



International  
Labour  
Organization

# ▶ Extending social protection for all in Nepal

An analysis of protection gaps

## EXECUTIVE SUMMARY



Funded by the  
European Union



Social Protection  
& Public Finance Management

# Executive summary

---

**Social protection is at the forefront of the development agenda in Nepal, given its positive social and economic impacts.** In addition to the Constitution of 2015 recognizing social security as a right to all citizens in Article 43, the 15th National Development Plan sets the goal “...to make social security and protection sustainable, universal, and accessible, for the implementation of civil rights and to strengthen the trust of citizens towards the state.” The Plan sets ambitious targets to achieve its goals, **including covering 60 per cent of the population with basic social protection schemes and the allocation of 13.7 per cent of the national budget for social protection by Fiscal Year (FY) 2023-24.** The 15th Development Plan also acknowledges the limitations of the existing system. This includes, low levels of coverage, the fragmentation between the programmes, and the lack of an overarching framework to better coordinate the sector.

The ILO Social Protection Floors Recommendation, 2012 (No. 202) provides a normative framework on how universal social protection can be achieved through two key elements: (i) the establishment of a **national social protection floor** that guarantees at least a basic level of social security for all persons in need of protection as a matter of priority; and (ii) ensuring higher levels of protection for as many people as possible, and as soon as possible.

**The R202 defines social protection floors (SPFs) as comprising a set of basic social security guarantees that ensure at a minimum, over the life cycle, access to essential health care and basic income security** to secure effective access to goods and services defined as necessary at the national level. While not all countries will be able to immediately put in place all components covering the entire population, the SPF provides a framework for progressive implementation that ensures a holistic and coherent vision of national social protection systems as a key component of national development strategies. A fundamental step for designing and implementing comprehensive SPFs is to measure the gaps in coverage, adequacy, and financing for social protection.

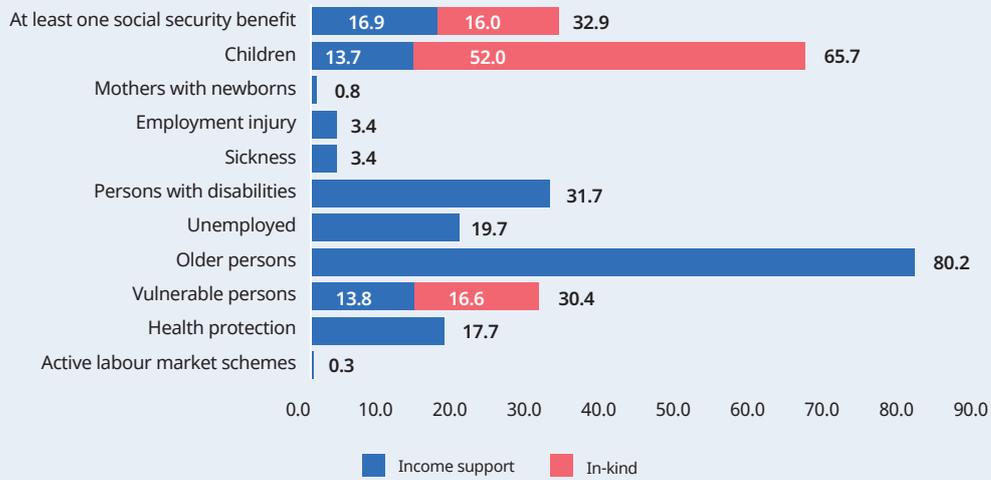
**The key objective of the report is to assess existing protection gaps based on the analysis of 16 key social protection programmes in implementation in Nepal in FY 2020-21.** The programmes identified for analysis constitute a significant percentage of the beneficiaries and absorbs more than 90 per cent of the total budget allocation for social protection programmes. This report is part of a series of studies on the potential pathways to extend social security for all in Nepal within a sustainable fiscal framework under the European Commission- Directorate-General for International Partnerships financed project on *Enhancing Social Protection System: Towards Investments for Results in Nepal*. The series will also include a costing exercise to estimate financing gaps and a fiscal space analysis on the potential avenues to mobilise domestic resources to finance economically sustainable social protection system in the country.

