

# SOCIAL PROTECTION BUDGET BRIEF UPDATE: FY 2022/23



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## GLOSSARY AND ABBREVIATIONS

<b>CFT</b>	UNICEF Child & Family Tracker
<b>CBS</b>	Central Bureau of Statistics
<b>CP</b>	Child Protection
<b>CG</b>	Child Grant
<b>DoNIDR</b>	Department of National Identification and Civil Registration
<b>DoPM</b>	Department of Pensions Management, Ministry of Finance
<b>EU</b>	European Union
<b>FY</b>	Fiscal Year (June-May)
<b>GDP</b>	Gross Domestic Product
<b>GoN</b>	Government of Nepal
<b>MoEST</b>	Ministry of Education Science & Technology
<b>MoF</b>	Ministry of Finance
<b>MoFAGA</b>	Ministry of Federal Affairs and General Administration
<b>MoHP</b>	Ministry of Health & Population
<b>MoHA</b>	Ministry of Home Affairs
<b>MoICS</b>	Ministry of Industry, Commerce and Supplies
<b>MoLESS</b>	Ministry of Labour, Employment & Social Security
<b>MoWCSW</b>	Ministry of Children, Women and Social Welfare
<b>MoUD</b>	Ministry of Urban Development
<b>NPC</b>	National Planning Commission
<b>NPR</b>	Nepalese Rupee
<b>SA</b>	Social Assistance
<b>SDG</b>	Sustainable development goal
<b>SP</b>	Social Protection
<b>SPEE</b>	Social Protection Evidence and Evaluation
<b>SSAs</b>	Social Security Allowances
<b>UNICEF</b>	United Nations Children's Education Fund

## INTRODUCTION AND KEY FINDINGS

This budget brief uses data from the last three fiscal years (FY 2020/21, FY 2021/22 and the proposed budget for FY 2022/23) to update the Social Protection Budget Brief produced in FY 2020/21.<sup>1</sup> The major data sources are from the Red Books produced by the Ministry of Finance (MoF) for different fiscal years, the recently published Integrated Social Protection Strategy by the National Planning Commission (NPC), and data from the Department of National Identification and Civil Registration (DoNIDR), the department that implements the major social security allowances in Nepal. This budget brief examines the landscape of social protection in Nepal, looks at the total social protection budget allocations as reported in the red books, and reports on social security allowances for the elderly, widows and single women, people with disabilities, people belonging to ten endangered ethnic groups, Dalit children under five and all children under five in 25 districts of Nepal. The conclusion summarizes the main findings. The Annex contains additional useful information. The product has been financed by the European Union and produced by UNICEF, Nepal CO, and the SPEE section.

- There are 87 programmes that can be classified as social protection in Nepal, and these are being implemented by 13 ministries and agencies under them (NPC, 2023<sup>2</sup>). Despite so many programmes, vast swathes of the population remain uncovered by any social protection interventions. There is an urgency to integrate and harmonize these programmes while expanding coverage, especially for the youngest age groups.
- The total coverage of the largest of programmes such as social security allowances, social security, retirement gratuities, and employee provident funds is estimated to be less than 20% of the population (NPC, *ibid*). However, this may be an underestimate of social protection coverage because as of July 2022: some 5.7 million people have enrolled in the national health insurance plan although drop-out rates are also high: over 25%.<sup>3</sup> There are also school feeding and scholarships available to school-going children. Nevertheless, vast sections of society remain vulnerable to various social and economic risks and shocks.
- Social assistance allowances (9 types) absorb a significant share of the total SP budget allocation (estimated at 55% for FY 2022/23) and have reached over 3.6 million beneficiaries – 12.3% of the estimated population of Nepal. The budget allocation for FY 2022/23 is NPR 106 billion – which is more than half the total social protection budget allocation and close to 2% of GDP. However, the coverage of the child grant is still not universal, while the amount of the social security allowances for children under five (also referred to as the child grant) is also minimal at NPR 532 per month (compared to NPR 4000 per month for the social assistance allowances of those sixty- eight and over). These cash transfers not only have a skewed benefit structure in favor of the elderly but also a skewed coverage structure. Recipients of social security allowances for children comprise 33% of the total number of beneficiaries from the 9 different types of social security allowances covered but receive only 7% of social security expenditures (FY 2021/22). While a significant portion of the population over the age of 70 receive their social security allowances, only 45% of the total population of children under five receive their social security allowances (child grants).<sup>4</sup> There is an urgent need to expand coverage for this age group. It is also a prudent time now: because of the fertility decline noted in the most recent census (CBS, 2021) there will be a rapid decline in the total stock of children under five years.
- Benefit levels were raised in FY 2020/21 following the socio-economic shocks from COVID-19 containment measures. Child grant benefit levels increased from NPR 400 to NPR 532 while the benefit amount for those over the age of 70 doubled from 2000 to 4000 NPR per month. This situation of disproportionately raising the benefit levels of the elderly, along with a rising number

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<sup>1</sup> UNICEF, Social Protection Budget Brief FY 2020/21.

<sup>2</sup> National Planning Commission (NPC), Integrated National Social Protection Strategy, 2023

<sup>3</sup> Khanal et al., Health Research Policy and Systems, 2023 (17).

<sup>4</sup> Number of children receiving child grants is estimated to be about 1.1 million while the total number of children under the age of 5 is estimated to be 2.44 million (CBS, Census, 2021)

of those receiving different kinds of cash transfers for the elderly will pose the risk of rising costs. At the same time, the total number of children below the age of five is expected to drop imminently, thereby creating an opportune moment to systematically increase coverage. The fiscal burden will keep dropping each year after full coverage as the decline in fertility noted recently ensures there will be fewer babies being born compared to those crossing the age of 5.

- The growth in social protection expenditure allocations<sup>5</sup> has outpaced the growth in budgetary allocations except for FY 2019/20. In nominal terms, social protection allocations rose from NPR billion 125 in FY 2019/20 to NPR billion 159 million in FY 2020/21. In FY 2021/22 the SP budget allocation rose to 190 billion. The SP budget allocation for FY 2022/23 has been projected to be NPR billion 203. As a ratio to total budget allocations, the social protection budget allocations rose from 10.8% in FY 2020/21 to 11.5% in FY 2021/22 but dropped to a projected 11.3% in FY 2022/23. As a ratio to GDP, the allocations rose from 3.5% in FY 2020/21 to 4% in FY 2021/22. In FY 2022/23 it is projected to drop to 3.6%. Hence nominal amounts allocated for SP are rising, but as a share of the budget or GDP, it is projected to drop this fiscal year (FY 2022/23).
- The lack of robust vital registration data makes it difficult to accurately analyze the stock and flows of beneficiaries of the different social security allowance and other social protection programmes. Therefore, estimating total coverage of so many programmes become onerous. Similarly, the lack of unified budget codes for social protection makes it difficult to get an accurate estimate of allocated and actual expenditures on social protection. The only mention of social protection allocations in government budget documents is in the functional classification of budget allocations in each year's red books. This functional classification does not capture the entirety of social protection programmes in Nepal as it excludes health and school scholarships. The functional classification presented in the red books is very basic, does not fully adhere to the COFOG classification, and is not useful for any analytical purposes. Therefore, there exists an opportunity to present further details of social protection allocations and expenditures in the future. The urgency to develop special budget codes for items deemed to fall under social protection to get an accurate assessment of what social protection expenditures are in Nepal.
- An important caveat to the brief is that all the data refer to documented citizens. Hence, as an initial step to include all those in need in relevant SP schemes, it is critical to support the government's effort to strengthen its civil registration outreach programme, ensure the timely issuance of legal identity documents to all eligible persons/children (and include them in the Civil Registry), and continue advocacy to amend the Citizenship Act to enable citizenship documentation at birth and repeal gender discriminatory provisions for women and gender/sexual minorities.

