

LABOUR AND SOCIAL JUSTICE

GLOBAL SOLIDARITY FUNDING FOR SOCIAL PROTECTION

A brief for the case of Nepal and Uganda

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The authors argue that through supporting Social Protection Floors and initiatives, a global solidarity fund would have extremely positive effects for people living in vulnerable situations.



Financial sustainability in times of crisis is crucial and global solidarity is possible at a relatively low cost.



For a global solidarity fund's impact to be effective, it must operate from its inception on the principle of national ownership.



This study showed by using two country examples of Nepal and Uganda how different simulated benefit packages can contribute to reducing poverty and inequality.



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THE NEED FOR A GLOBAL FUND FOR SOCIAL PROTECTION

In June 2012 the global community of nations decided unanimously that governments should ensure that all people have access to at least a floor of social protection. All members of the International Labour Organization have adopted ILO Recommendation No. 202 concerning National Floors of Social Protection. Social protection is an important investment; it increases productivity and human capital, fosters domestic demand and promotes political stability. Nevertheless, extensive coverage gaps in social protection worldwide are still associated with significant underinvestment in social protection, particularly in Africa, Asia and the Arab states. Depending on the specific regional and country context, one of the major obstacles in extending coverage is the real – or perceived – lack of fiscal space.

According to recent ILO estimates (Valverde, Pacheco-Jiménez, Muzaffar, & Elizondo-Barboza, 2020), the financial requirements facing lower income countries when it comes to closing the coverage gap¹ equal 92.5 billion US dollars (\$) annually (or 18.2 per cent of their GDP). Therefore, despite determined political will, most low-income countries face prohibitive financial requirements. Also 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,² a coalition of more than 100 civil society and faith-based organizations and trade unions have 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 a Global Fund for Social Protection or a similar funding mechanism built on global solidarity.³

The governance structure of this mechanism, based on the principle of national ownership, should be such that decisions concerning programme definitions and priorities can remain the responsibility of governments from recipient countries, leveraging existing administrative structures and coordinating with development and humanitarian aid organizations active in the country. The mandate of the funding mechanism would be, among other things, to: (i) support the introduction or finalization of national social protection floors; (ii) ensure that national social protection floors are sustainable and resilient in the event of shocks that affect entire communities; (iii) 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; and (iv) support the strengthening of domestic resource mobilisation. The Global Fund for Social Protection will allow recipient countries to gradually increase their own levels of funding devoted to social protection by identifying new sources of domestic revenue and ensure sustainable levels of support to countries committed to these programmes.

TWO CASE STUDIES (NEPAL AND UGANDA)

To support the global debate on the Global Fund and extend its factual base, the Friedrich-Ebert-Stiftung (FES) commissioned the study »Global Solidarity Funding for Social Protection – Two Country Case Studies« whose objective is to support global discussions on 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. The study established (i) the cost of the Global Fund support, in other words, 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 10 years; (ii) the redistributive impact of the supported SPF benefits in terms of poverty reduction and the reduction of inequality; (iii) the effects of fund support on the achievability of the social protection-related SDG targets by the sample countries; and (iv) the effects of Global Fund support on countries' resilience in the event of future crises. Additionally, the study explored the feasibility and necessity of a Global Fund for Social Protection funding option by outlining the case for Uganda and Nepal. The choice of countries was based on: (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.

SOCIAL PROTECTION IN NEPAL

- The share of the population receiving social protection⁴ and social assistance⁵ transfers in Nepal in 2010 was 43.5 per cent and 40.1 per cent, respectively (World Bank, 2018). The programmes are oriented towards the most deprived: for example, 53 per cent of people in the bottom quintile of the welfare distribution received transfers from national social assistance programs, as against 27.9 per cent in the wealthiest quintile. However, considering the entirety of social protection benefits (including contributory), the lowest quintile receives the second-highest share of benefits (21.9 per cent), while the richest comes first, receiving 34.7 per cent of total benefits. One of the reasons is the higher and better social security coverage among formal workers, a relatively

¹ Estimating the costs and financing gaps for achieving targets 1.3 and 3.8 of the SDGs related to social protection and health care in 2020 and projecting their incremental universal development to 2030.

² <http://www.socialprotectionfloorscoalition.org>

³ The text of the background section is largely based on: Global Coalition for 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.

⁴ Contributory, non-contributory and active labour market programmes.

⁵ Non-contributory programmes only.

wealthier social group. In Nepal, although the system provides relatively higher benefits to the most vulnerable, low benefit marginal contribution to household consumption is a substantial issue and challenge.