## State of social protection in Nepal

Approximately **32.9 per cent of the population was covered by at least one social security benefit in FY 2020-21. The total expenditure of social protection programmes in the same fiscal year was approximately 210 billion Nepalese rupees, equivalent to 4.9 per cent of the gross domestic product (GDP) and 16.6 per cent of total government expenditure.** Despite the progress, about **20.1 million Nepalis still remain without social protection.**

When observing protection against different SPFs risks in the life cycle or for specific groups, coverage varies significantly. Most older persons (80.2 per cent) had access to social security benefits in FY 2020-21. Similarly, social protection coverage of children is 65.7 per cent when accounting for in-kind support. Protection against work-related risks (for example, employment injury, unemployment, and lack of access to opportunity) is restricted to a small share of workers, health protection is still not available to many, and only 0.8 per cent of mothers with new-born have access to income protection. Figure 1 shows the state of social protection coverage in Nepal, by the different categories.

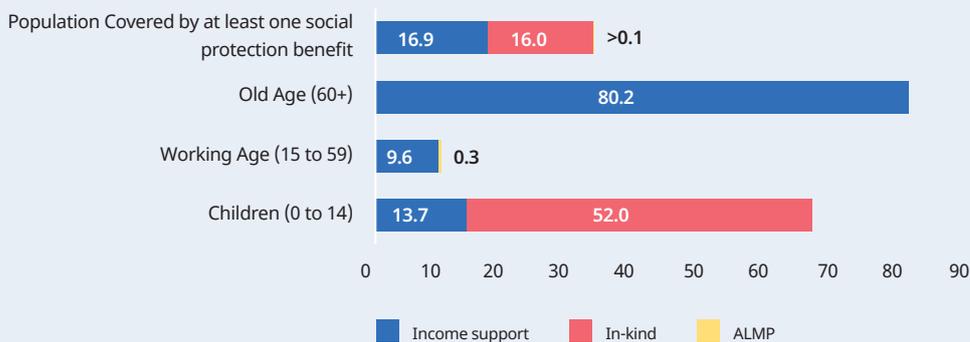
► **Figure 1 Effective social security coverage, by population group, FY 2020-21 or latest available year, percentage**



Source: Authors' calculation based on data provided by the Government of Nepal.

Figure 2 shows different levels of coverage, by income support, in-kind programmes and ALMP schemes, for children, working adults, and older persons. The high coverage for older persons is mainly driven by the universal social pension under the SSA programme that reaches approximately 1.8 million beneficiaries (of which 60.5 per cent are women). **65.7 per cent of the children have access to social protection, however, when taking into consideration only income support, this lowers to 13.7 per cent.** People of working age have the lowest coverage of 9.9 per cent, leaving approximately 16.9 million within the ages of 15-59 unprotected.

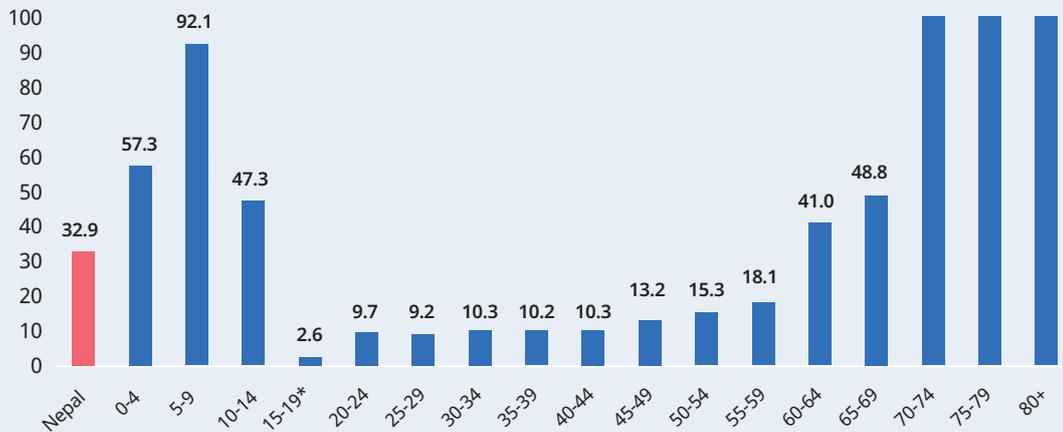
► **Figure 2 Effective social security coverage, by broad age groups and programme type, FY 2020-21 or latest available year, percentage**



Source: Authors' calculation based on data provided by the Government of Nepal.

Figure 3 further disaggregates effective coverage of social protection programmes, including in-kind benefits and ALMPs, by age groups.

► **Figure 3 Effective social security coverage, including in-kind benefits, by sex and age group, FY 2020-21 or latest available year, percentage**



Source: Authors' calculation based on data provided by the Government of Nepal.

\* The authors excluded the scholarships and school meals from the 15-19 age group because these programmes are not relevant for the working age this group refers to in the analysis. However, the total coverage of 32.9 per cent includes coverage of School Meals and Scholarship Programmes for the 15-19 age group.