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<sup>5</sup> The expenditure allocation data for SP are derived from the tables on functional classification of government expenditures (see Annex).

## THE SOCIAL PROTECTION LANDSCAPE IN NEPAL

This section outlines the social protection (SP) landscape in Nepal and identifies the major programmes and implementing agencies. SP in Nepal comprises three components: 1) unconditional social support (cash and in-kind assistance, disaster and risk mitigation, programmes to allow deprived and marginal groups access to essential services, school scholarships, etc.) 2) contributory based social security (social security pensions, other retirement benefits) and 3) labour market and employment programmes.

Social protection in Nepal has a rich history, starting from the introduction of pensions and retirement gratuities for the armed forces in 1934. Social security allowances for the elderly, disabled and widows were started between 1994 and 1996. In 2008, social security allowances for disability were introduced along with social security allowances for endangered ethnic groups. In 2009, social security allowances for children under five and single women were introduced. In addition to a set of laws and acts that make it possible for social protection programmes to be implemented in Nepal, the 2015 constitution of Nepal also guarantees social protection as a fundamental right through various articles and clauses (Articles 33-43, see Annex). Furthermore, Nepal's international commitments including the Sustainable Development Goals (SDGs) and the Convention on the Rights of Children (CRC) provide an important basis for the provision of SP in Nepal.

As per the recently published Integrated National Social Protection Strategy (NPC, 2023), there are 87 programmes that are classified as social protection in Nepal, and these are operated by 13 ministries and agencies working under them. A summary of the programmes as listed by NPC is reproduced in Table 1 below while a complete list of all the programmes and ministries is available in the Annex. The classification of NPC shows that 46 programme types can be classified as social assistance, 21 programmes can be classified as non-contributory social insurance/grants/subsidies, 11 programmes are classified under contributory social security, 6 programmes fall under labour market and employment, and 1 programme for legal assistance.

It should be noted that the classification does not follow global practices because many programmes listed under social insurance/grants/subsidies are contributory or collective risk-based, hence, they should be listed under contribution-based social security. On the other hand, programmes such as mother protection should fall under social assistance (SA) services. Similarly, some programmes classified as social security grants/subsidies such as the employees provident fund (EPF) fall under contribution-based social security.

There is an urgent need to rectify these classifications to avoid confusion. There is also a critical need to establish budget codes for all the programmes, so it becomes possible to track budgetary allocations and expenditures across all the ministries and agencies responsible for implementing SP programmes. Many programmes that are classified under SP also fall under other ministries' budgets (e.g., health and education) and following a strict codification of these programmes would avoid double counting of budgets (for instance the total social sector in Nepal comprises health, education, and social protection but many programmes defined as SP are also budgeted under the respective line ministries).

Despite the plethora of programmes, workers in the informal sector, those working for daily wages, those employed in small-scale manufacturing, and some other sectors lack adequate social protection. Many of the programmes focus on formal sector workers and therefore overall coverage is limited despite being allocated more than 11% of the total budget. This suggests that a majority of vulnerable and poor households do not fall under the ambit of SP in Nepal, despite a vast number of programmes. An overwhelming majority of these programmes are financed through taxes and operated by the Federal Government. Provincial and local governments have been allocated limited budgets in the provision of SP.

Table 1: Snapshot of SP programmes in Nepal

Programme Area/Major programmes	# of programmes
<b>Social Assistance</b>	<b>46</b>
Social Security Allowances	9
Rescue & Relief	4
Relief & Rehabilitation	2
Scholarships	10
School lunch	2
Immunization & disease control	3
Health care services	8
Free health checkups	6
Right to housing	2
<b>Social insurance &amp; subsidies/grants</b>	<b>21</b>
Mother protection	3
Child welfare	2
Safe housing	2
Social welfare	4
Interest, Insurance & Relief, Social Security fund, Employees provident fund, Health insurance, 3 <sup>rd</sup> party insurance for transport, Crop & Livestock Insurance	10
<b>Contributory Social Security programmes</b>	<b>11</b>
<b>Labour market &amp; employment</b>	<b>6</b>
<b>Legal assistance</b>	<b>1</b>
<b>Others</b>	<b>2</b>
<b>TOTAL</b>	<b>87</b>
Source: NPC, 2023	

The data suggest that there's scope for stronger coordination and improved coherence among the diverse set of programmes and implementing agencies. This is also a government priority as indicated in the Social Protection Integration Strategy published by the government (NPC, 2023). There are also proposed coordination mechanisms in the strategy which require support as the programmes are scattered across a wide range of ministries with diverse mandates. The need for integration is urgent. Integration would create fiscal space as many fragmented programmes would tend to have higher administrative and service costs and thereby compromise efficiency. Further, in the absence of unified budget codes as well as civil identification registries for SP programme beneficiaries, it becomes onerous to track beneficiaries, expenditures, and allocations for such a wide range of programmes.

It is not clear why Nepal needs 87 different schemes from either an equity perspective or a sustainability perspective. For example, as noted in the Integrated National Social Protection Framework (NPC, *ibid*), under the Ministry of Home Affairs (MoHA) the scholarship programme related to the martyr's family could be included in the scholarship programmes run by the Ministry of Education, Science, and Technology (MoEST). Some programmes in the fields of education, nutrition, and health could be merged into integrated child development programmes. There are also too many different ministries involved in the provision of SP in Nepal.

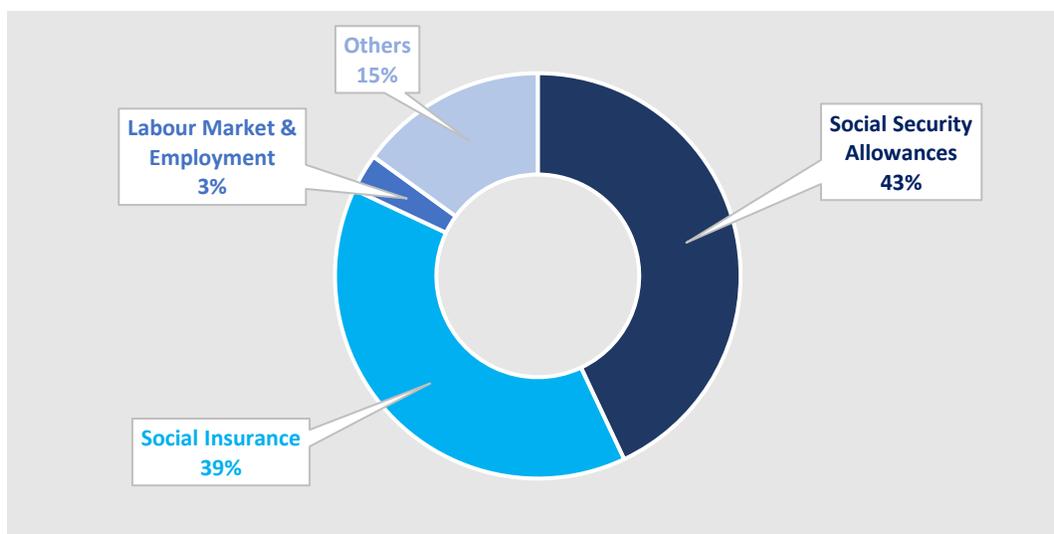


Figure 1: Breakdown of expenditure shares of major SP components (FY 2020/21)

The disaggregated data for the components of Nepal's social protection are not available for recent years. Social security allowances have begun absorbing a rising share of the social protection budget. It is estimated from previous FYs data (2020/21), that social assistance programmes absorb close to 43% of the total SP budget while contributory-based social insurance programmes such as pensions absorb nearly 39% (Figure 1, based on NPC, 2023). The remaining portion is used to finance labour market and employment programmes (3%) and a slew of other programmes (15%). However, more recently it should be noted that in FY 2022/23 more than half the allocations for the SP budget were for social security allowances (9 types).

