDG 5. Achieve Gender Equality and Empower All Women and Girls (target 5.4)*
>
> *In 2018, while women spent on average 14.6% of their day on unpaid domestic and care work, men spent only 7.5% of their day on similar activities* **(The World Bank, 2021a)**.

In conclusion, the Development Responses to Displacement Impacts Project (DRDIP) was recently rolled out, and it is planned to provide support to refugees and host communities. According to the latest figure, the program costed UGX 28.8 billion in 2018-19 alone or USD 8.1 million, out of the USD 200 million budget allocated to the project (MoGLSD, 2020). As part of the same program, a Displacement Crisis Response Mechanism (DCRM) component is also being implemented with an allocation of USD 4.5 million (or UGX 15.9 billion).

Legal, conceptual, and implementation

The LIPW program relies on a temporary framework with external loans and grants funds, thus the initiative is often not considered part of a nationwide effort to build a comprehensive social protection system (MoGLSD, 2020). In addition, the shock-responsive component of the program would need to be expanded in terms of capacity to enable core interventions' responsiveness to risks (MoGLSD, 2020). And while the public works component should include 10% of vulnerable groups, there is little consideration for disabled persons as able-bodied persons often fill the slot.

The Government is also currently reviewing the Workers Compensation Act (2000), but proceedings have so far occurred independently from the NSSF and other sub-sector reforming processes. Members of the NSSF have also begun to question the legislation governing the Fund, as COVID-19 increased scrutiny and highlighted limitations, as the lack of unemployment benefits or other contingencies related to the ILO Convention 102 (NSSF, 2020).

> **Sustainable Development Goal (SDG) Review**
> *SDG 8. Promote Sustained, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All (target 8.5)*
>
> *In Uganda, the proportion of informal employment of total employment was 91.7% in 2012 and 80.9% in 2017* **(UNDESA, 2021a)**. *Only 16.8% of female workers were waged or salary workers, against 28.3% of male workers* **(The World Bank, 2021a)**. *Furthermore, in 2017, women earned less than men, with an hourly wage of $1.3 2017 PPP (UGX 1,605.3), $0.7 less than men (earning on average UGX 2,405.6 per hour). From 2005 to 2017, the proportion of youth not in education, employment or training (NEET), has expanded from 8.1 to 33.5%* **(UNDESA, 2021a)**. *In 2016 and among the youth (aged 15-24), three out of five were in unpaid work, contributing to household or family enterprises* **(Merotto, 2020)**.

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[59] It is stated that the decrease has been due to the fact that the program is expected to become self-sustaining with a revolving fund.

The management of administrative tasks such as processes for registration and updating eligibility information for direct income support programs are disparate and multi-stage, often manual or semi-electronic and lengthy (MoGLSD, 2020). Further, the disbursement of funds is lacking a streamlined approach, as the mid-term review of the NUSAF 3 described delays in the release of funds as a major limitation (Office Of The Prime Minister, 2019). Related, donor funding for direct income support is not at all times administered through the governmental system, with implications for accounting and financial management (MoGLSD, 2020).

Overall, as part of the MGLSD's Program Plan of Interventions for Implementation of the Uganda National Social Protection Policy, legislation needs to change in support of institutionalizing and strengthening direct income support programs (MoGLSD, 2015). However, so far, the process has not been carried out (MoGLSD, 2020) but its proceeding is imperative to clarify eligibility to programs, support their implementation, and protect them from a legal perspective.

Coverage and adequacy

In Uganda, the main components of the pension system are the Senior Citizen Grant (SCG) and the Old age pension under the National Social Security Fund (NSSF). The NSSF is regulated by the National Social Security Fund Act (Government of Uganda, 1985), licensed by the Uganda Retirement Benefits Regulatory Agency (URBRA) (URBRA, 2020). In addition, Public Service Pension Scheme (PSPS), the Armed Forces Pension Scheme (AFPS), the Parliamentary Pension Scheme (PPS), and other private pension schemes exist.

In 2016, around 125,000 individuals over 65 were beneficiaries of the SCG scheme (Merttens, et al., 2016). The SCG covered 15% of households in communities that were part of the fifteen targeted districts (Kidd, Uganda's Senior Citizens' Grant: A success story from the heart of Africa, 2016). The transfer, geographically targeted, initially reached sixty-one districts in 2018, and in November of the same year, the Government announced a further expansion of the program (MoGLSD, 2021). As of 2019, the SCG started expanding to all 135 districts, covering all individuals over 80. Future expansions foresee the roll-out to all individuals over the age of 65. In 2020, the SCG reached 304,155 individuals, increasing coverage by 143% from 2016 (URBRA, 2020). Despite such improvement, the benefit of UGX 25,000 per month (or about half of the monthly poverty line at the national level) was never updated to counter inflation and price increases, thus benefit adequacy has constantly reduced since the SCG inception.

The NSSF is the mandatory provident fund for all employees in the formal private sector in companies with more than five workers. Employers contribute 10% of the payroll, while employees 5% (voluntary contributors pay a higher rate) (URBRA, 2020). In 2020, the NSSF counted 2,054,933 members, of which 39.5% were active contributors and has a statutory retirement age of 55 years (50 for early retirement) providing lump-sums at retirement.

The coverage of the pension benefits reached 11.2% of those above statutory retirement age (55 years) and while the SCG covered around 33% of the population over 65 in 2020, coverage is needed to expand following the roll-out as planned (ILO, 2021a). However, the lack of adjustment mechanisms lowered the SCG benefit adequacy in the past years. On the contrary, the NSSF ensures an adequate yield on investments to its members, trying to ensure both the coverage of inflation-related actual losses and a revenue margin. Nevertheless, the lump sum provision hinders the NSSF from guaranteeing its members' adequate and periodical benefits. It follows that while approximating the form of a first pillar, the NSSF scheme is not a complete pension scheme, leaving the whole private sector uncovered for essential retirement benefits. Further, active contributors are mainly men, with only 21% of the NSSF age benefit recipients being female, and the long breaks in contribution history decrease the adequacy of their benefits upon withdrawal (MoGLSD, 2020).

Legal, conceptual, and implementation

According to its regulatory authority, "the major deficiencies of the NSSF concern adequacy of income replacement that is not possible under the fund, and absence of a pension benefit" (URBRA, 2018). Indeed, this last quote captures the essential issue of the NSSF: being a provident fund that delivers lump sums to its members, NSSF cannot guarantee an adequate and periodical benefit, failing into adhering to the fundamental principles that guide pension design internationally.

Currently, the contributory pension sector is centered around formal employment, yet URBRA is working towards introducing a regulatory framework for retirements and saving arrangements for informal workers (URBRA, 2020). Despite these efforts, the expansion may

be overoptimistic as levels of income and the earnings profile of the informal sector limit its possibility to participate in a contributory scheme. This is unlikely when monthly income is below UGX 215,000 (or approximately US$ 60.5), an amount currently reached only by 25% of the working age population (MoGLSD, 2020). In 2017, the NSSF participation was also offered to voluntary entrants for those not mandatory under the NSSF Act, yet the numbers remain low. In 2018-19 only 8,616 persons were enrolled, or only 0.045% of the working age population (MoGLSD, 2020) , but the NSSF has the intention to expand its voluntary scheme coverage to 28,000 by 2025 (NSSF, 2018).

Further, the PSPS has seen delays and inadequacy of disbursement, thus causing a considerable amount of arrears, from UGX 71 billion in 2011-12 to UGX 561 billion in 2015-16 (MoGLSD, 2020). The inadequacy of the benefits added to the delayed disbursement and has led to demands made by pensioners to receive at minimum the monthly SCG amount. Further, the NSSF has disclosed losses in 2018-19 of more than UGX 402 billion, attributed to equity market exposure (The Independent, 2019). While ¾ of the fund's portfolio is invested in safe fixed-income securities, these losses confirm the hazard of depending on market performance for large sums. Further, enforcing compliance among non-registered firms has proven to be problematic, and current arrangements[60] are helping the fund in reducing the number of enterprises that under-report employees or earnings (MoGLSD, 2020).

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[60] Officers are allowed to access firms' premises and inspect records, yet inspections remain challenging due to the informal nature of such firms.

Simulated new social protection benefits

The simulation includes two reform variants. One variant (called UNIV package) provides a set of universal benefits (such as universal pensions or child benefits) and essential health services delivered by public providers.[61] A second variant (called TARGETED package) assumes that existing individual poverty gaps can be closed by social assistance benefits targeted to the poor, coupled with essential health services delivered by public providers (similar to the Social Protection Floor Index methodology).[62] Hence, both packages include the same health component, projected to reach the total cost of 3.7% of GDP in 2030 (Friedrich-Ebert-Stiftung, 2021), and differ by their core social protection component.

While TARGETED package closes the gap at the national poverty line, the UNIV package will include the following new benefits:

- Universal Package Pillar 1: Access to essential healthcare, including maternity care.
- Universal Package Pillar 2: Basic income security for children.
    - Child allowance
    - Child disability allowance
- Universal Package Pillar 3: Basic income security for persons of active age.[63]
    - Unemployment benefit
    - Disability allowance
    - Maternity (parental) benefit
    - Public works program
- Universal Package Pillar 4: Basic income security for older persons.
    - Senior citizen allowance

All benefits are defined as a share of the national poverty line, ranging between 40% of it (for child allowances) and 100% (e.g., for social pensions) of the national poverty line, as presented in Annex D.

The senior citizen allowance accounts for the already existing beneficiaries of the Senior Citizen Grant (SCG), as described in Annex D. The same Annex B presents more comprehensive information on existing programs and their description, as well as the eligibility, benefit level, and administration costs of newly implemented programs.

Costing of benefit packages

The following analysis provides an overview of Uganda's economic and fiscal environment and the cost-analysis of the simulated policy packages. The cost of the different packages is presented in absolute and in relative figures, such as Purchasing Power Parity in terms of Ugandan shilling (UGX) per USD and as a share of GDP. The analysis assesses the long-term additional economic cost of the benefit packages and the total social protection system

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[61] With due consideration to existing national SPF components the choice of the universal benefits orients itself to the standard package that is often used by the ILO, i.e. universal benefits for for all children, maternity benefits, disability benefits, unemployment benefits, old age benefits all set at 100% or a fraction of the national poverty line as well as access to essential health care as estimated by the World Health Organization (WHO); and administrative cost for all benefits.

[62] See Friedrich-Ebert-Stiftung (FES): *Social Protection Floor Index Update and Country Studies* 2017.