## State of social protection for children and families

The Government of Nepal implements a combination of income support programmes (through cash transfers) and in-kind benefits for children and their families. **Approximately 65.7 per cent of children between the ages of 0-14 are covered by at least one social protection benefit.** Most of the coverage is driven by in-kind support, particularly the School Meals and Scholarship Programmes, with the income support being solely provided by the Social Security Allowance (SSA) Programme, mainly from the Child Grant. Furthermore, investments in child sensitive social protection programming needs to be increased, as these programmes represent only six per cent of the total social protection expenditure, despite children constituting 60 per cent of the total beneficiaries.

**However, when observing effective coverage as per SDG indicator 1.3.1, only 13.7 per cent of children have access to social protection.** The lower reach of income support programmes to children is reflective of the fact that Nepal is still in the process of implementing universal child benefits. The endangered ethnicities and the Disability Allowance under the SSA are categorical and targets specific groups within the population. Nonetheless, it is important to note that even when the Child Grant reaches up to two children per mother up until they are five years old, currently there are no broad schemes offering cash support to families with children aged five to 14, which in turn does not protect them against the risks associated with this age group, such as child labour or child marriage.

While the overall coverage of children by social protection programmes is relatively high, **income support remains very limited**, and mostly concentrated for children between the ages of 0 and four years old. Even then, benefit levels for this age group are low. For example, the Child Grant covers approximately **36.3 per cent of children between the ages of 0 and four, and the monthly benefit of the scheme is equivalent to only 4.6 days of a child's minimal consumption needs.**

## State of social protection for women and men of working age

**Access to social security for people of working age is the least prevalent form of social protection in Nepal.** In FY 2020-21, approximately 16.9 million women and men of working age had no protection – an issue of serious concern given the recent pandemic. Contributory programmes are currently targeted to workers in the formal sector, and non-contributory measures in implementation are targeted to specific categories or groups leading to a gap in the protection of the categories of workers described as vulnerable.

The Government of Nepal implements a combination of different types of schemes under the contributory and non-contributory schemes, complementing social security provision with active labour market programmes, including vocational training and other measures. Despite the range of schemes available only **9.9 per cent (or 1.8 million) of the total population between 15-59 years have access to either income support, in-kind benefits, or ALMPs, leaving approximately 16.9 million people unprotected.**

Both non-contributory income support and contributory measures have low levels of coverage, reaching 5.3 per cent and 4.3 per cent of the population, respectively. Low coverage of contributory measures can be attributed to the fact that the mandatory social security schemes under the SSF have been recently implemented and coverage is limited to workers in the formal sector only. The contribution to the EPF is mandatory for public sector employees only with private sector enrolment to the EPF being voluntary.

Despite the mix of two contributory programmes, a significant percentage of workers in the formal sector do not yet have access to social security. The gap is larger if considering workers in informal employment, which absorbs approximately 86.4 per cent of the total workers, who are currently unprotected and cannot join the SSF until specific provisions are enacted. Likewise, non-contributory measures in implementation are targeted to specific categories or groups, leading to a gap in the protection of the categories of workers described as vulnerable. Thus, the proportion of the missing middle in Nepal, often neither contributing to social insurance schemes nor benefiting from non-contributory options, is very large.

## Protection against work-related risks

### Maternity protection

**Coverage for maternity protection is very low and stands at 0.81 per cent of women giving birth.**

This is significantly lower than regional and global averages. The low coverage can be attributed to the very recent implementation of the contributory schemes under the SSF. While the scheme has the potential to originate substantial changes to the current system once the targeted coverage is reached, significant gaps exist for women giving birth in informal and self-employment.

In addition to the provisions provided under the SSF and the employer liability system, it is important to note that the Government of Nepal also implements the **Safe Motherhood Programme** that includes a cash incentive for pregnant mothers in the form of transportation subsidies. Coverage of the programme stands at 62.1 per cent of women giving birth. The programme has been in implementation since 2005 with a strong institutional presence under the MoHP. Nonetheless, although the programme provides cash support for women to incentivize institutional delivery, and ante-natal and prenatal care, it does not provide financial support after birth, nor serve as an income replacement mechanism.

Further, gaps continue to exist in coordination across different institutions implementing programmes targeting pregnant women, new mothers and children, such as the Child Grant, the Safe Motherhood Programme, health insurance under the Health Insurance Board and the SSF, and maternity protection under the SSF.