It is also clear from the data (Figure 1) that social insurance programmes such as pensions, retirement benefits, and gratuities are also absorbing a sizable chunk of the SP budget (estimated at just under 40%). Since many of these are not fully funded, there are concerns, that with an increasing number of retirees, especially from the public sector, there could be further pressure on these expenditures. Recent actuarial studies of these funds do not exist, posing a threat to the sustainability of these systems. This situation also creates a risk of crowding out other categories of SP programmes such as social security allowances (which are the major component of social assistance in Nepal).<sup>6</sup>

Another issue that emerges (and will be addressed later in this brief) is the lack of coverage and uneven allocation of funds for some crucial issues, such as human capital development for young people so that they can become productive adults. The total coverage from the major programmes is estimated to be less than 20% of the population. Health insurance coverage is at only 25% of the population with high dropout rates. There are gaps along the life cycle, especially for the youngest and most vulnerable groups. These gaps, it will be argued, fail to address the opportunities provided by the 'demographic dividend' that Nepal could enjoy in the imminent future.

An important caveat to the brief is that all the data refer to documented citizens. Hence, as an initial step to include all those in need in relevant SP schemes, it is critical to support the government's effort to strengthen its civil registration outreach programme, ensure the timely issuance of legal identity documents to all eligible persons/children (and include them in the Civil Registry), and continue advocacy to amend the Citizenship Act to enable citizenship documentation at birth and repeal gender discriminatory provisions for women and gender/sexual minorities.

<sup>6</sup> The category others refer to a whole range of programmes including Gout control, scholarships, subsidies to farmers, etc.



## TRENDS IN SOCIAL PROTECTION BUDGET ALLOCATIONS

Budget allocations for social protection are only available under the functional classification of the government budget (COFOG) in each year's red book<sup>7</sup> (refer to Annex for further details). The nominal SP budget allocation<sup>8</sup> in Nepal has grown rapidly, rising from NPR 105 billion in FY 2017/18 to an estimated NPR 203 billion in FY 2022/23.<sup>9</sup> Examining the last six FYs, the SP budget allocation has been growing at an average rate of 15%. Except for FY 2019/20, the SP budget allocation has been growing faster than the overall budget allocation. However, the growth has been uneven and in FY 2022/23 the projected SP budget allocation grew at 7% rising from NPR 190 billion in FY 2021/22 to a projected allocation of NPR 203 billion in FY 2022/23 (Table 2).

Table 2: GDP, Budget allocation, and the SP budget allocation

Items	Fiscal Year						
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
GDP (NPR Bill.)	3,455.95	3,858.93	3,888.70	4,277.30	4,851.62	5,530.85	
Budget allocation (NPR Bill.)	1,278.99	1,315.16	1,532.97	1,474.65	1,647.58	1,793.84	
SP allocation (NPR Bill.)	104.65	131.54	125.40	158.89	189.90	203.34	
Inflation (% , y-o-y)	4.16	4.63	6.16	3.60	6.33	8.17	
SP/Budget Ratio (%)	8.18%	10.00%	8.18%	10.77%	11.53%	11.34%	
SP/GDP Ratio (%)	3.03%	3.41%	3.22%	3.71%	3.91%	3.68%	
Rate of growth (GDP)		11.66%	0.77%	9.99%	13.43%	14.00%	
Rate of growth (Budget allocation)		2.83%	16.56%	-3.80%	11.73%	8.88%	
Rate of growth (SP Budget)		25.70%	-4.67%	26.71%	19.52%	7.08%	
Data are in Bill NPR unless otherwise noted. Source: Redbooks various years							

Since growth rates in nominal GDP as well as the consolidated budget were higher, as a ratio of GDP, as well as a ratio to the allocated consolidated budget, FY 2022/23, has seen a decline (Figure 1). Furthermore, since inflation for the fiscal year 2022/23 is projected to be between 7 and 8%, the growth in real social protection budget allocations is much lower (5%).

The rates of growth of nominal GDP, the budget allocation, and the SP budget allocation are shown in Table 1. In FY 2020/21 even as the overall budget allocation had declined, the SP budget allocation rose significantly. These movements can be explained by the introduction of a slew of programmes aimed to boost the economy from the devastation caused by COVID-19 while benefit levels were also increased for the social security allowances. For instance, relief programs were conducted at the local level for workers in the informal sector, senior citizens, and disadvantaged communities who were most affected by the global Covid-19 pandemic in FY 2020/21. Around 18 lakh families benefited from this. In

<sup>7</sup> Following the COFOG guidelines, SP expenditure allocations do not include health insurance as that is covered under health, or school scholarships, which are accounted for under education. The COFOG classification, therefore, underestimates expenditure allocations for the entirety of SP programmes in Nepal.(Refer to Annex for further details).

<sup>8</sup> This document refers to the public sector budget allocations. The private sector also plays a role in social protection in Nepal by providing mechanisms for remittances, bank transfers, and other services. These are not factored into the expenditure allocation numbers.

<sup>9</sup> Based on budget data (Red Books). Note that the SP budget allocation is only defined under the functional classification (COFOG) of the budget.

addition to this, employment for 100 days was arranged under the Prime Minister's Employment Programme for those who lost their jobs (NPC, ibid).