[63] Sickness, accident, and employment injury benefits were not included, because of insufficient data

expenditures and the returns on GDP and government revenues from investments in social protection. [64]

The macroeconomic profile of Uganda is essential to contextualize the cost of social protection and comprehensively evaluate the effects that the proposed reforms can generate. Uganda's real GDP grew at a steady average annual rate of 7% in 2015-2019 and then fell to -0.8 percent in 2020 due to the Covid-19 pandemic. Preliminary estimates for 2021 account for a swift recovery to pre-crisis rates for 2021. In the region, many of the neighboring countries experienced smaller downfalls. Nevertheless, Uganda is expected to recover and maintain past trend growth - up to 7% (International Monetary Fund, 2021). During the period of substantial economic growth in the past years, CPI growth rate constantly decreased in the past decade, reaching 2% annually in 2019. Moreover, CPI growth is projected to increase to a maximum of a yearly 5% and stay constant, suggesting ameliorating macroeconomic conditions for salary receivers compared to the past, along with high GDP growth rates (up to annual 6.8%) (see *Table* 9) compared to the past suggesting a strengthening of Uganda's economy.

Table 9. Uganda, key economic indicators 2020-2030

|	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Real GDP growth (in %)	-0.8	4.7	5.1	6.6	6.7	7.4	6.8	6.8	6.8	6.8	6.8
CPI growth (in %), period average	2.8	2.2	5.0	6.2	3.9	3.8	5.0	5.0	5.0	5.0	5.0
Employed (in % of Pop)	35.2	35.8	36.3	36.9	37.6	38.2	38.8	39.4	40.1	40.7	41.4

Source: IMF World Economic Outlook October 2021 Projections until 2026. Projection period 2026-2030, assumption from the Authors. Authors' elaboration

The main macro-economic indicators that the model adopts (see *Table* 9) are estimated for the projection period if not extracted from secondary sources. The study estimates the costs of the benefit packages, comparing them in relative and absolute terms to the status quo social protection expenditures. In Uganda, social protection-only expenditure is very low (0.7% of GDP), and general government health expenditures reached 1%, yielding a 1.7% of GDP expenditures in the status quo scenario. Hence, integrating the new package increases total social protection expenditure two or threefold depending on the scenario analyzed (see *Figure* 14). In 2030, universal benefits (UNIV) can cost up to 8,234 million USD,[65] while the TARGETED package costs up to 5,217 million USD.

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[64] The elasticity is estimated in the order of 0.7 to 1.9 additional pp. on real GDP growth per each pp. increase of social protection expenditure. See: ITUC (2021).

[65] Corresponding to 20,558,154 UGX million (UNIV), and 1,023,289 UGX million (TARGETED), converted to USD PPP with IMF implicit exchange rates (International Monetary Fund, 2021)

Figure 14. Total Social Protection Cost as share of GDP by packages options, Uganda
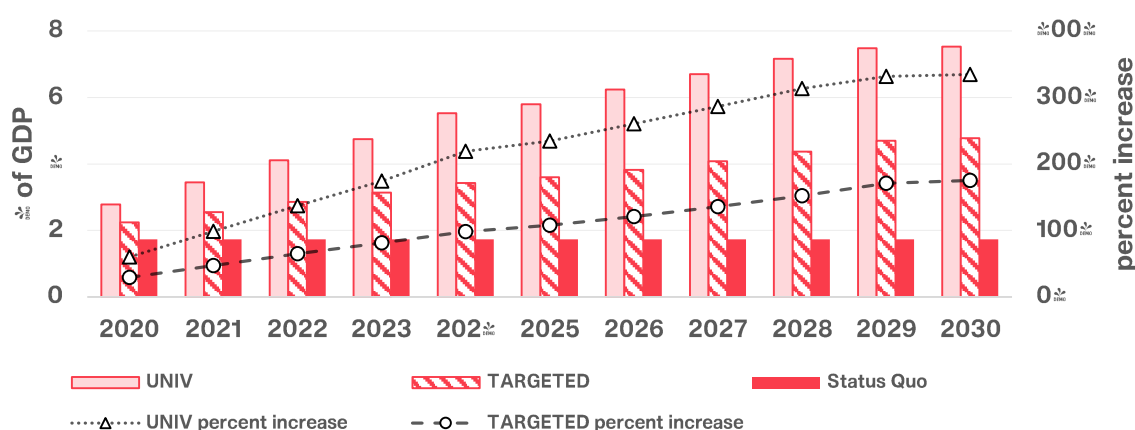
Notes: Bars (Primary axis) refers to the total cost as a share of GDP; Lines refer to the percentage increase in total expenditure from base scenari; the status quo bar includes social protection only expenditures (0.7% of GDP) plus general government health expenditures (1% of GDP) projected as a constant share of GDP over time.
Sources: Authors' elaboration

With the inclusion of the universal benefits (UNIV), the total cost of the social protection system (including health) equals 7.5% of GDP in 2030. Instead, costs are lower and reach 4.8% of GDP in 2030 (see *Figure* 14), considering the TARGETED.

In Uganda, social protection-only expenditure (0.7% of GDP) is significantly lower compared to the regional average of Africa (3.8%) and Sub-Saharan Africa (2.14%) (ILO, 2021), and reaches 1.7% when including general government health expenditures Thence, the additional cost will reach 5.8% of GDP in the case of UNIV, with a hefty commitment from Uganda. To avoid the rejection of such "expensive" social protection reform, and in consideration of the macroeconomic context of Uganda, the analysis adopts a second universal package (referred to as *Universal modified package*, or UNIV/MOD). Adopting the new adjusted parameters, as listed below, is based upon assessing the affordability, realisability, and ex-ante impact of the initially presented packages. The following introduction of UNIV/MOD allows for further comparative evaluation among the presented policy reforms. The benefits are expressed relatively to the national poverty line, UNIV/MOD includes:

- Benefit under Pillar III and IV are 75% of the poverty line
- Benefit under Pillar II are:
  - 20% of the poverty line for children 0 to 12 (and a different phase-in)
  - 70% of the poverty line (20% for the child plus 50% for care giver) for each child with disability aged 0-17
- Health expenditures are expected to reach 1.8% of GDP in 2030, following SPF index allocation gap calculations for Uganda (Friedrich-Ebert-Stiftung, 2021).[66]

UNIV/MOD cost reaches a total of 12,406 million PPP$ in 2030, or additional 2.7% of GDP of the same year. Furthermore, the UNIV/MOD consistently grows at a slower pace than the other packages, and by 2030 its cost is estimated to be 3.1% and 0.3% of GDP less than the UNIV and TARGETED packages. On average, the difference stood at 1.4 percentage points as displayed in Figure 15.

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[66] The health expenditure target by 2030 is defined by summing the general government health expenditures from the last year available (1% of GDP in 2018) and the allocation gap for Uganda of 0.8% of GDP (Friedrich-Ebert-Stiftung, 2021) .

Figure 15. Universal Package Option 1 and 2 additional Cost, by Pillar Uganda
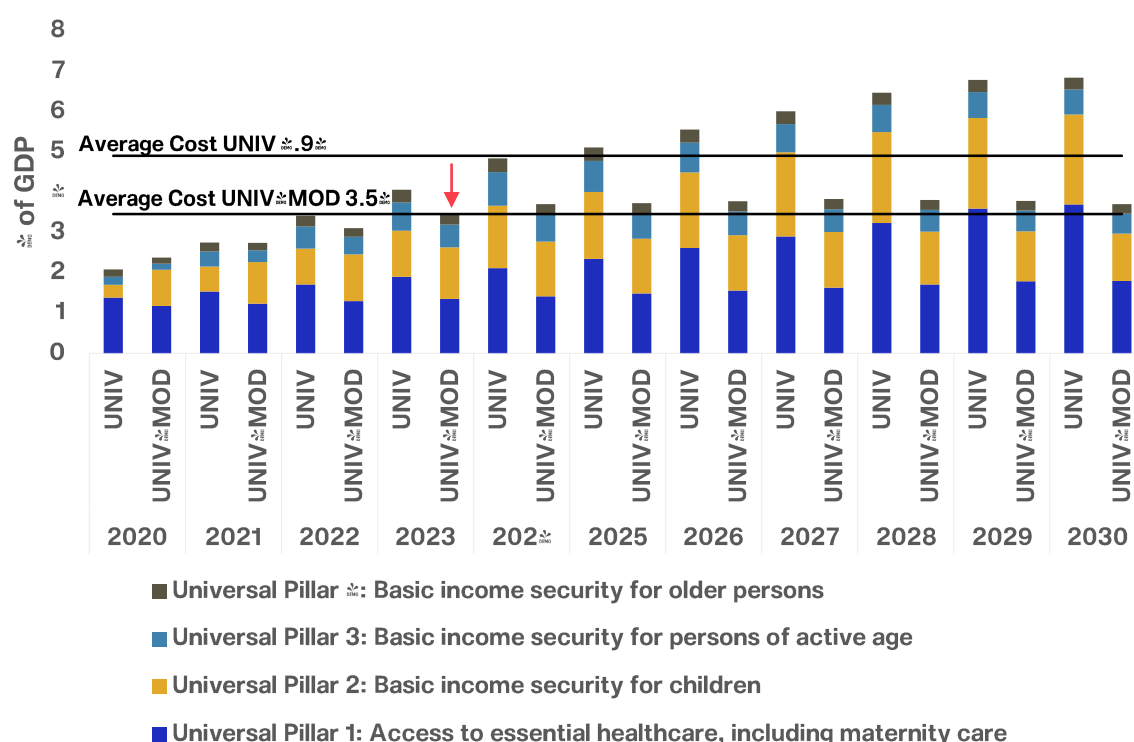
Notes: Yearly additional cost for the implementation of the UNIV and UNIV/MOD packages disaggregated by pillars.
Source: Authors' elaboration.

In 2030, UNIV cost is estimated at an additional 6.8% of GDP, while UNIV/MOD generates costs for 3.7% of GDP, through a reduction in the health component (-1.9% of GDP compared to UNIV), the child grant (-1.0% of GDP) and other components.

The future costs per each benefit package, expressed in present value and as a share of the base year GDP, can help understand the magnitude of the investment needed. Although the needs might seem vast, further analysis in this section as well as the following financing section, unveil several possibilities to cover these costs. The UNIV package between 2020 and 2030 cost a total of 91% of 2020's GDP. Although UNIV/MOD is expected to have a lower cost by 2030, the total period costs still exceed the TARGETED package by 9.4% of 2020 GDP. Total health expenditures account between 34.9% and 20.6% of 2020's GDP, and while the differences in existing SP expenditure[67] between packages are negligible, they sharply vary on the "Additional SP" component (see *Table* 10).