### Employment injury or sickness protection

While there has been a gradual shift from employer liability for employment injury and sickness protection, including insurance through a private carrier, to social insurance protection, in view of the introduction of contribution-based social security, the reliance is still high. **Only 3.4 per cent of women and men in the labour force have protection in case of both employment injury and sickness protection.** High degrees of reliance on employer liability measures not only leads to difficulties in accessing protection but also leaves workers in informal- and self-employment situations without any protection.

This is further exacerbated by the fact that currently, employment injury and sickness protection is only available to those in the formal sector through their contribution to the Social Security Fund (SSF). Low coverage rates are reflective of a young system but are also reflective of weak compliance mechanisms to ensure mandatory contributions and enrolment. Extending effective coverage of the SSF, including for workers in the informal economy is essential to ensure more workers have access to work injury and sickness protection.

### Unemployment protection

Unemployment benefits play a fundamental role in preventing individuals and households from falling into

poverty and vulnerability. While the Contribution-based Social Security Act, 2017 makes provision for an unemployment protection scheme under the SSF, it is not yet implemented. There are limited programmes providing income support and pathways towards entrepreneurship currently in implementation. **These programmes reach approximately 19.7 per cent of the unemployed population.** Without comprehensive provisions for unemployment protection, protection gaps are likely to aggravate in the context of employment shocks, such as those induced by the COVID-19 crisis.

## Disability protection

Disability-inclusive social protection systems guarantee effective access to healthcare and income security, including coverage of disability-related costs, for all people with disabilities. The **coverage of social security for persons living with a disability in Nepal is 31.7 per cent.** High coverage of disability protection is mainly due to the SSA's Disability Allowance. However, despite encouraging coverage, there are reported issues on the identification and assessment of degrees of disabilities, which can affect proper access to the benefits.

## State of social protection for older women and men

Access to old age protection is the most prevalent form of social protection in Nepal, both in comparison to the social protection for children and for working women and men. In FY 2020-21, **80.2 per cent of older persons benefited from at least one social security scheme**, outperforming global and regional averages which were at 77.5 per cent and 73.5 per cent coverage, respectively. The relatively good coverage of older persons is a result of the successful implementation of the universal pensions under the SSA, representing 86.8 per cent of the total number of beneficiaries receiving old age pensions.

An additional measure to understand the coverage of old age protection is to look at the active contributors to the pension system as a percentage of the working-age population and the labour force. Currently 1.31 per cent of the working age population and 3.36 per cent of the labour force are actively contributing to the pension system. The Government of Nepal has implemented contribution-based social security and pensions under the SSF, and the contributory system is slowly evolving. Its mandatory nature for all workers has immense potential to increase the share of pensions deriving from contributory schemes.

The Nepali pension system includes a mix of contributory and non-contributory schemes, with each playing a different function, in line with international best practices. However, there needs to be a **coordinated approach between the contributory and non-contributory measures.** The SSA and the SSF pensions should work together and complement each other – particularly for vulnerable workers but also for the long-term fiscal sustainability of the social protection programming.

## Towards universal health coverage

One of the cross-cutting areas and a major source of risk is health. Nepal has made impressive gains in health outcomes in the past few decades, especially, when compared to other lower-income countries. The recent introduction of the national health insurance scheme, operated by the Health Insurance Board (HIB), has increased the access to health protection to thousands of Nepalis since 2018. Despite impressive gains and a rapid increase in the coverage of social health protection, **only 17.7 per cent of the population** is affiliated with a social health protection scheme, significantly below regional and global averages at 65.1 per cent and 66 per cent, respectively.

One of the key issues regarding social health protection in Nepal has been fragmentation and duplication across its two key institutions: the Social Security Fund (SSF) and the Health Insurance Board (HIB). Leveraging the coordination between the HIB and the SSF is key to ensure complementarity and to reduce duplications between programmes and a double burden on families.

## Expenditure in social protection programming

The total expenditure of social protection programmes in FY 2020-21 was approximately 210 billion rupees, or 4.9 per cent of GDP and 16.6 per cent of the national budget. Almost half of the total expenditure is concentrated in Public Sector Pensions, which alone amounts to 2.1 per cent of GDP, but reaches about 273,000 beneficiaries – less than three per cent of the total population covered by social protection in Nepal. The gradual shift to a contributory scheme implemented from 2019 onwards will reduce public

resources for the Public Sector Pensions and facilitate reallocation of investment to other social protection programmes in the future.

Other than the beneficiaries under the Public Sector Pensions, most groups of the population receive limited investments through social protection – with children receiving the least (only about six per cent of social protection expenditure), despite representing almost 60 per cent of the beneficiaries.