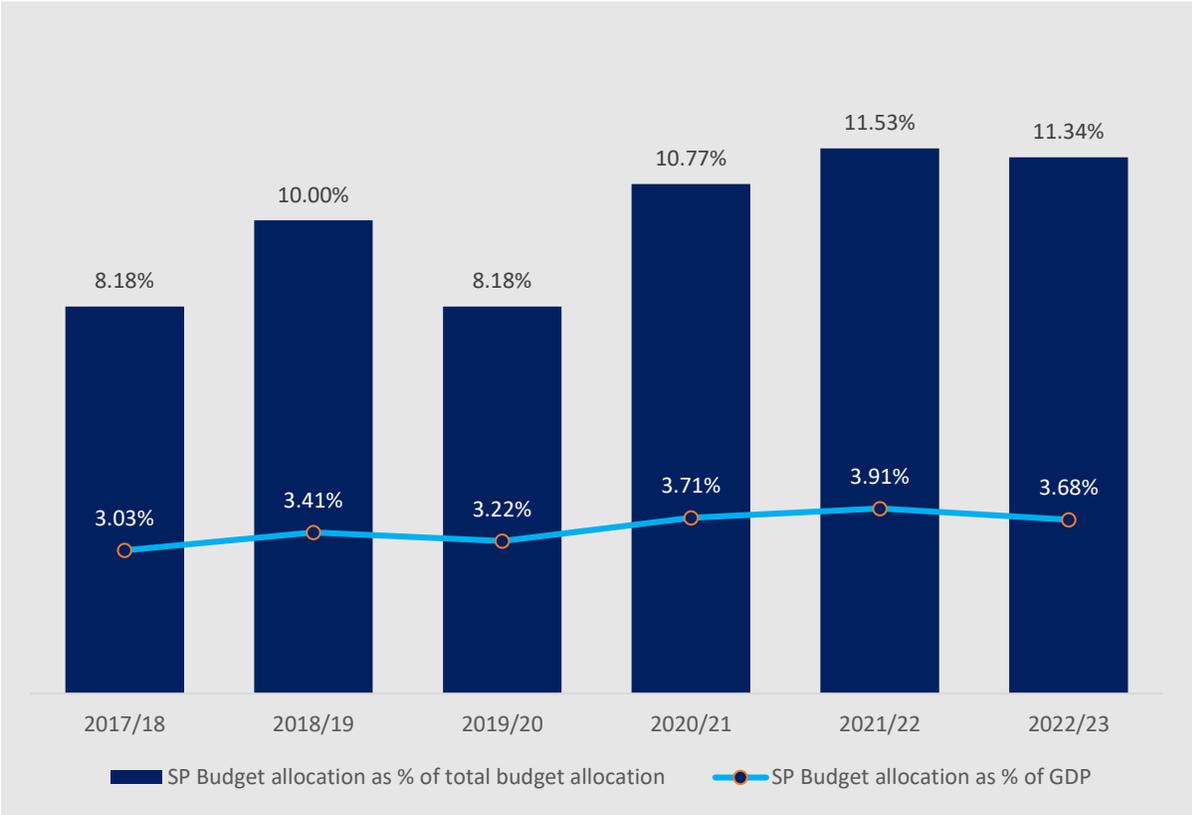


Figure 2: SP Budget allocation as per cent of the total budget and GDP

Increases in the nominal allocations for Social Protection, it will be shown later, are primarily driven by the social security allowances (especially towards the elderly) and social insurance schemes that must pay increasing retirement benefits as the population in Nepal ages.

An important issue to note is that the COFOG classification for SP does not include health insurance, as that would be covered under the health COFOG classification. However, it does include housing.

## SOCIAL SECURITY ALLOWANCES IN NEPAL

Social security allowances (nine programmes) are the biggest component of SP in Nepal, both in terms of coverage as well as expenditures.<sup>10</sup> The most recent data for FY 2022/23 (Table 3) suggest that coverage was estimated to be around 3.63 million beneficiaries for a total budgeted cost of NPR billion 106. In other words, 2% of estimated GDP is spent on approximately 12.3% of the population. Quite naturally, there are concerns about the limited coverage that is targeted mainly to the elder population in Nepal, absorbing a significant share of GDP, while at the same time leaving gaps along the life cycle. The very youngest (children under 5) receive the lowest social security allowances – NPR 532 per month (not yet universal for all children), while the social security allowances for the elderly (70+) are universally available to all those who cross the age of 70 and is NPR 4000 per month. Although other family members also benefit when an old age (70+) social security allowance is received, the situation presents a risk to the development of human capital in Nepal, especially for the youngest.

## TRENDS IN BENEFICIARIES

This section examines recent trends in the evolution of beneficiaries using data for the last few fiscal years. The eligibility criteria as well as the benefit levels for the most recent fiscal year are shown in Table 3 below. Although Dalit and Karnali beneficiaries are eligible to receive benefits at the age of 60, their benefit levels are smaller than their peers who live elsewhere but start receiving benefits at the age of 70. In addition, the benefits for single women, widows, and endangered ethnic groups have all been equalized while the benefit levels for children under five remain well below all other benefit levels.

Table 3: Estimated Beneficiaries, eligibility & benefit levels in FY 2022/23

Social Security allowances	Eligibility	Annual benefit amount (NPR)	# of beneficiaries
Old age	Age 70+	48,000	1,565,191
Old age (Dalit+Karnali)	Age 60+	31,200	167,206
Single women	Age 60+ and no earning members in the family	31,200	211,000
Widows	Widowed women with no earning members in the family	31,200	358,890
Endangered ethnic tribe	Belonging to 1 of 10 ethnic groups considered endangered	31,200	22,144
Disability (full)	Red Disability Card	Red: 47,880	63,954
Disability (Partial)	Blue Disability Card	Blue: 25,536	132,710
Child grant (Dalit)	All Dalit Children less than 5 years old	6384	351,890
Child grant (25 districts)	All children under 5 in 25 districts	6384	756,936
		TOTAL	3,629,921

<sup>10</sup> The data for this section have been provided by DoNIDR.

Beneficiaries of the old age social security allowances (all categories) comprise more than 43% of the beneficiaries and the two child grant allowances together comprise about 31% of beneficiaries (Figure 3). Another immediate conclusion is that the benefit levels vary among the different categories. Given this fact, and the enormous differences in benefit levels between the child grant and old age pensions (70+), it is obvious that fiscal pressures on social security allowances will stem from the old age social security allowances as the population in Nepal ages (Figure 3) while a fertility decline will curb the number of children under five.

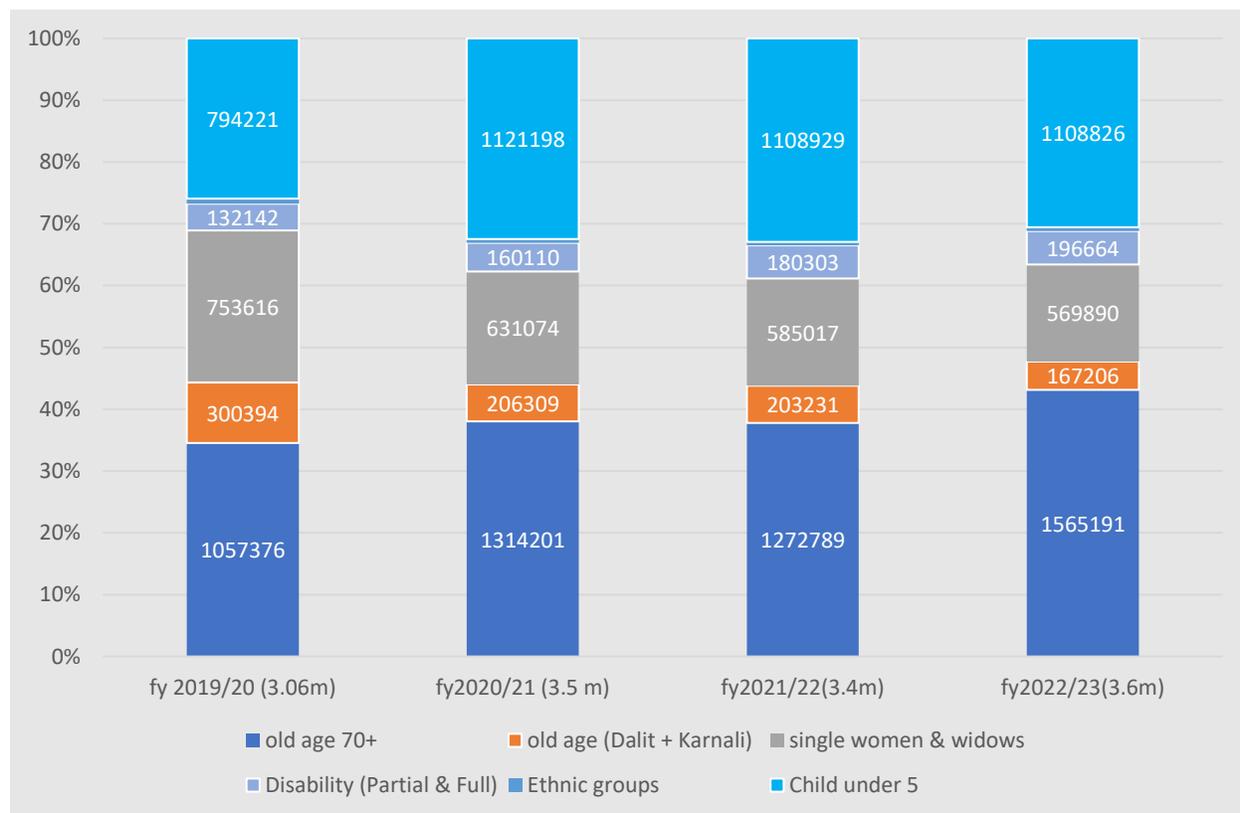


Figure 3: Evolution of beneficiaries

Examining the data for the last four fiscal years, the total number of beneficiaries has been fluctuating. It rose from 3 million in FY 2019/20 to 3.5 million in FY 2020/21. It then dropped to 3.4 million in FY 2021/22 and is estimated to rise to 3.6 million in FY 2022/23. The biggest increases over the last two fiscal years were for beneficiaries receiving old-age social security allowances (70+). This is due to population aging. There are also many women who are receiving benefits on account of being single and becoming widows. The lack of complete vital registration data regarding marriage and deaths makes it difficult to identify beneficiaries in these two categories. There is also a concern that this group of beneficiaries could rise in the future (on account of demographic aging and the fact that women’s life expectancy is larger than men’s).