Table 10. Ten-year Total Package Expenditure breakdown, as share of GDP 2020

	UNIV	UNIV/MOD	TARGETED
Health component	34.9	20.6	34.9
Existing SP component	9.6	9.6	9.7
Additional SP component	39.1	30.0	5.1
Admin Cost	7.4	4.9	8.3

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[67] All packages include existing social protection expenditure (status quo), with the difference that the Universal packages excludes the Senior Citizen Grant (SCG) from existing SP, and expand coverage and benefit amount of the same under the "Additional SP" expenditures. The "Additional SP" expenditures are all the new programmes (or expanded once) social protection components.

Total	91.0	65.0	58.0

Notes: The column represents the total ten-year total expenditure for each of the packages as share of GDP 2020. The difference in existing SP expenditures included in the packages is due to the inclusion (and expansion) of specific benefits as the Senior Citizen Grant in the UNIV and UNIV/MOD packages. See Annex D specific policy packages.
Source: Authors' elaboration.

Notably, at its maximum, the targeted cash transfer component of TARGETED package is expected to cost 0.6% of GDP in 2024. Indeed, this component's total expenditures over the 2020-2030 period, represent only 5.1% of 2020 GDP, and a marginal part of the total TARGETED package's cost.

Investments in social protection strengthens the macroeconomic context under various dimensions and supports direct increases in the government revenues. Income provision and security for households favour economic growth and investments in human capital formation, from better nutritional conditions to increases in health services utilization and school attendance (ITUC, 2021). On the one hand, through one elasticity of GDP growth to social protection investment, the analysis replicates effects of household direct income support, fostering growth of GDP through the aggregate demand increases (ILO, 2021); on the other, a second elasticity will establish the additional revenues generated by investments in social protection over the projection period. Thus, a partial amount of the additional costs forecasted in *Table* 10 will be reabsorbed by additional revenues, which are expected to be yielded within two years from the start of the new social protection expenditure (and therefore summed over the eight-year-period 2022-2030).

The ongoing onset of the COVID-19 pandemic and the advent of climate change have highlighted the imperative need for social protection systems and the burden they sustain when hazards strike. The impact of such ever-growing events on livelihoods and the reflected downturn on economies is evident. Nevertheless, preparedness and expectations are lacking. The simulation models include a shock-responsiveness module estimating to what extent a potential crisis can affect the social and economic outlooks, therefore affecting the sustainability of the proposed social protection reforms (see Box 3. Shock Resilience of Social Protection expenditures *)*

Box 3. Shock Resilience of Social Protection expenditures

Similar to what was previously described (see Box. 1), the simulation of shock- or hazard-induced changes on the economic and, in turn, social protection settings of Uganda is undertaken under differing assumptions. The shock module simulates a reduction in GDP, driving both increases in poverty and unemployment and a consequent increase in costs of the social protection system due to benefit expansion.
Accordingly, the fall in GDP could range between a 4.5% and 12% reduction over 2020-2030 period, with longer and more persistent effects in the severe, slow recovery scenario. As a direct consequence of the economy's shrinking, job losses are expected to experience a decline between 1.2 and 11.4 percent over the shock period (2024-2030).[68]

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[68] The model forecasts different scenarios (intensities) of GDP reduction in year 2024. These generate a decrease in employment calculated through an assumption on real GDP per employed individual and cause an increase of the poverty rate. Social protection programs are modeled to include new individuals falling into poverty (TARGETED package) or individuals losing their employment (UNIV and UNIV/MOD packages). The length of timeline on which the shock protracts is the result of the assumption on a "fast" or "slow" recovery, as presented in the technical appendix.

The economic downturns directly affect families' welfare, aggravating vulnerability conditions and leading to increases in poverty conditions. Indeed, the model forecasts that poverty increases by 10% on a year-on-year base under the severest case scenario. Furthermore, shocks can affect households under several aspects. A loss in welfare might affect households' nutritional intakes, forcing them to withdraw children from school and bring them to exhaust their assets in an attempt to cope with the crisis (OPM, 2017). The new social protection packages include scale-up components to prevent the negative downturns. Thence, the TARGETED package will include the new population falling into poverty, and the universal packages an expansion of existing programs targeting the newly unemployed and vulnerable individuals. Thus, the TARGETED package will experience yearly costs increases ranging between 0.3 and 1 percent compared to the base scenario, the UNIV/MOD will experience a cost rise up to almost 4.5% in the most severe shock scenario (see *Figure* 16).

Figure 16. Year-on-year increase in UNIV/MOD expenditures by shock scenario

Note: Figure presents three different scenario of shock, displaying year on year UNIV/MOD cost percentage changes from base scenario. Years where the difference is 0 are not displayed.
Source: Authors' elaboration

The projection of social protection costs is followed by an ex-ante assessment of the potential impacts of UNIV, UNIV/MOD, and TARGETED packages. In this step, the packages are evaluated on the basis of their contribution to poverty and inequality reduction, and to the achievement of social protection related SDGs. Last, under Uganda case study, the analysis presents specific financing strategy regarding the benefits package that is expected to yield the highest impact on poverty and inequality, while staying grounded in the principles of benefit and financing adequacy.

Analysis of the redistributive impacts

Impact on Poverty

The simulated estimates that follow underscore the potential impact of the proposed policy reforms on poverty. As of 2018, the year of the survey, the number of Ugandans living below the national poverty line of UGX 50,123 per month was 5.7 million, or 13.33% of the total population. Three million Ugandans would not be considered poor, reducing the poverty headcount by 6.9 percentage points (-52.2%) if the government were to implement the *Universal package*. Thus, the poverty headcount would be 6.4% (2.7 million Ugandans still living below the poverty line). The poverty gap index can decrease from the current 3.4% to 1.4% by implementing UNIV. Universal benefits decrease the poverty gap from 0.8% of GDP

to 0.3% of GDP. That is, Uganda's fiscal challenge[69] can be reduced from 6.1% of government revenues to 2.5%.

However, by adopting the *Universal modified package*, the poverty reduction effect slightly decreases. Nonetheless, this benefits' package still has high poverty reduction effects (see *Figure* 17). Indeed, UNIV/MOD reduces the poverty headcount to 8.8%, lifting out of poverty 1.9 million Ugandans, and reducing the poverty headcount by 34%. The poverty gap index reduction effect of UNIV/MOD is still large (-42%), closing the gap by 1.4 percentage points. In terms of GDP, the remaining poverty gap equals to 0.47%, i.e., a fiscal challenge equal to 3.5% of government revenues.

Figure 17. Uganda poverty rates pre- and post-transfers comparison
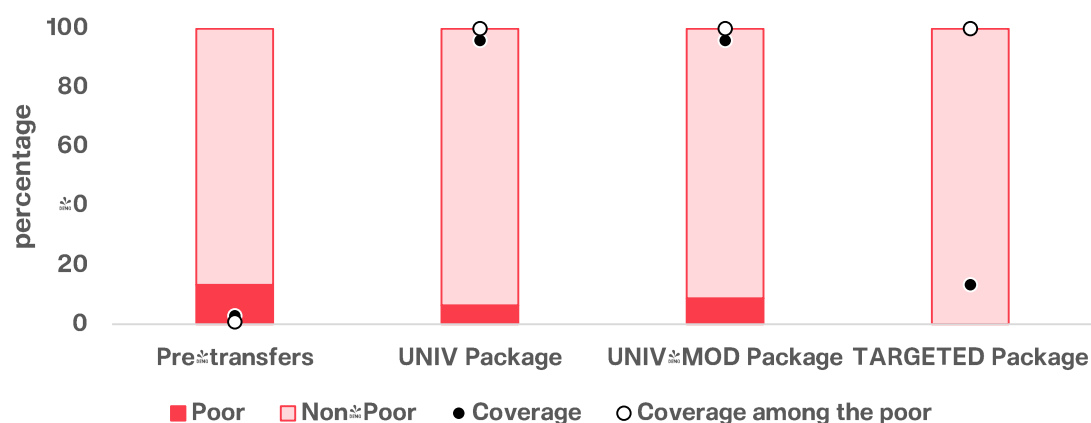
Notes: Poverty measured with the national poverty line. The values displayed in the bars refer to the share of poor and non-poor population.
Source: Authors' elaboration

At the time of the survey, Uganda had 23.1 million children aged 0-17 (54% of the population) and the poverty profile shows that 2.5 million children lived under the national poverty line. According to the estimates, the UNIV package would lift 1.6 million children out of poverty, while the UNIV/MOD 1.0 million. Regarding the elderly population (65+), the old-age poverty rate is 18.9% (higher than the national poverty rate), i.e., 157,000. If Uganda were to provide the UNIV package, old-age poverty can be reduced to 5.9% (49,000 poor elders) while with UNIV/MOD to 8.5% (71 thousand elders).

On the other hand, if the government were to implement the *Poverty targeted package*, the social assistance program allocating benefits equal to the individual poverty gaps, all 5.7 million poor Ugandans would be lifted out of poverty, nullifying (-100%) the poverty headcount among the sampled population. Consequently, this package entirely closes (-100%) the poverty gap index. More details on the poverty reduction effects of all three packages can be seen in *Annex* F.

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[69] The fiscal challenge that a country faces is indicated by setting the size of the poverty gap in relation to the country's general government revenue in the same year.

Table 11. Poverty reduction estimates in Uganda

	Poverty Headcount	Poverty Gap Index	Poverty Gap as GDP%
Pre-Transfers	13.33%	3.35%	0.80%
UNIV package	6.37%	1.39%	0.33%
Relative Difference	*-52.2%*	*-58.6%*	*-58.6%*
UNIV/MOD package	8.82%	1.96%	0.47%
Relative Difference	*-33.9%*	*-41.5%*	*-41.3%*
TARGETED package	0.02%	0.00%	0.00%
Relative Difference	*-99.8%*	*-100.0%*	*-100.0%*

Notes: Poverty measured with the national poverty line. Relative Difference is calculated in respect to pre-transfers values.
Source: Authors' elaboration

Contribution to the achievement of the SDGs (including access to health)

Estimates made using Uganda's 2018 UNPS survey indicate that the current $1.9 PPP poverty headcount is 36.0%. Because the Uganda national poverty line is lower than the $1.9 PPP per day line, by implementing UNIV, the country would reduce the poverty headcount to 27.5%, still falling short from achieving SDG *Target 1.1* "*Eradicate extreme poverty*". Moreover, the poverty headcount measured with the $1.9 PPP line after simulating lower benefit amounts with UNIV/MOD can only be reduced to 31.1%. However, the magnitude of these results is significantly higher than the impact of TARGETED which is ineffective in reducing the $1.9 PPP per day poverty (see *Annex* F). The ratio between the national poverty line and the $1.9 PPP poverty line, which equals to 70%, combined with the amount of the TARGETED benefit set as the poverty gap defined by the national poverty line, causes the ineffectiveness of TARGETED in reducing the $1.9 PPP poverty headcount.