## Adequacy of benefits

Social security benefits should be at least enough to provide effective access to a set of basic goods and services, and benefits should be set at levels that relate directly to the actual cost of living. The report compares the transfer value of programmes against the minimum expenditure base (MEB) of 3,450 rupees/month/person, whereby MEB is defined as what a household requires in order to meet their essential needs.

In assessing adequacy of benefit levels for non-contributory programmes, other than the Old Age Allowance, the Endangered Ethnicity Allowance, and the Full Disability Allowance under the Social Security Allowance (SSA) Programme, the adequacy of benefits is low. Even for persons with disabilities, the MEB does not take into account their special needs, suggesting that the value of transfer is low.

Adequacy of benefits is especially low for children. For example, the monthly benefit of the Child Grant is equivalent to only 4.6 days of a child's minimal consumption needs. The food value for the MEB is equivalent to 2,250 rupees/month. The value of school meals is one sixth of the monthly cost for food requirements per person. The transfer value of the scholarships is the lowest and stands at 33 rupees/month.

Adequacy of benefits for employment-related schemes, such as the pensions and protection against work-related risks, the benefits meet the minimum standards set by the ILO's Social Security Minimum Standards Convention. Likewise, for public sector pensions, the estimate income replacement rate is 50 per cent, which is also above the ILO Convention 102 standard of 40 per cent. On the contrary, for the old-age protection pension under the SSF, the estimate income replacement rate is between 35 per cent and 60 per cent. But, for lower income earners and workers with shorter contributory careers, the resulting pension levels could be insufficient for a basic level of income, or even be lower than non-contributory pensions.

## Moving forward

There is a need to increase investment in social protection for children, as higher investments will yield short- and long-term gains in terms of development and poverty reduction for Nepal. Likewise, there is also a need to increase coverage of income support programmes, as income support provides protection against a wider range of risks. At the moment, in their early childhood years, children enjoy mainly income support from social protection, and for the majority, that shifts into in-kind support during the school years.

Extending social security to workers in the informal sector and the self-employed is one of the key ways for the country to achieve a target of 60 per cent of coverage. But it is important that the extension of coverage is framed within a broad strategy to promote formalization in Nepal.

Furthermore, considering the current levels of expenditure vis-à-vis the coverage levels of the population, it is difficult to assume that the Government of Nepal will be able to fully close the coverage gaps solely with non-contributory schemes. Therefore, contributory schemes, such as those implemented by the SSF and HIB, are of utmost importance to continue the extension of social protection coverage in Nepal within a limited government budget envelope. **Proper investments must be made to build the institutional capacities required to extend the schemes' coverage, and to facilitate the participation of all, including those with lower contributory capacities** (for example, by providing subsidies or contribution waivers).

Nonetheless, **a detailed costing of the policy options for closing the coverage gaps and a rigorous fiscal space analysis must be conducted** to support the Government in moving towards a more balanced allocation of public resources in social protection, which remains sustainable and affordable. These will be the subjects of the follow-up studies from this report.

Social protection is at the forefront of the development agenda in Nepal, given its positive social and economic impacts. In addition to the Constitution of 2015 recognizing social security as a right to all citizens in Article 43, the 15th National Development Plan sets the goal “...to make social security and protection sustainable, universal, and accessible, for the implementation of civil rights and to strengthen the trust of citizens towards the state.” The Plan sets ambitious targets to achieve its goals, including covering 60 per cent of the population with basic social protection schemes and the allocation of 13.7 per cent of the national budget for social protection by Fiscal Year (FY) 2023-24. At the same time, the Plan also acknowledges the limitations of the existing system including low levels of coverage, fragmentation between programmes, and lack of an overarching framework to better coordinate the sector.

The key objective of the report is to assess existing protection gaps based on the analysis of social protection programmes in implementation in Nepal. Key aspects covered include: analysis of coverage (effective and legal); the adequacy of benefit levels; and public investment and expenditure. The analysis also discusses how Nepal’s progress compares with other countries in the region and globally. The report provides a set of recommendations to close the coverage and adequacy gaps in the system and to move towards achieving Government targets for the sector and the sustainable development goals. This report is part of a series of studies on the potential pathways to extend social security for all in Nepal within a sustainable fiscal framework under the European Commission-Directorate-General for International Partnerships financed project on *Enhancing Social Protection System: Towards Investments for Results in Nepal*.

**ilo.org**

**ILO Country Office for Nepal**

Dhobighat-Nayabato, Lalitpur, Kathmandu, Nepal

T: +977 1 5555 777

F: +977 1 5550 714

E: Kathmandu@ilo.org

W: ilo.org/Nepal