As per the most recent Census (CBS, 2021) estimates, there are nearly 3 million people aged 60 and above in Nepal (roughly 10% of the population) of whom 1.25 million are at least 70 years old (4% of the population). The data suggest that coverage of the old age social security allowances should then be very high. On the other hand, there are an estimated 2.44 million children under the age of five (8% of the population). This suggests that coverage of the social security allowances for children is considerably lower (45%). Similarly, it has been estimated that some 647.7 thousand people (2.2% of the population) have some form of disability in Nepal, but less than 200 thousand receive any form of benefits.



## TENDS IN BENEFIT LEVELS

Expenditures on social security allowances are strongly correlated to benefit levels and the stock and flow of beneficiaries. While it is expected that the number of beneficiaries for many categories of social security allowances will expand over the next few years (except for children under five which will decline due to the drop in fertility reported in the latest census) benefit levels also play a key role in accelerating expenditures. The benefit level for old age, widows, and elderly women (OAWEW) increased from NPR 500 per month to NPR 1,000 per month in FY 2016/17 and then doubled again to NPR 2,000 per month in FY 2019/20. At the same time, the benefit levels for endangered ethnic groups and full disability increased from NPR 1,000 per month in FY 2014/15 to NPR 2,000 per month in FY 2016/17 and then to NPR 3,000 per month in FY 2019/20. The periodic adjustment in allowances also applied for partial disability: the benefit levels for partial disability rose from NPR 300 per month to NPR 600 per month in FY 2016/17 and then to NPR 1,600 per month in FY 2019/20. Across all categories of allowances except the child grant, the most recent benefit increase was NPR 1,000 per month. Child grants received the lowest benefit amount, rising from NPR 200 per month in FY 2014/15 to NPR 400 per month in 2016/17. Child grants were not adjusted, like the other allowances, in FY 2019/20.

In FY 2020/21, following the socioeconomic devastation caused by COVID-19, benefit levels were further increased. The benefit levels for the old age social security allowances were increased by another NPR 1000 to reach 4000 NPR per month. The benefit levels for the Dalit old age allowances, Karnali old age allowances, single women old allowances, and widow allowances were aligned to NPR 2600 per month. The allowances for partial disability rose to NPR 2128 per month and for full disability to NPR 3990 per month. Finally, the child grants (both types) were raised to NPR 532 per month. In other words, while the old age social security allowances rose by 100% the other allowances rose between 30-33% since the last increase in FY 2019/20 (Figure 4). The benefit levels for the child grant are considerably below all other benefit levels despite children being among the most vulnerable in Nepal.

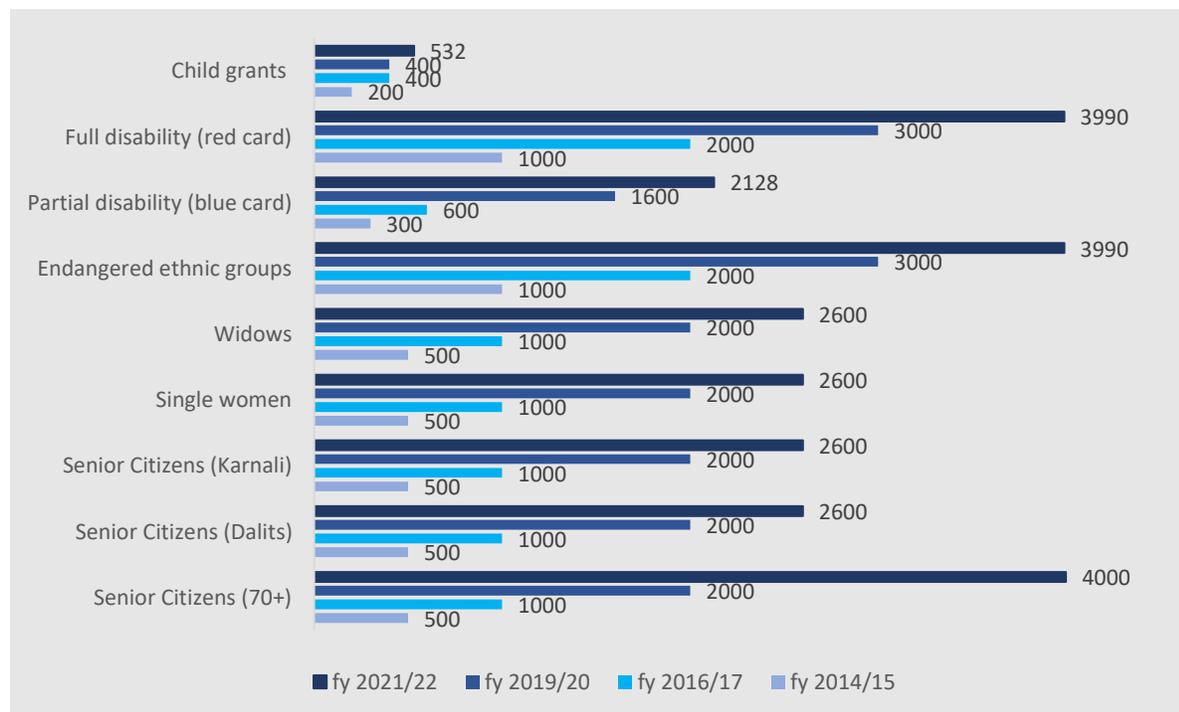


Figure 4: Movements in benefit levels over the years

## TRENDS IN EXPENDITURES

In FY 2019/20, expenditures for social security allowances were 66 billion and rose marginally to 69 million in FYU 2020/21. It then rose again in FY 2021/22 to NPR 96 billion. Total expenditures for FY 2022/23 they are estimated to be NPR 106 billion. A rising trend in the number of beneficiaries as well as increasing benefit levels translates directly into rising social security allowance expenditures, but it was heightened in 2021/22 due to the expansion in the benefit levels.

There are two concerns regarding these expenditures. The first relates to the sustainability of these expenditures while the second relates to the inequity underlying the benefit structure.