With the UNIV, UNIV/MOD, and TARGETED reform packages, Uganda can substantially advance towards achieving *Target 1.3*[70] of *SDG 1*. Because of a substantially absent social protection system, it is estimated that only 2.8% of the population (0.8% of the poor) currently live in households receiving at least one social protection benefit. The universal benefits (both variants) increase coverage to 96.1% of the population, and 100% of the nationally defined poor. Instead, TARGETED increases coverage to 48.9% of the population, and 100% of the poor (see *Figure* 17).

A common feature of UNIV and TARGETED packages is the financing and development of Essential Health Coverage. The micro model simulates the redistributive impacts of this policy through the reallocation of household health-related expenditure to the lower half of the income distribution.[71]

Moreover, the 2030 target of 3.7% of GDP allocated to health public health expenditure is expected to allow filling the country's resources and allocation gaps in health.[72] According to

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[70] *"Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable."*

[71] See the technical appendix to this document.

[72] The target refers to the 2017/2018 gap and is extracted from the Social Protection Floor Index homepage (Friedrich-Ebert-Stiftung, 2021).

the SPFI,[73] by reaching this target, a country can guarantee access to essential health care to all residents and children, achieving *Target 3.8*[74] of *SDG 3,* and contributing to the attainment of the other targets.

Impact on Inequality

All three reform packages substantially contribute to the reduction on inequality (see *Table* 12). However, the impact on consumption inequality measured by the Gini coefficient holds a higher potential for the UNIV (-6.5%) and UNIV/MOD (-4.0%) than for TARGETED (-2.3%). Due to its universal approach, the UNIV reduces the Gini coefficient from 45.64 to 42.69. On the other hand, concentrating all transfers among the poorest, TARGETED reduces the Gini coefficient to 44.58.

Table 12. Consumption inequality reduction estimates in Uganda

	Gini	D9/D5	D9/D4	D8/D2
Pre-Transfers	45.64	2.44	3.55	14.02
UNIV package	42.69	2.09	3.00	11.18
Relative Difference	*-6.5%*	*-14.4%*	*-15.5%*	*-20.2%*
UNIV/MOD package	43.80	2.21	3.20	12.12
Relative Difference	*-4.0%*	*-9.3%*	*-9.9%*	*-13.5%*
TARGETED package	44.58	2.33	3.33	11.83
Relative Difference	*-2.3%*	*-4.5%*	*-6.3%*	*-15.6%*

Notes: Relative differences calculated in respect to pre-transfers values. D stands for deciles. Deciles calculated using pre-transfers household equivalent consumption.
Source: Authors' elaboration

Before transfers, the total consumption of the richest quintile equaled to 14.02 times that of the poorest quintiles (D8/D2 decile ratio[75]). Although 82.3% of TARGETED transfers are received by the lowest quintile alone, UNIV is still the most effective of benefit packages in reducing the D8/D2 ratio (see *Table* 6). This effect is explained by the 27% marginal increase of the average equivalised monthly consumption in the lowest quintile produced by UNIV, against the 19% produced by TARGETED (see *Figure* 18).

Moreover, UNIV and UNIV/MOD have a minimum impact on the consumption of the highest quintile because of the magnitude of the benefits compared to pre-transfers consumption levels. So, UNIV and UNIV/MOD are more effective in reducing D9/D5 and D9/D4 (Palma ratio) dispersions than TARGETED. While TARGETED efficiently distributes benefits to the poor (all and only), UNIV and UNIV/MOD have a higher redistributive effect among the population, supporting the consumption of those households above the poverty line, but still vulnerable if higher poverty lines were considered.

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[73] Bierbaum, Schildberg, and Cichon (2017).

[74] *"Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all."*

[75] Decile ratios are calculated as the ratio of the total consumption of the richest X decile of the population to the total consumption of the poorest X decile.

Figure 18. Increase in post-transfers average equivalised household consumption, Uganda
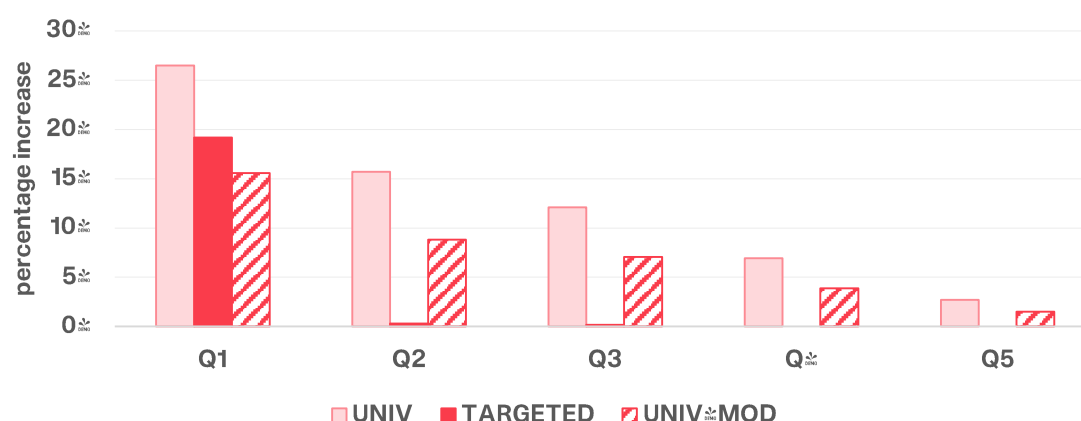
Notes: Q stands for quintile. Quintiles calculated using pre-transfers household equivalent disposable *consumption.*
Source: Authors' elaboration

Following the same line of reasoning used for Nepal's case study, and due to a gloomier fiscal framework, the following section discusses financing strategies during and after the support phase, tailored to Uganda's fiscal space. This strategy adapts a progressive implementation of the Universal modified package (UNIV/MOD), in respect to the expected fiscal developments, and the potentially troubling effects induced by exogenous shocks. The objective is to present a realistic scenario for the implementation of promising social protection reforms, while dealing with the domestic concerns about mid to long-term sustainability and affordability. By adopting a similar strategy, and bolstered by a Global Fund, Uganda *could* mobilize sizeable and sufficient resources to finance its national social protection system, at least from a medium-term starting point.

Financing strategies for the additional benefits.

The costing model establishes the monetary burden that the simulated benefits would produce on the projected government budget during the ten-year support period. This section explores the financing options for Uganda, from the perspective of the two main actors, to discuss the possible commitment and long-term sustainability of the revised social protection strategy. On one side, a global Social Protection funding facility, and on the other, the National Government. On the global commitment, concerns might arise if there would be a lack of a scheduled commitment and the absence of a clear phase-in. If these would be implemented, they might result in counter-productive outcomes, where incentives may turn perverse and hinder the generation of additional resources by the Government. In other words, the funding contributions may weaken the national responsibility for benefits realization and sustainability in the long run. Therefore, the commitment of global contributions to support the proposed reform is developed through a scheduled taper-off. The global commitment at its starting point will cover all additional required expenditures, decreasing at a programmed pace, attaining 50% of additional expenditures in 2025, and finally reaching 0% in 2030.

While the global contributions play a fundamental role in triggering an initial investment, its scalability and long-term financial viability rely on the Government's capacity of mobilizing additional domestic revenues. Main public financing options (not only) include taxation, eliminating illicit financial flows, expenditure reprioritization, managing sovereign debt, and using a more accommodating macroeconomic framework, foreign assistance, and foreign currencies reserves (Ortiz, Chowdhury, Durán-Valverde, Muzaffar, & Urban, 2019). In the

case of Uganda, the analysis detects the space for: (1) an expansion of tax revenues, (2) managing the sovereign debt, and (3) considering the additional possibility of a constant foreign assistance contribution (only included in *Table* 14).

Uganda was able in the past year to decrease its primary balance deficit. The estimates project a shrinking deficit until 2026, when Uganda is expected to reach a balanced primary budget, still resulting in an overall negative fiscal balance (see *Table* 14).

Table 13. Public Finance Indicators Uganda, as share of GDP

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues	13.4	14.5	14.8	14.9	15.5	16.5	17.5	17.5	17.5	17.5	17.5
Expenditures	21.0	20.4	19.2	18.2	18.6	19.4	19.6	19.6	19.6	19.6	19.6
Budget Surplus/Deficit	-7.6	-5.9	-4.4	-3.3	-3.1	-2.9	-2.1	-2.1	-2.1	-2.1	-2.1
Gross Government Debt	44.1	49.1	50.2	49.3	47.3	44.8	41.7	39.3	37.2	35.3	33.6

Note: IMF Data until 2026. Interest rates for Uganda are estimated to average 5% of debt between 2026 and 2030 (Equal to average CPI growth). See Technical Appendix for specifics on interest rate assumptions.
*Sources: IMF WEO data until 2026. Calculation by the authors 2027-2030.*

Both IMF and authors' forecasts foresee a debt reduction. This reduction contributes to both the marginal lowering of expenditures as well as an increase on the revenues side, driven by the increased collection capacity of the Government (OECD, AUC, ATAF, 2021). Indeed, in 2019 the collection of taxes on goods and services reached 72% of the regional average, while Personal Income Taxes reached 64% of the regional average (OECD, 2021). Hence, the first reviewed financing approach is an increase in income taxes as a share of GDP, jointly with small increases in VAT and overall goods taxation.

Moreover, the model focuses on the use of government debt as a financing mechanism for social protection on the basis of its current sustainability and expected development. The model includes the possibility to adopt debt as a tool for prompt response to increases in expenditure, augmenting the amount of absolute debt by the difference between additional financing and additional expenditures (called Deficit in *Figure* 20).

Although the additional costs of implementing a Universal package seem prohibitive, the modified version (UNIV/MOD) package unfolds as the most financially sustainable option in the long term (*Figure* 19). The financing strategy is based on the simulation of an increase in taxes on income and goods and services. However, it excludes the opportunity of increasing ODA because deemed to be generating dependency of the SP system from external funds, a principle contrary to the implementation of global contributions objectives.