*Table 4: Trends in beneficiaries and expenditures of social security allowances*

<b>Fiscal Year</b>	<b>Total Number of beneficiaries</b>	<b>Total Expenditures</b>
2019/20	3.06 million	66.1 billion NPR
2020/21	3.45 million	68.6 billion NPR
2021/22	3.60 million	95.7 billion NPR
2022/23	3.63 million	105.7 billion NPR

The first concern is related to the fact that in FY 2022/23 it is estimated that some 2% of GDP will be spent on social security allowances or transfers to a small portion of the population (12.3%). Nearly 90% of these expenditures are for the elderly, single women, and widows – that comprise more than 60 percent of beneficiaries. These transfers are financed through taxes being paid by the working age group consisting of younger generations. Given the aging of Nepal’s population, payments related to old age as well as widowhood are expected to rise substantially soon. At the same time, data for the most recent fiscal year shows that recipients of the child grant, comprising 1/3<sup>rd</sup> of the total number of beneficiaries receive only 7% of the total social security allowances due to the low benefit level (Table 5).

With strengthened vital registration and a system of data management that accounts for both stocks and flows of beneficiaries moving in and out of the categories related to old age, single women, and widows, a proper projection can be made as to the future fiscal burden of these categories. Costs associated with these allowances are expected to increase rapidly. Robust vital registration will also prevent ‘double-dipping’ of benefits in case a household has both an elderly person as well as a single woman. The fact that benefit levels for the elderly have been rising rapidly also adds to this pressure. As is globally known, any system of allowances that is dominated by the older age groups leaves concerns that the youngest of Nepal’s population are still left vulnerable to social and economic risks and outside the ambit of public social protection entirely. The private provision of social protection is likely to be highly inequitable as lower-income groups may not be able to afford such expenditures.

The second concern is related to the first but concerns itself with the inequitable distribution of benefits among the different categories of allowances. The benefit amount of NPR 532 per month, although increased from previous benefit amounts, is still considerably low given the alarming stunting and wasting rates in Nepal. The benefit level for children is less than 15% of the benefit levels for the elderly (70+). The underlying basis for providing such a low level of transfers is not known and does not conform to any metric of nutrition or household income. This situation represents a missed opportunity for the human capital development of Nepal.

Table 5: Beneficiaries and expenditures (Pct) FY 2021/22

	% Beneficiaries	% Expenditures
Old age (70+)	38%	58%
Old age (Dalit + Karnali)	6%	7%
Single women + Widows	17%	21%
Disability (Partial + Full)	5%	6%
Child grants	33%	7%
Endangered ethnic groups	1%	1%
Total (%)	100%	100%
Total (N)	3.4 million	NPR 96 billion

Source: DoNIDR data (FY 2021/22). Note: The number of beneficiaries in FY 2022/23 has increased and the budgeted allocation for them is NPR 106 billion. Since the fiscal year is not yet complete, full details for each of these allowances is not available.

In FY 2021/22, those aged 70 and over comprise 38% of beneficiaries but absorb 58% of expenditures. Including the old age category for Dalits and Karnali residents as well as single women and widows, means that 61% of beneficiaries are receiving 86% of social security allowances. In addition, the stringent requirements for the disabled population to secure either blue or red cards means that large numbers of those who are disabled do not qualify for these social security allowances. Nepal still uses medical definitions for the identification of disability.

The coverage of child grants has not been expanding at an appropriate rate leaving large numbers of children exposed to socioeconomic hardships and risks. The most recent round of UNICEF’s Child and Family Tracker (CFT) round 10 which surveyed nearly 6,500 households with children in January 2023 shed light on important aspects of the child grants. Since it is not yet universal in all districts of Nepal, overall, 27% of households (with children under 5) reported receiving a child grant recently. In terms of population coverage, there are an estimated 2.43 million children under the age of five. The total number of child grant recipients (both types) is estimated at just over 1.1 million. Demographic coverage is at 45% of children. This suggests that there are gaps in coverage with most children under five not yet covered.

Efforts to expand the child grant should be prioritized as the gains from investing in its human capital, especially at the earliest years of life, are bound to be significant. A prudent expansion path would be to incrementally add 52 of the remaining districts, roughly 10 at a time so that universal coverage is achieved in the next five years. Since roughly 45% of children are benefiting from social security allowances, those not yet covered need to be added in over the space of 5 years. Because of the fertility decline noted in Nepal, the addition to this stock of the population will be slower than exits from this group (those crossing the age of 5). This implies that the total stock of children under five will decline and this is the most opportune moment to expand access. It will be cheaper in the future, and investing in the youngest also reaps future rewards through improved health and human capital outcomes that can increase future productivity in Nepal.

Another equity issue relates to the insufficiency of social security allowances for child grants. Benefit amounts per month are well below that offered to other categories of allowances: it is just over 1/8<sup>th</sup> the allowance allocated for the old age (70+) pension. As per the most recent CFT, nearly 75% of all respondents whose households were receiving the child grant indicated that the amount was not sufficient to meet the nutritional requirements of their children. This finding is alarming because the intention behind the child grant was to improve the child’s nutritional status. Residents from Bagmati, Lumbini, and Karnali were more likely to report insufficiency of the child grant for the nutritional needs of children. In addition, some 48% of households had to bear implicit costs in receiving the child grant in terms of transport or time spent in acquiring these grants. This suggests the need to revisit the benefit

levels allocated for children under five. Although households that were receiving the child grant had higher rates of birth registration as well as birth registration within the first 35 days of birth, there was unanimous agreement that lack of documentation was a major challenge in registering the birth of their child.

## CONCLUSION

Nepal has close to 90 different programmes that have been classified under social protection. These are implemented by 13 Ministries and agencies working within them. There is an urgent need to support the integration efforts of the NPC. There is also an urgency to develop and agree upon what programmes would constitute social protection in Nepal and how they should be tracked in the budget. The COFOG classification present in the budget does not contain any useful details. It becomes impossible to track true social protection expenditures and their coverage and impact otherwise as these are spread across many ministries and implementing agencies.

The coverage in the largest of these programs is estimated to reach fewer than 20% of the population. For example, the social security allowances which have begun to absorb a significant share (more than half) of the total SP budget allocation reach 12.3% of the population. The expenditure allocation in the budget for SP is currently estimated to be 3.6% of GDP and 11.3% of the total consolidated budget allocation.

Coverage of children under 5 has crossed the million mark. Nevertheless, more than half the children under the age of five do not receive social security allowances yet. It is universal in only 25 districts thus far. Efforts to systematically increase coverage within a period of 5 years must be accorded priority (for example, issues such as financial costs, design, and implementation) and assistance to do so. Due to the fertility drop noted in the most recent census, there will be a drop in the number of children below the age of 5. Hence in the future, when social security allowances for children under the age of 5 are universalized, there will be a drop in costs.

There is also an obvious issue regarding the level of benefits for children under the age of 5 years. Currently, benefit levels are NPR 532 for Nepal's youngest beneficiaries while it is NPR 4000 for Nepal's oldest beneficiaries. In addition to horizontal expansion of social security allowances for children under five by increasing coverage systematically to more and more districts, there also needs to be some vertical expansion in terms of providing a more meaningful level of transfer given the challenging nutritional status of children under five in Nepal. Some 75% of respondents in a recent UNICEF household survey (CFT, Round 10) felt that the benefit level was not sufficient to meet the nutritional requirements of their children.

In conclusion, it would be fair to ask the question of whether Nepal can afford to grow older under existing arrangements. There is going to be strong pressure on the social security allowances for old age. Stronger efforts to provide social protection to the very youngest children, those in schools, adolescents, and the working-age population are needed too.