Figure 19. Packages Options and Additional Financing Capabilities
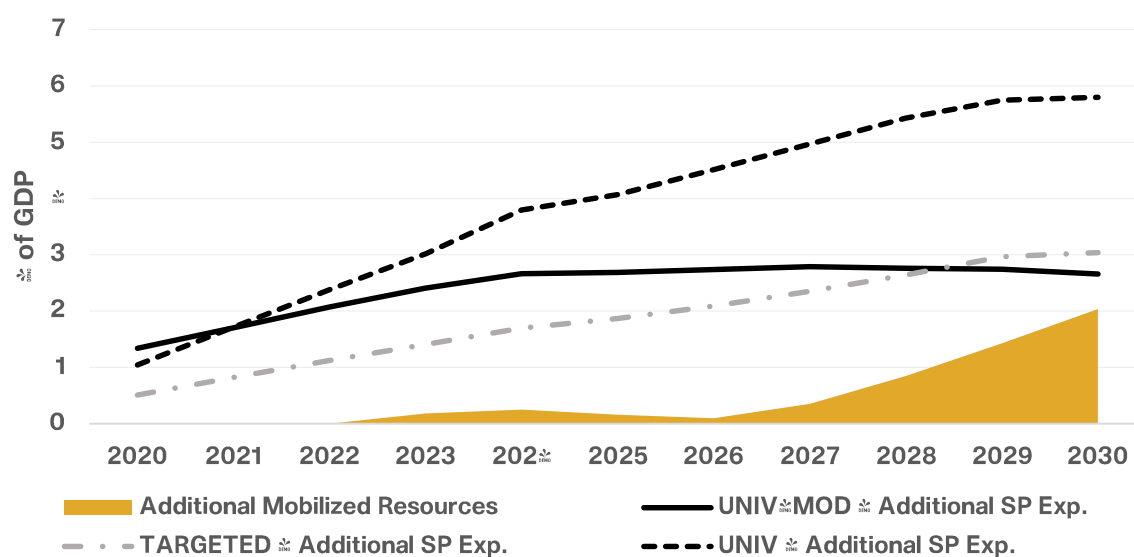
Source: Authors' elaboration

Considering the specific case of UNIV/MOD the analysis uniquely examines the intervention of global financial contribution to the implementation of the package in Uganda. Although the increase of revenues from taxes is expected to take off from the mid-term, by the end of 2030, two-thirds of the total additional resources needed will be realized from it. Nonetheless, even through the support of global contributions the UNIV/MOD program still needs additional resources to be financed.

Figure 20. Financing Option for the Additional Cost of the UNIV/MOD package
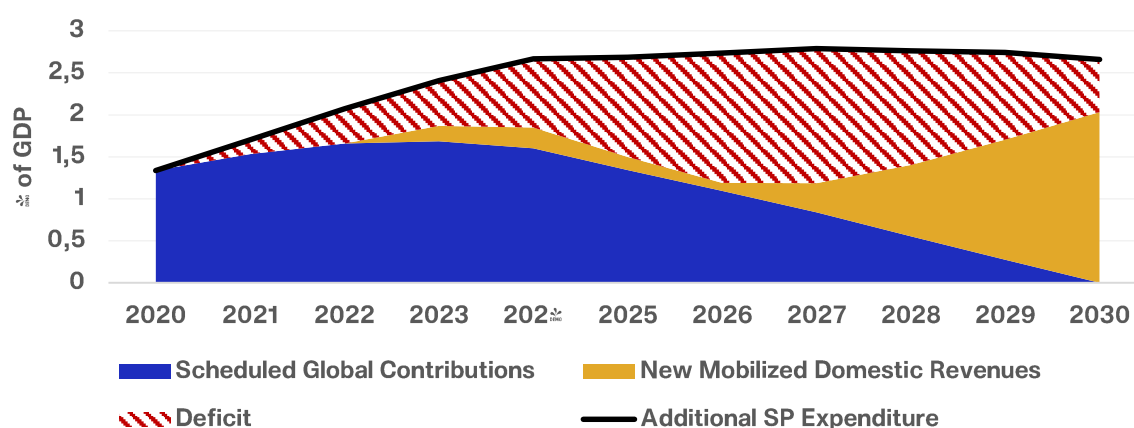
Notes: The yellow area includes both the additional tax related revenues and ODA.
Source: Authors' elaboration

Because Uganda's debt is classified as being at moderate risk of solvency (IMF, 2021), the remaining deficit could be filled by mobilizing 2% of GDP in debt for 2027, the deficit's year of higher distress. While financing social protection with debt might seem counterintuitive because of the intergenerational weight balanced to future citizens, in the longer-term Uganda is expected to reduce its dependency on debt while mobilizing more taxes (see yellow line in *Figure* 20). Indeed, the additional deficit could be covered by mobilizing an additional 2% of GDP in debt for 2027, the year of higher deficit distress.

Moreover, debt is not the unique available source for filling this gap, but due to the unavailability of data options like foreign currency reserves, changes in the macroeconomic framework and IFFs related revenues recovery[76] were not included. Yet, the analysis estimates the potential ODA that could be received by Uganda. Thus, observing the net ODA received by Uganda in the period 2010 – 2019 (average 5.5% of GPD), in a given year, the difference between the expected value of ODA to be received and the actualized value received in 2019 represents the additional retrieved resources.

Notably, Uganda has a comparably high dependency on official development assistance. While *Figure* 20 excludes ODA from the new mobilized revenue, if its current rate would be maintained constant as a percentage of GDP, Uganda could avoid an increase in sovereign debt by relying solely on such additional resource. The level of expected additional ODA could sponsor the deficit in the short-term, allowing Uganda to mobilize its domestic revenues (see *Table* 14).

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[76] Global Financial Integrity calculation. Uganda is estimated to have a total Value Gap of 819 USD Million in 2017 (2.6% of GDP) (Global Financial Integrity, 2021). IFFs are mobilized as average Value Gap as share of GDP in the period 2010-2017. The average share is applied to the yearly GDP and multiplied by share of Taxes on Good and Services (% of GDP).

Table 14. Deficit and additional Financing Options as share of GDP

	2027	2028	2029	2030
Additional Mobilized Resources	0.35	0.85	1.43	2.03
Fund	0.84	0.55	0.27	-
Deficit	1.60	1.36	1.04	0.63
Closing the gap with the Debt	1.92	1.73	1.43	1.01
Additional Options				
ODA	1.96	2.19	2.40	2.60

Note: new generated debt includes additional interest payments. The additional income tax are expect to reach 100% of 2019 regional average in 2030
Source: Authors' elaboration.

The effects of the COVID-19 pandemic and the rise of climate change have highlighted the imperative need for shock-responsive mechanisms. In the context of Uganda, while the effort is hefty, the social protection system will be able to strengthen Uganda's human capital investments and sustain aggregate demand, generating a positive and equitable return on the economy. In order to reach the expected objectives and avoid falls in the social protection system performance, additional financing mechanisms are needed. Jointly with the relation between shocks and social protection costs (see *Box 3. Shock Resilience of Social Protection expenditures)*, the analysis includes estimates on the potential room for additional resources to be mobilized in times of crisis (see *Box 4. The Economic Shock - Financing Strategies' Resilience*).

Box 4. The Economic Shock - Financing Strategies' Resilience

Following the potential exogenous shocks outlined in Box 3, jointly with the rising in social protection costs, the Government should foresee sudden financing gaps. Hence, this Box aims at quantifying the mechanisms by which new temporary resources can be mobilized to cover the emergency gap. The consequences of an (economic) shock could drastically change the financing scenario, reducing the country's fiscal capacity while increasing the SP expenditures requirements. Hence, new temporary resources have to be mobilized to ensure the scale-up of social protection programs, preventing the negative outturns of shocks on households and individuals.[77]

Considering the deepest of the three kinds of shocks simulated (severe shock with slow recovery) the UNIV/MOD benefit package increase in expenditure is expected to range between 1.5% and 4.5% of total social protection expenditure. As a direct effect, in 2027, Uganda would need to mobilize additional resources for 1.6 percentage points of GDP.

While this amount may not seem significant, it sums up to the current costs of UNIV/MOD, which already put under stress the country's financial capacity. Moreover, in times of a crisis, already scarce resources may be even harder to ensure, and compelling priorities may challenge the sustainability and resilience of social protection systems. By revaluating the debt-to-GDP ratio based on the new (lower due to the crisis) GDP levels, Uganda will experience an unbearable increase in the relative debt burden and additional interest payments costs. Indeed, while the additional resources deficit will reach 2.4% of GDP, in 2030, the debt will include an additional 30% of expenditures due to interest payments.

Moreover, scaling-up of social protection systems in times of crisis is generally financed in the short to medium term by external donors (OPM, 2017). Thus, in case of crisis, ODA and Fund's contribution might play a role in ensuring a solid response to a crisis by maintaining the direction towards expanding its social protection system. This is not only needed to preserve the efforts done so far, but also to ensure the recovery from the shock by keeping up aggregated demand and social stability.

5. Summary of findings

This section presents a summary of the findings from both case studies to provide a short outlook on the role of a global social protection funding facility in ensuring an effective and viable foundation for the development of nationally owned systems. By consolidating the results from the two countries and highlighting the most relevant elements, this section presents the key features for Governments and donors to examine when committing to the implementation of such transformative and shared social protection investments. These elements lead to a discussion that aims at expounding the argument for a global financing mechanism for social protection.

Poverty lines play a crucial role in defining benefit amounts, thence being one of the main drivers of costs. The available national poverty lines are used as the main benchmark for determining the benefit levels for all packages. However, these are not always updated (Nepal) or clearly available (Uganda). In 2020, the indexed poverty line for Nepal (updated from 2010 by the authors) equaled 3.13$ PPP per day, and in Uganda 1.26$ PPP, generating differences in impacts on indicators such as the share of population living under the 1.90$ PPP poverty line. Moreover, in 2017, the poverty line represented respectively 12.7% of the average monthly earnings of the employees in Uganda and slightly more than 15.8% in Nepal, a significant difference in relative terms (ILO, 2022). Governments can adopt more adequate

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[77] Covariate shock can affect households in several aspects. A loss in welfare might affect households nutritional intakes, forcing them to withdraw children from school and bring them to exhaust their assets in an attempt to cope with the crisis (OPM, 2017).

and transparent measures of poverty. By regularly updating their poverty lines, countries may see their poverty headcounts and social benefits level raise, henceforth the costs of their social protection systems. Nonetheless, this is a fundamental step to ensure the adequate provision and effectiveness of social protection benefits over time.

The Targeted and Universal package analysis raised concerns regarding the affordability and financial sustainability that pointed to proposing a Universal Modified package as the most promising option for both Uganda and Nepal. In the case of Uganda, the analysis shows that by the end of the projection period, the UNIV/MOD package is the most affordable set of benefits while ensuring sizeable and desirable impacts on poverty and inequality. In Nepal, affordability does not stand out as an immediate criterion for the selection of the UNIV/MOD. However, as per its design, the TARGETED program foresees to reach households perfectly based on their welfare and transfer a benefit just as adequate to fill their distance from the poverty line. Indeed, while the UNIV/MOD package is more costly than the TARGETED package, the former is more effective in tackling existing inequalities and the latter is considered difficult to implement administratively due to necessary elaborate and often failing means-testing procedures, albeit in theory more effective in reducing poverty headcounts and gaps.