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## ANNEX

Table 6: List of SP programmes in Nepal

### **Ministry of Home Affairs**

- 1 Senior citizen Allowance (all categories)
- 2 Single women & widows' allowance
- 3 Disability Allowance
- 4 Endangered indigenous tribe allowance
- 5 Child Nutrition Allowance
- 6 Relief and rescue for those who die in a disaster
- 7 Immediate Relief
- 8 For complete house damage due to disaster
- 9 Relief for cold wave affected
- 10 Relief and rehabilitation program

### **Ministry of Education, Science, and Technology**

- 1 Dalit Student scholarship
- 2 Girl Child Scholarship
- 3 Disability scholarship
- 4 Indigent scholarship
- 5 Marginalized and Endangered scholarship
- 6 Street children and child labor scholarship
- 7 Scholarship for the offspring of martyrs
- 8 Freed Kamlari Scholarship
- 9 Mountainous Residential Scholarship
- 10 Other scholarships
- 11 Sanitary Pad
- 12 School Mid-day meal program
- 13 Free Secondary Education
- 14 Free higher education

### **Ministry of Health and Population**

- 1 Safe mother program
- 2 Antenatal service
- 3 Delivery leave
- 4 Mother and child nutrition supplement program (Integrated child health and nutrition)
- 5 AIDS and Sexual Disease
- 6 Leprosy control program
- 7 Free treatment of communicable disease
- 8 Indigent health treatment program
- 9 Free checkup and treatment
- 10 Senior citizens health treatment
- 11 Cervical Cancer screening

- 12 Anti rabies vaccine
- 13 Treatment of snakebite
- 14 Uterus prolapse
- 15 Free vaccination service
- 16 Free basic health services

**Ministry of Women, Children and Senior Citizens**

- 1 Senior citizen's health treatment
- 2 Senior citizen transportation concession
- 3 Social Welfare program
- 4 President women upliftment program/air rescue services
- 5 Child Welfare Support
- 6 Day infant care center

**Ministry of Agriculture and Livestock Development**

- 1 Special agriculture production program
- 2 Crop and livestock insurance
- 3 Bird flu compensation distribution
- 4 Agriculture sector disaster management program
- 5 Grant to Sugarcane Producer Farmers
- 6 Interest Subsidy (MoF)
- 7 Herb farming technology and enterprise development grant

**Ministry of Commerce and Supply**

- 1 Grant to food transportation
- 2 Gout Control

**Ministry of Urban Development**

- 1 Safe citizen housing program
- 2 People Housing Program

**Ministry of Land Management, Cooperative and Poverty Alleviation**

- 1 Freed Haliya grant
- 2 Exemption in receiving land ownership

**Ministry of Law, Justice and Parliamentary Management**

- 1 Free legal aid

**Ministry of Finance/Ministry of Federal Affairs and General Administration**

- 1 Pension and gratuity
  - 1.1 Pension
  - 1.2 Gratuity
  - 1.3 Treatment expenditure
  - 1.4 Contribution-based pension fund
- 2 Employee Provident Fund
  - 2.1 Postpartum mother and infant care
  - 2.2 Death related ritual

- 2.3 Fatal disease treatment expenditure
- 2.4 Deduction for contributory fund
- 3 Social Security Fund
  - 3.1 Old age Protection
  - 3.2 Medical treatment and health security scheme
  - 3.3 Maternity security scheme
  - 3.4 Accident and disability security
  - 3.5 Dependent family protection
- 4 **Health Insurance Fund**
  - 4.1 Health Insurance Board Program
  - 4.2 Free Health Insurance

**Ministry of Labor, Employment and Social Security**

- 1 Foreign Employment Financial Support
- 2 Financial support to the family of the laborer who died during foreign employment
- 3 Financial Support to the worker who gets handicapped and seriously ill
- 4 Financial Support to the family of the worker in the foreign employment
- 5 Foreign Employment Scholarship (to be provided to the offspring of the worker who gets handicapped or die during foreign employment)
- 6 Prime Minister Employment Program
- 7 Contribution-based Social Security

**Ministry of Youths and Sports**

- 1 Youth Self-Employment Fund

Table 7: Constitutional rights to social protection

Article	Fundamental rights	Description
33	Rights to Employment	Every citizen shall have the right to employment.
34	Rights to labour	Every labourer shall have the right to appropriate remuneration, facilities, and contributory social security.
35	Rights related to health	Every citizen shall have the right to free basic health services from the State, and no one shall be deprived of emergency health services.
36	Rights related to food	Every citizen shall have the right to food sovereignty in accordance with the law.
37	Rights to housing	Every citizen shall have the right to an appropriate house.
38	Rights of women	Every woman shall have the right to safe motherhood and reproductive health. Women shall have the right to obtain special opportunities in education, health, employment, and social security, on the basis of positive discrimination
39	Rights of children	Every child shall have the right to name and birth registration along with his or her identity. A child who is a helpless, orphan, with disabilities, conflict victim, displaced, or vulnerable shall have the right to special protection and facilities from the State.
40	Rights of Dalits	Special provision shall be made by law to provide health and social security to the Dalit community.
41	Rights of senior citizens	Senior citizens shall have the right to special protection and social security from the State.
42	Rights to social justice	The indigent citizens and citizens of endangered ethnicities shall have the right to get special opportunities and benefits in education, health, housing, employment, food, and social security for their protection, upliftment, empowerment, and development
43	Right to social security	Citizens who are economically poor, infirm and helpless, helpless single women, with disabilities, and children, unable to take care of themselves, and belonging to endangered ethnicities shall have the right to social security, in accordance with law.

## FEDERALISM AND THE SOCIAL PROTECTION BUDGET ALLOCATION

Government outlays on social protection include expenditures on services and transfers provided to individual persons and households and expenditures on services provided on a collective basis. Expenditures on individual services and transfers are allocated to 7 groups; expenditures on collective services are assigned to 2 groups. Collective social protection services are concerned with matters such as formulation and administration of government policy; formulation and enforcement of legislation and standards for providing social protection; and applied research and experimental development into social protection affairs and services. As per the COFOG definitions, SP expenditures for individual services fall under Sickness & Disability, Old Age, Survivors, Family & Children, Unemployment, Social Exclusion, and Housing. In addition, social protection expenditures not falling into any of these above categories are classified as 'not elsewhere classified (NEC)'.

The classification of functions of government (COFOG) section in the red books for various fiscal years is the only place where the total SP budget allocation is available. Data for the most recent FY (2022/23) is shown in the table below. Social protection budget allocations are strongly biased towards the federal government with the local governments playing a key role in unemployment-based social protection programmes. The details of these programmes are not known.

The classification in Nepal is very basic and not useful for analytical purposes as it only attempts to segregate unemployment-based programmes and lumps everything else under the category 'not elsewhere classified' (NEC). There is a small allocation towards social exclusion. The COFOG classification also provides a breakdown of the allocation to different levels of government. Along with developing codes for the plethora of SP programmes in Nepal, a more detailed classification of the functional assignments of expenditures is needed.

Table 8: COFOG Classification of SP budget allocations

	Total	Federal	Province	Local
TOTAL SP BUDGET ALLOCATION	203.34	199.41	0.00	3.93
Unemployment	3.61	0.05	0.00	3.56
Social Exclusion	0.06	0.06	0.00	0.00
Social Protection- Research and Development	0.10	0.04	0.00	0.06
Social protection N.E.C	199.57	199.25	0.00	0.32

Data are in NPR billion. Source: Red book FY 2022/23

## COFOG CLASSIFICATION OF SP EXPENDITURES

Government outlays on social protection include expenditures on services and transfers provided to individual persons and households and expenditures on services provided on a collective basis. Expenditures on individual services and transfers are allocated to groups (10.1) through (10.7); expenditures on collective services are assigned to groups (10.8) and (10.9). Collective social protection services are concerned with matters such as formulation and administration of government policy; formulation and enforcement of legislation and standards for providing social protection; and applied research and experimental development into social protection affairs and services.