Taking the universal road to social protection ensures sizeable redistribution and poverty reduction. Indeed, by implementing UNIV/MOD the poverty headcount reduction ranges from 34% (Uganda) to 64% (Nepal) and the poverty gap reduction from 42% to 76%, respectively (*Figure* 21). A universal set of benefits, despite being distributed horizontally, is more impactful in reducing welfare imbalances, as noticeable by the post-transfer changes in inequality (Gini coefficient and inter-decile ratios) than benefits targeted to the poorest. Thus, despite not closing the national poverty gaps, UNIV/MOD can attain significant results that can set both countries on a relatively easy to administer path road to achieve universal protection and the SDGs commitments.

Figure 21. Poverty rates pre- and post-transfers comparison
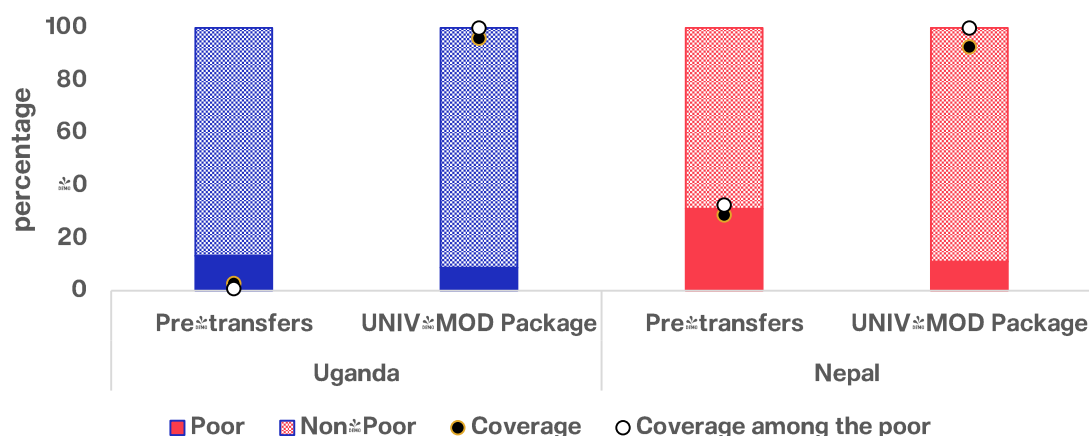
Notes: Poverty measured with the national poverty line. The values displayed in the bars refer to the share of poor and non-poor population. Results refer to the UNIV/MOD package.
Source: Authors' elaboration

The marginal cost given by the projected social protection reform will rise consistently over the period. Such dynamic is mainly led by demographic drivers. Features of the analysis that might play a role in the determination of the investment will be the amounts to be disbursed (expressed in USD in *Figure* 22). While the percentage increase from the status-quo (as well

in *Figure* 22) might raise questions about the long-term feasibility of the investment, a well-designed and appropriately conceived mobilization of resources makes it viable and not far-fetched.

Figure 22. Social Protection Expenditure in USD and as % Change from Base Scenario
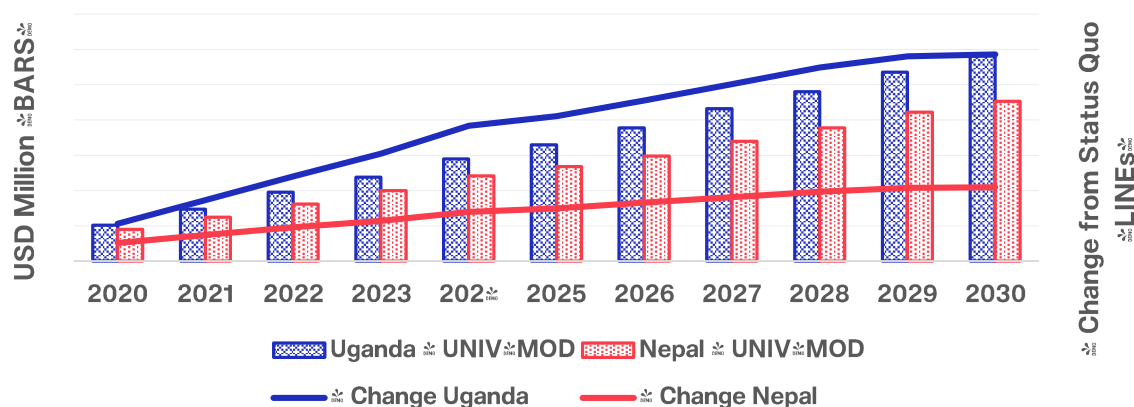
Note: Lines refer to the percentage change fro status quo social protection expenditure (Secondary axis), while bars refer to total annual expenditure in USD (Primary axis)
Source: Authors' elaboration

In the analysed 10 years, the global commitment is expected to contribute almost 5.5 USD billion to finance the implementation of the UNIV/MOD package in Nepal and 6.6 USD billion in Uganda.[78] These resources could be matched by the nationally mobilized resources in 2025 in Nepal and 2028 in Uganda (see *Figure* 23).

Figure 23. Global Contribution and Government Additional Resources
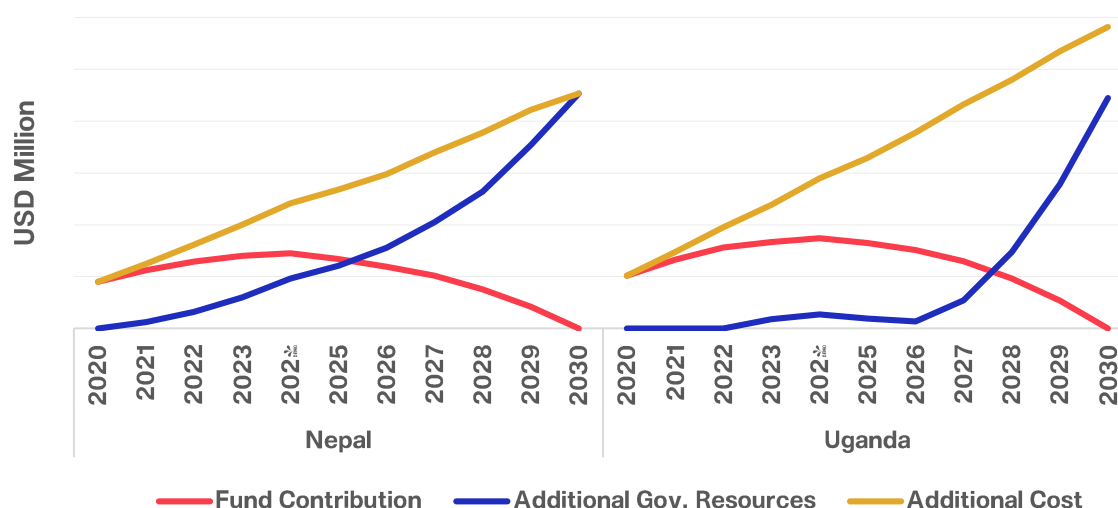
Note: The graph shows the Fund's contribution (RED Line) In relation with the new mobilized resources (BLU Line) and the total cost (BLACK Line), Source: Authors' elaboration

In both case studies, the Fund plays an essential role in financing the additional social protection expenditure during the start-up phase of a new benefits package. The annual maximum disbursement from the global funding could reach its peak in 2024, with 869.4 USD

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[78] Total 2020-2030 period total costs adjusted by inflation to 2020 prices.

million contributions for Uganda and 724.4 USD million for Nepal. Hence, the total investment required from global partners can reach 1.6 USD billion in 2024 (see *Figure* 24). The average yearly commitment over the projection period (2020-2029) stands at 1.2 USD billion.

Figure 24. Yearly Global Contribution Outgo in USD million
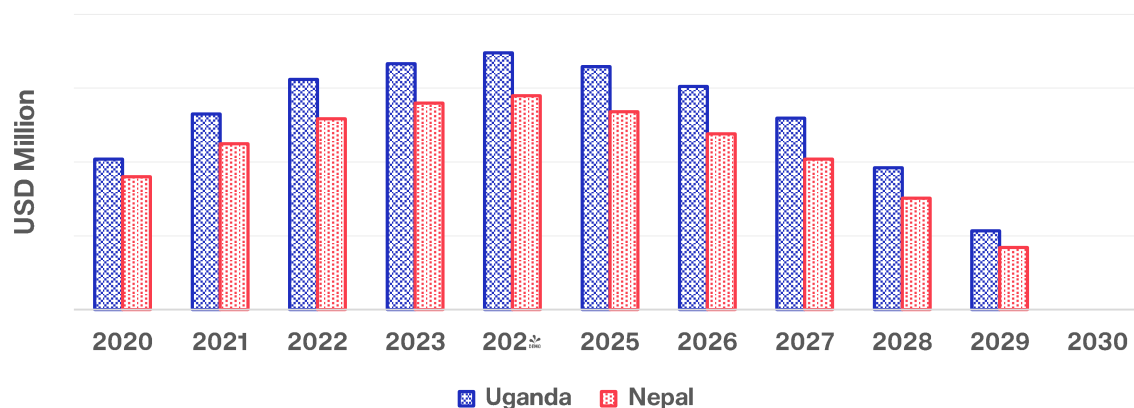
Note: Line and bar refer to current prices (nominal) USD millions
Source: Authors' elaboration

While these figures may seem extraordinarily high, the total period (2020-2029) nominal funding resources commitment only represents 0.03% of the G7 economies' GDP in 2020 (around 0.01% for Nepal and 0.02% for Uganda). Moreover, considering other international experiences such as The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the global contribution necessary to finance the implementation of the new social protection packages in the two country cases would represent less than half of the yearly 4 USD billion invested by the GFATM (European Commission, 2022).

Under the consideration of a time-defined contribution from global partners, a relevant **practical matter consists in whether sufficient domestic resources may be mobilized, and in which timeframe.** The initial implementation of the prospected policies partially relies on the guaranteed financing pledged by the global contributors. Nonetheless, it eventually depends on national budgets in the long-run. It is estimated that Uganda could cover the entirety of the additional social protection expenditure in the long-term by raising its revenues to the regional taxation average. The same is true and more imminent for Nepal. During the 2020-2030 period, Nepal could cover most of the total additional costs (57%), and the Fund's share maybe 37% (+2% of ODA), see *Figure* 25. In Uganda, the Fund will be the highest contributor (48% of the total).