The social protection functions and their definitions are based on the 1996 European System of integrated Social Protection Statistics (ESSPROS) of the Statistical Office of the European Communities (Eurostat).

In ESSPROS, social protection includes health care, but this division does not include health care. Health care is covered by Division 07. Hence, medical goods and services provided to persons who receive the cash benefits and benefits in kind specified in groups (10.1) through (10.7) are classified under (07.1), (07.2) or (07.3) as appropriate.

## 10.1 SICKNESS AND DISABILITY

### 10.1.1 Sickness (IS)

- Provision of social protection in the form of cash benefits or benefits in kind that replaces in whole or in part loss of earnings during a temporary inability to work due to sickness or injury
- administration, operation, or support of such social protection schemes
- cash benefits, such as flat-rate or earnings-related sick leave payments, miscellaneous payments provided to help persons temporarily unable to work due to sickness or injury
- benefits in kind, such as assistance with daily tasks provided to persons temporarily unable to work due to sickness or injury (home help, transport facilities, etc.)

### 10.1.2 Disability (IS)

- Provision of social protection in the form of cash benefits or benefits in kind to persons who are fully or partially unable to engage in economic activity or lead a normal life due to a physical or mental impairment that is either permanent or likely to persist beyond a minimum prescribed period
- administration, operation, or support of such social protection schemes
- cash benefits, such as disability pensions paid to persons below the standard retirement age who encounter a disability that impairs their ability to work, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to reduced capacity to work, care allowances, allowances paid to disabled persons undertaking work adapted to their condition or undergoing vocational training, other periodic or lump-sum payments paid to disabled persons for social protection reasons;
- benefits in kind, such as lodging and possibly board provided to disabled persons in appropriate establishments, the assistance provided to disabled persons to help them with daily tasks (home help, transport facilities, etc.), allowances paid to the person who looks after the disabled person, vocational and other training provided to further the occupational and social rehabilitation of disabled persons, miscellaneous services and goods provided to disabled persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.

Excludes: cash benefits and benefits in kind paid to disabled persons on reaching the standard retirement age (10.2.0).

### 10.2.0 OLD AGE (IS)

- Provision of social protection in the form of cash benefits and benefits in kind against the risks linked to old age (loss of income, inadequate income, lack of independence in carrying out daily tasks, reduced participation in social and community life, etc.)
- administration, operation, or support of such social protection schemes
- cash benefits, such as old-age pensions paid to persons on reaching the standard retirement age, anticipated old-age pensions paid to older workers who retire before the standard retirement age, partial retirement pensions paid either before or after the standard retirement age to older workers who continue working but reduce their working hours, care allowances, other periodic or lump-sum payments paid upon retirement or on account of old age
- benefits in kind, such as lodging and sometimes board provided to elderly persons either in specialized institutions or staying with families in appropriate establishments, the assistance provided to elderly persons to help them with daily tasks (home help, transport facilities, etc.), allowances paid to the person who looks after an elderly person, miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.
- Includes: pension schemes for military personnel and for government employees.
- Excludes: early retirement benefits paid to older workers who retire before reaching standard retirement age due to disability (10.1.2) or unemployment (10.5.0).

## 10.3 SURVIVORS

### 10.3.0 Survivors (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are survivors of a deceased person (such as the person's spouse, ex-spouse, children, grandchildren, parents, or other relatives)
- administration, operation, or support of such social protection schemes
- cash benefits, such as survivors' pensions, death grants, and other periodic or lump-sum payments to survivors
- benefits in kind, such as payments towards funeral expenses, miscellaneous services, and goods provided to survivors to enable them to participate in community life.

## 10.4 FAMILY AND CHILDREN

### 10.4.0 Family and Children (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to households with dependent children
- administration, operation, or support of such social protection schemes
- cash benefits, such as maternity allowances, birth grants, parental leave benefits, family or child allowances, and other periodic or lump-sum payments to support households and help them meet the costs of specific needs (for example, those of lone parent families or families with handicapped children)
- benefits in kind, such as shelter and board provided to preschool children during the day or part of the day, financial assistance towards payment of a nurse to look after children during the day, shelter and board provided to children and families on a permanent basis (orphanages, foster families, etc.), goods and services provided at home to children or to those who care for them, miscellaneous services and goods provided to families, young people or children (holiday and leisure centres)
- Excludes: family planning services (07.4.0)

## 10.5 UNEMPLOYMENT

### 10.5.0 Unemployment (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are capable of work, available for work but are unable to find suitable employment.
- administration, operation, or support of such social protection schemes.
- cash benefits, such as full and partial unemployment benefits, early retirement benefits paid to older workers who retire before reaching the standard retirement age due to unemployment or job reduction caused by economic measures, allowances to targeted groups in the labour force who take part in training schemes intended to develop their potential for employment, redundancy compensation, other periodic or lump-sum payments to the unemployed, particularly the long-term unemployed.
- benefits in kind, such as mobility and resettlement payments, vocational training provided to persons without a job, or retraining provided to persons at risk of losing their job, accommodation, food or clothes provided to unemployed persons and their families.
- Excludes: general programmes or schemes directed towards increasing labour mobility, reducing the
- rate of unemployment or promoting the employment of disadvantaged or other groups characterized by high unemployment (04.1.2); cash benefits and benefits in kind paid to unemployed persons on reaching the standard retirement age (10.2.0).

## 10.6 HOUSING

### 10.6.0 Housing (IS)

- Provision of social protection in the form of benefits in kind to help households meet the cost of housing (recipients of these benefits are means-tested)
- administration, operation or support of such social protection schemes
- benefits in kind, such as payments made on a temporary or long-term basis to help tenants with rent costs, payments to alleviate the current housing costs of owner- occupiers (that is to help with paying mortgages or interest), provision of low-cost or social housing.

## 10.7 SOCIAL EXCLUSION N.E.C.

### 10.7.0 Social exclusion n.e.c. (IS)

- Provision of social protection in the form of cash benefits and benefits in kind to persons who are socially excluded or at risk of social exclusion (such as persons who are destitute, low-income earners, immigrants, indigenous people, refugees, alcohol and substance abusers, victims of criminal violence, etc.)
- administration and operation of such social protection schemes
- cash benefits, such as income support and other cash payments to the destitute and vulnerable persons to help alleviate poverty or assist in difficult situations
- benefits in kind, such as short-term and long-term shelter and board provided to destitute and vulnerable persons, rehabilitation of alcohol and substance abusers, services and goods to help vulnerable persons such as counseling, day shelter, help with carrying out daily tasks, food, clothing, fuel, etc.

## 10.8 R&D SOCIAL PROTECTION

Definitions of basic research applied research, and experimental development are given under (01.4) and (01.5).

### 10.8.0 R&D Social protection (CS)

- Administration and operation of government agencies engaged in applied research and experimental development related to social protection
- grants, loans, and subsidies to support applied research and experimental development related to social protection undertaken by non-government bodies such as research institutes and universities
- Excludes: basic research (01.4.0)

## 10.9 SOCIAL PROTECTION N.E.C.

### 10.9.0 Social protection n.e.c. (CS)

- Administration, operation or support of activities such as formulation, administration, coordination, and monitoring of overall social protection policies, plans, programmes, and budgets; preparation and enforcement of legislation and standards for the provision of social protection; production and dissemination of general information, technical documentation and statistics on social protection.
- Includes: provision of social protection in the form of cash benefits and benefits in kind to victims of
- fires, floods, earthquakes, and other peacetime disasters; purchase and storage of food, equipment, and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (10.1), (10.2), (10.3), (10.4), (10.5), (10.6), (10.7) or (10.8)