Figure 25. Share of Total Cost by Financing Component
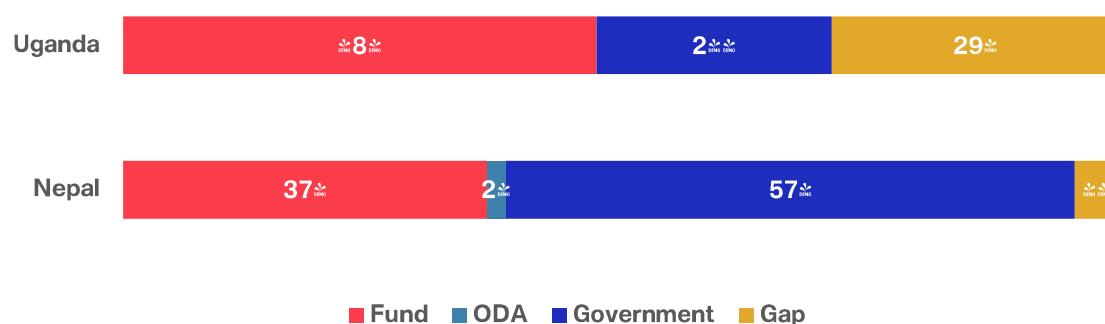
Indeed, while global contributions are expected to be a viable tool to finance the physiological gaps emerging in the start-up period and in times of crisis, Government's financing capacities are key to the long-term sustainability of the social protection system. Moreover, the analysis shows that well-designed and appropriately conceived resource mobilization strategies can ensure that the implementation and sustainability of new social protection investments are viable and not far-fetched.

6. Discussion and Way Forward

Reflecting on potential impacts

Social protection systems are a proven direct and fast-acting mechanism that reduce poverty and inequality and can unleash the productive capacity of people. Social protection is a vital investment for socio-economic development and for the resilience of people faced with natural and climate disasters as well as economic and humanitarian crises.

In June 2012 the global community of nations has unanimously decided that governments should ensure that all people have access to at least a floor of social protection, by adopting the ILO recommendation No. 202 concerning National Floors of Social Protection. Even before that, the right to social protection has been laid down in multiple international instruments, such as the Universal Declaration on Human Rights (art. 22) and the International Covenant on Economic, Social, and Cultural Rights (art. 9). The overriding concept governing policies on social protection floors should be one of human solidarity, giving force to human rights obligations. At the United Nations, human rights are not just "self-evident" natural law or derived from religious belief or ethical concepts, but legal obligations of Member States. That means that the international community as a whole should guarantee that people all over the world would enjoy those human rights wherever they live. As nation states are sovereign, they bear the primary duty to realize those rights in their own territories. This leaves concrete implementation and enforcement of those rights to those nation states, albeit subject to inter-state normative discussion to try to reach agreed standards.

With that said, not every country however can immediately fulfil the right to social protection and all the recommendations that come with it. Most countries simply do not have the financial means or administrative capacity to set up a comprehensive social protection system overnight. That does not mean that those countries are necessarily violating the right to social protection, especially when states are making a good faith effort to fulfil the rights to the best of their (financial and administrative) capabilities. When this is the case, the international community can collaborate so that states in more advantageous situations assist states in less advantageous situations to implement more generous policies than they might otherwise be able to undertake on their own. To some degree, this can be overcome through state-to-state assistance, although in cases where either the donor or partner country faces difficulties—and in some cases as a general principle—the assistance has been provided through non-governmental channels. Thus, the primacy of the national obligation of the governments of states to their own people and the additional obligation of high-income countries to assist low-income countries, should combine to offer a measure of social protection to everyone in the world. So when we speak of "social protection floors", we speak about states taking responsibility to provide at least a minimum level of that protection not only to their own people, but to also assist other states to provide a measure of protection to their people. The objective, most simply stated, is "leave no one behind."

One place to start is a dedicated financing facility that enables the global community of nations to systematically, consistently and sustainably support national efforts in low-income countries

that cannot yet afford to finance their own social protection floors to reduce poverty, insecurity and inequality. The international commitments to the 2030 Agenda and the Addis Agenda on Financing for Development embody an obligation to assist countries in developing their social protection systems, including floors. To this end, additional official development assistance earmarked for helping to build social protection floors is warranted. Establishing a multi-donor trust fund could facilitate such a coherent international mobilization effort. As was mentioned previously, the mandate of such a fund would inter alia be to:

1. support the introduction or completion of national social protection floors; co-finance – on a transitional basis – the costs of transfers, if they would otherwise require a prohibitively high share of the country's total tax revenue;
2. provide capacity strengthening for governmental and civil society actors involved in social protection;
3. ensure that national social protection floors are sustainable and resilient in the event of shocks (eg. pandemics, climate change related extreme weather events etc.) that affect entire communities;
4. support the strengthening of domestic resource mobilisation.

What this study has tried to do is to show how co-financing on a transitional basis is possible. It showed how to expand fiscal space through the help of a global contribution, which would ultimately phase out within a decade by a variety of scenarios, that could be discussed and examined, which would ultimately significantly increase resources available for SPFs. Additionally, this document sheds light on the issue of financial sustainability and resilience of the social protection floor, which could be further built upon. Finally, the study leads the way to investigate the other aspects of the mandate of the fund to ensure the sustainability and resilience of the social protection floors in both contexts.

SDGs

Although not quantitatively measured, this study showed by using two country examples how different packages can indirectly contribute to the achievement of a large number of other SDG Goal and targets, such as *SDG 2 "Zero Hunger"*, *4 "Quality Education"*, *5 "Gender Equality"*, *8 "Decent Work and Economic Growth"*, and *10 "Reduced Inequalities*. Extending coverage, hence achieving *SDG 1*, *Target 1.3* is an essential entry point for the achievement of *SDG 2*, but also *SDG 4*, and *SDG 8* (specifically, *Target 8.7* on child labor).

Overall, the development of comprehensive social protection systems contributes to the promotion of gender equality (*SDG 5*). Because women, from a younger age, are traditionally burdened with unpaid care and domestic work (*Target 5.4*), poverty relief and the protection of children can free a significant proportion of women from these burdens, and promote women's own empowerment. Additionally, parental leave benefits (recognizing and promoting shared responsibilities of parents) can contribute to the same target.

Moreover, specific programs, such as unemployment protection (included in the universal benefits package) have effects that go beyond income smoothing and poverty prevention. That is, unemployment programs can also contribute to the achievement of *SDG 5* promoting gender equality and women's empowerment. Moreover, protection against unemployment and public work programs can also contribute to the reduction of inequality, protecting human capital and enhancing the productive capacity of specific groups (*SDG 10, Target 10.4*).

Finally, the attainment of essential health care coverage, because granting a healthy workforce, is considered to be conducive of promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work (*SDG 8*). Consecutively, and by reducing the burden of Out-Of-Pocket health expenditures, essential health care

coverage is a means for the attainment of *SDG 1*, *5*, and *10,* too. What this study tried to show is that such a fund could and should integrate financing for the health aspect of social protection, in addition to contributing to minimum income security.

Long–term crisis resilience

Despite large resource mobilisation during the COVID-19 pandemic, according to the World Social Protection Report 2020–22, the financing gap for building social protection floors has widened by approximately 30 per cent since the onset of the COVID-19 crisis (ILO 2021). The widening of these differences is most often occurring due to the urgency that the pandemic bears, as it has been particularly challenging for countries with already constrained fiscal capacities. Currently, 53 per cent of the global population has no income security from their national social protection system (ILO, 2021). To achieve a basic level of social security through a nationally defined social protection floor, middle-income countries would require 3.1 to 5.1 per cent of GDP. This percentage jumps to 15.9 per cent in low-income countries, which translates to an annual investment that amounts to US$77.9 billion globally. Other estimates (Valverde et al 2020) put the gap at 18.2 per cent of GDP, amounting to US$92.5 billion annually to fill it. Filling such gaps is one of the major challenges for human development today and is a matter of great urgency. But, moving consistently towards this objective especially in low-income countries through domestic resource mobilisation alone is not realistic. As the overview by Gentilini et al. (version 14 May 2021) showcases, there has been a significant increase of social protection measures taken during the COVID-19 pandemic from 103 measures in 45 countries at the onset of the pandemic and 3,333 in 232 countries by mid-May 2021.

Just like many other countries, the two countries in this study had also taken measures which build to an extent on their existing schemes and also incorporate other actors pending the vulnerabilities of the population. Social protection is a vital investment for socio-economic development and for the resilience of people faced with natural and climate disasters as well as economic and humanitarian crises. Against this background, the consequences of the pandemic showed how vital it is that responses should go far beyond the crisis itself, including measures to assist people and protect them against falling into poverty and food insecurity. This particularly highlights the crucial importance of inclusive, comprehensive and stable social protection systems that respond to differentiated needs across population and income groups, and that can be scaled up rapidly in times of crisis.

Previous global crises demonstrated the undeniable importance of social protection in economic development and the recovery process. The key lesson learned: social protection is not only an important response mechanism and automatic social and economic stabilizer in times of crisis but is also an investment in human capital and labor productivity ensuring sustainable long-term growth and facilitating structural change.

7. Annexes

Annex A. Nepal's existing Social Protection programs.

Program	Beneficiaries	Expenditure (Millions NPR)
National Health Insurance	2,715,154 (9.5% of Tot Pop)	6,000 (0.16% of GDP)
Poor Citizens Medical Treatment Fund	23,214	1,102 (0.03% of GDP)
Safe Motherhood Program	425,000 (78.2% of new-borns)	1,080 (0.03% of GDP)
Medical allowance for elders	N/A	1,146 (0.4% of GDP)
Free treatment of heart disease and cancer for selected individuals	2,958	N/A
Nutritional supplements under integrated Child Health and Nutrition Program	N/A	400 (0.01% of GDP)
Tuberculosis Control	N/A	N/A
Control of AIDS & STDs	N/A	N/A
Child grant	682,113 (25.2% of pop. 0-5)	2,901 (0.08% of GDP)
Scholarships under SSDP100	3,157,823 (54.9% of pop. 5-14)	2,895 (0.08% of GDP)
Midday Meals	1,094,316 (30.6% of pop. 5-11)	40 (0.00% of GDP)
Food for Education (managed by WFP)	218,153 (6.1% of pop. 5-11)	158 (0.0% of GDP)
Higher Education Scholarships under University Grant Commission and Higher Education Reform Project	9,500 (0.7% of pop. 16-17)	N/A
SSF	169,275 (1% of Employed 15+)	34 (0.00% of GDP)
Single women and widows' allowance	705,564 (6.2% of women 15+)	N/A
Full disability allowance	41,844 (7.5% of PWD)	N/A
Partial disability allowance	73,784 (13.3% of PWD)	N/A
Endangered ethnicity allowance	24,042 (0.1% of Tot. Pop.)	N/A
PMEP	60,000 (12.7% of unemployed)	3100 (0.08% of GDP)
Income generation support for the poorest	N/A	253 (0.01% of GDP)
People's Residence Program	N/A	1250 (0.03% of GDP)
Public Food Distribution System	N/A	58 (0.00% of GDP)
YSEF Fund	38,000 (8% of unemployed)	175 (0.00% of GDP)
EVENT ii	115,000 (1.8% of unemployed)	1,407 (0.04% of GDP)
ENSSURE	N/A	1.722 (0.04% of GDP)
Women Entrepreneurship Development Fund	N/A	N/A
President's Women Upliftment Program	N/A	296 (0.01% of GDP)
Public Sector Pension	250089 (1.5% of employed 15+)	46,232 (1.2% of GDP)
Retirement gratuity and other benefits	N/A	1,6450 (0.0% of GDP)

Employees Provident Fund	600,000 (3.7% of employed 15+)	11730 (0.3% of GDP)
Senior citizen allowance	1,226,786 (74.2% of population 65+)	N/A
Citizens' Investment Trust	600,000 (3.7% of employed 15+)	N/A

Note: data from 2019.
Source: own elaboration of data from The World Bank (2021)

Package	SPF Pillar	Benefit	Level	Eligibility	Amount	Administrative costs
UNIV	SPF Pillar 1: Access to essential healthcare, including maternity care	NHI	Total expenditures		Total expenditures	
	SPF Pillar 2: Basic income security for children	Child allowance	Household	All children in a household. Progressive roll-out to all children aged 0-17	30% of the poverty line	2.5% of transfers
		Child disability allowance	Household	All children with disability	90% of the poverty line	2.5% of transfers
		Endangered ethnicity allowance	Individual		Predefined from existing SP programme	
		Unemployment benefit	Individual	Unemployed - beneficiaries of PMEP, YSEF and EVENT ii	100% of the poverty line, for 3 months	2.5% of transfers
		PMEP	Individual		Predefined from existing SP programme	
		YSEF Fund	Individual		Predefined from existing SP programme	
	SPF Pillar 3: Basic income security for persons of active age	Event ii	Individual		Predefined from existing SP programme	
		Public works	Individual	One adult for vulnerable household (average working-age individuals in hh and how many hh could receive the transfer)	100% of the poverty line, for 3 months	15% of transfer (Higher)
		Safe Motherhood program	Individual		Actual cost adjusted by inflation + 100% poverty line for 14 weeks	
		Disability allowance 15+	Individual	Persons with disabilities	100% of the poverty line	2.5% of transfers
	SPF Pillar 4: Basic income security for older persons	Senior allowance (Social Pension)	Individual	Individuals reaching pensionable age. 65+	100% of the poverty line	2.5% of transfers
		Old Age social protection benefit	Total expenditures			
TARGETED	SPF Pillar 1: Access to essential healthcare, including maternity care	Essential Health Coverage	Total expenditures	ALL	Predefined from existing SP programme	
	Covering the Poverty Gap	Total Social Protection (non-health	Total expenditures		Predefined from existing SP programme	
		Targeted transfer	Household			20% of transfers

Notes:
Source: Authors' elaboration.

Annex C. Uganda's existing Social Protection programs

Program	Beneficiaries	Expenditure (Billion UGX)
Active community-based health insurance schemes	138,000 (0.3% of tot. pop.)	N/A
Private Health Insurance	700,000 (1.5% of tot. pop.)	N/A
Orphans and Vulnerable Children program	5,643,654 (29% of children 0-14)	N/A
Northern Uganda Social Action Fund 3 (NUSAF 3)	475,935 (1.04 % of tot. pop.)	51.5 (0.04 % of GDP)
NSSF Invalidity Benefits	N/A	33.7 (0.02 % of GDP)
NSSF Survivorship Benefits	N/A	8.0 (0.01 % of GDP)
NSSF Withdrawal Benefits	N/A	156.3 (0.11 % of GDP)
NSSF Exempted employee benefits	N/A	45.2 (0.03 % of GDP)
NSSF Emigration grant benefits	N/A	47.9 (0.03 % of GDP)
Youth Livelihood Program (YLP) [A]	N/A	3.3 (0.002 % of GDP)
Uganda Women's Entrepreneurship (UWEP) [A]	N/A	33.0 (0.02 % of GDP)
Development Responses to Displacement Impacts Project (DRDIP)	N/A	28.0 (0.02 % of GDP)
Senior Citizen Grants (SCG) [B]	304,155 (0.66% of tot. pop.)	25,000/month (0.07 % of GDP)
NSSF Old Age	N/A	205.1 (0.15 % of GDP)
Public Service Pension Scheme (PSPS) [C E]	408,119 (0.89% of tot. pop.)	375,500/month
Armed Forces Pension Scheme (AFPS) [C D E]	30,000 (0.06 % of tot. pop.)	185,000/month
Parliamentary Pension Scheme (PPS) [C F]	989 (0.002 % of tot. pop.)	2.8 (0.002 % of GDP)
Voluntary Segregated Occupational Schemes [C F]	35,681 (0.07 % of tot. pop.)	90.0 (0.06 % of GDP)
Umbrella Schemes [C F]	15,723 (0.03 % of tot. pop.)	33.0 (0.02 % of GDP)
Supplementary Voluntary Individual Schemes [C]	2,310 (0.005 % of tot. pop.)	N/A

Notes: [A] Budget allocated in 2020. [B] Total has been calculated by the monthly amount (UGX 25,000) times 12 (months) times the total amount of beneficiaries in 2020 (304,155). [C] Apart from the SCG, the number of individuals refer to the active members and not the recipients of the benefits. [D] Administrative data and stakeholder interviews (MoGLSD, 2020). [E] Average benefit (MoGLSD, 2020), total amount cannot be calculated because number of beneficiaries is unknown, only number of active (contributing) members is known. [F] Benefits values paid from 2019, latest report (URBRA, 2020).
Sources: Authors' elaboration.

Annex D. Uganda's simulated social protection benefits.

Package	SPF Pillar	Benefit	Level	Eligibility	Amount	Administrative costs
UNIV	SPF Pillar 1: Access to essential healthcare, including maternity care	Essential Health Coverage	Total expenditures	ALL	Total expenditures	
	SPF Pillar 2: Basic income security for children	Child allowance	Household	All children in a household. Progressive roll-out to all children aged 0-17	30% of the poverty line	2.5% of transfers
		Child disability allowance	Household	All children with disability	90% of the poverty line	2.5% of transfers
	SPF Pillar 3: Basic income security for persons of active age	Unemployment benefit	Individual	Individuals recorded as unemployed	100% of the poverty line, for three months	2.5% of transfers
		Public works (NUSAF3)	Individual	One adult for poor household (average working age in hh and how many hh could receive the transfer)	100% of the poverty line, for 3 months	15% of transfers (Higher)
		Maternity (parental) allowance	Individual	Pregnant women or one parent of a new-born child	100% of the poverty line, for 14 weeks	2.5% of transfers
		Disability allowance	Individual	Persons with disabilities	100% of the poverty line	2.5% of transfers
	SPF Pillar 4: Basic income security for older persons	SCG (Social Pension)	Individual	Individuals reaching pensionable age. Three age options: 65+, including existing SCG beneficiaries	100% of the poverty line	2.5% of transfers
TARGETED	SPF Pillar 1: Access to essential healthcare, including maternity care	Essential Health Coverage	Total expenditures	ALL	Total expenditures	
	Covering the Poverty Gap	Total Social Protection (non-health	Total expenditures		Total expenditures	
		Targeted transfer	Household			20% of transfer

Notes:
Source: Authors' elaboration.

Annex E. Poverty reduction estimates in Nepal

Poverty Line	Measure	Poverty Headcount	Poverty Gap Index	Severity Gap Index	Poverty Gap as GDP%
National poverty line	Pre-Transfers	31.18%	6.01%	0.0022	1.17%
	UNIV Package	9.04%	1.13%	0.0001	0.22%
	Rel. Diff. UNIV	*-71.0%*	*-81.2%*	*-96.1%*	*-81.2%*
	UNIV/MOD Package	11.03%	1.42%	0.0001	0.28%
	Rel. Diff. UNIV/MOD	*-64.6%*	*-76.4%*	*-93.8%*	*-76.4%*
	TARGETED Package	0.00%	0.00%	0.0000	0.00%
	Rel. Diff. TARGETED	*-100.0%*	*-100.0%*	*-100.0%*	*-100.0%*
$1.90 PPP poverty Line	Pre-Transfers	14.87%	2.29%	0.0003	0.36%
	UNIV Package	2.32%	0.23%	0.0000	0.04%
	Rel. Diff. UNIV	*-84.4%*	*-89.8%*	*-98.6%*	*-89.8%*
	UNIV/MOD Package	2.88%	0.30%	0.0000	0.05%
	Rel. Diff. UNIV/MOD	*-80.7%*	*-86.8%*	*-97.7%*	*-86.8%*
	TARGETED Package	0.00%	0.00%	0.0000	0.00%
	Rel. Diff. TARGETED	*-100.0%*	*-100.0%*	*-100.0%*	*-100.0%*

Notes: Rel. Diff. stands for relative difference and it is calculated in respect to pre-transfers values.
Source: Authors' elaboration

Annex F. Poverty reduction estimates in Uganda

Poverty Line	Measure	Poverty Headcount	Poverty Gap Index	Severity Gap Index	Poverty Gap as GDP%
National poverty line	Pre-Transfers	13.33%	3.35%	0.0014	0.80%
	UNIV Package	6.37%	1.40%	0.0002	0.33%
	Rel. Diff. UNIV	*-52.2%*	*-58.3%*	*-85.8%*	*-58.3%*
	UNIV/MOD Package	8.86%	1.97%	0.0004	0.47%
	Rel. Diff. UNIV/MOD	*-33.5%*	*-41.2%*	*-70.1%*	*-41.2%*
	TARGETED Package	0.00%	0.00%	0.0000	0.00%
	Rel. Diff. TARGETED	*-100.0%*	*-100.0%*	*-100.0%*	*-100.0%*
$1.90 PPP poverty Line	Pre-Transfers	35.95%	11.85%	0.0153	4.76%
	UNIV Package	27.50%	7.70%	0.0059	3.09%
	Rel. Diff. UNIV	*-23.5%*	*-35.0%*	*-61.2%*	*-35.0%*
	UNIV/MOD Package	31.08%	9.29%	0.0088	3.73%
	Rel. Diff. UNIV/MOD	*-13.5%*	*-21.6%*	*-42.6%*	*-21.6%*
	TARGETED Package	35.95%	9.86%	0.0102	3.96%
	Rel. Diff. TARGETED	*0.0%*	*-16.7%*	*-33.0%*	*-16.7%*

Notes: Rel. Diff. stands for relative difference and it is calculated in respect to pre-transfers values.
Source: Authors' elaboration

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