- The Social Protection Floor Index (SPFI) (Bierbaum, Schildberg, & Cichon, 2017) indicates that Nepal's income and health gap is 5.9 per cent of GDP, which must be bridged in order to allow all its citizens to reach the \$3.20 (2011 PPP) per day minimum.⁶ The gap declines to 2.7 per cent of GDP, at \$1.9 (2011 PPP) per day. Expenditure on health stands at 5.8 per cent of GDP, but general government expenditure in the sector is slightly lower than 1.5 per cent of GDP (The World Bank, 2021a).
- Nepal spends more than the regional average on working-age social protection programmes and overall, expenditures (relative to GDP) are higher than, for example, in Bangladesh and India. Nepal integrates the provision of its social protection system in its national legislation, but guarantees on adequate living standards are not enshrined in the constitution, which creates challenges in relation to the adequacy of provision (Lazzarini, 2020).

SOCIAL PROTECTION IN UGANDA

- As of 2019, 2.9 per cent of Ugandans received at least one social protection benefit, excluding health care (ILO, 2021a). The number of recipients has increased since 2016, reaching 1.2 per cent of the population. Yet overall, social protection⁷ and social assistance are skewed towards the more affluent segments of the population, as also seen by the lack of coverage among the most deprived. Social assistance benefits received by the bottom quintile constitute 15.9 per cent of households' pre-transfer income, against 20.6 per cent of those received by middle-quintile households. In 2016, social assistance schemes effectively reduced the number of people living in poverty and their poverty gap by only 0.2 per cent (The World Bank, 2021b). The contribution of such a component to the GINI reduction is zero, while social protection and labour policies contribute to a 0.1 per cent increase in inequalities (GINI) in the country (The World Bank, 2021b).
- The Social Protection Floor Index (SPFI)⁸ indicates that Uganda would have to invest at least 18.8 per cent 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 per cent of GDP when con-

sidering the absolute poverty line of \$1.90 (2011 PPP).⁹ This disbursement divides into 3.9 per cent plus 2.7 per cent of GDP to close the income and the health gap, respectively¹⁰ (Friedrich-Ebert-Stiftung, 2021).

- The latest available data indicate that total social protection expenditure (excluding health care) equals 0.7 per cent of GDP (ILO, 2021a). The budget allocated to social assistance is 0.67 per cent of GDP, with the most significant chunk of the expenditure taken by unspecified social assistance programmes (0.22 per cent of GDP), followed by public works (0.18 per cent of GDP) and conditional cash transfers (0.15 per cent of GDP). Overall, the country spends consistently less than the regional average on all functional categories of social protection. Current health expenditure amounts to a total of 6.5 per cent of GDP, but general government expenditure on health is slightly over 17 per cent of the total, while individuals' out-of-pocket payments cover 38.4 per cent (The World Bank, 2021a).¹¹

THE PROPOSED SOCIAL PROTECTION PACKAGES

The study simulates various social protection reform variants on the above-presented countries of Uganda and Nepal. One variant (called the UNIV package) provides a set of universal benefits, such as universal pensions, child benefits and essential health services delivered by public providers.¹² A second variant (called the 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).¹³ Hence, both packages include the same health component, projected to reach a total cost of 3.7 per cent of GDP in 2030 (Friedrich-Ebert-Stiftung, 2021), and differ in their core social protection components. In consideration of the macroeconomic context of Uganda and Nepal, the analysis (and the results described below) adopts a second universal package (referred to as *Universal modified package*, or UNIV/MOD) with adjusted parameters based upon assessing the affordability, realisability and ex-ante impact of the UNIV and TARGETED packages.

⁶ Underlying survey year 2003 (Friedrich-Ebert-Stiftung, 2021).

⁷ By social protection the analysis refers to the social protection and labour policies used in the ASPIRE data, which include active labour market policies and public works.

⁸ The Social Protection Floor Index represents the total investment in social protection floor programmes 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 50 per cent of median income in the country (Bierbaum, Opperl, Tromp, & Cichon, 2016). Refer to n 4 for the composition of the index.

⁹ Underlying survey year 2016 (Friedrich-Ebert-Stiftung, 2021).

¹⁰ The health gap has two components: (1) the resource gap, if public expenditure in the country is lower than the normative benchmark; and (2) the allocation gap, comparing the share of births 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, Opperl, Tromp, & Cichon, 2016).

¹¹ The remaining share being ODA.

¹² With due consideration to existing national SPF components the choice of universal benefits orients itself to the standard package that is often used by the ILO, namely, universal benefits for all children, maternity benefits, disability benefits, unemployment benefits, and old age benefits, all set at 100 per cent or a fraction of the national poverty line, as well as access to essential health care as estimated by the World Health Organization (WHO), together with administrative costs of all benefits.

¹³ See Friedrich-Ebert-Stiftung (FES): *Social Protection Floor Index Update and Country Studies 2017*.

All *Universal* package benefits are expressed as a share of the national poverty line and in all cases, a set of existing programs already in place are maintained and expanded in the study (by coverage and amounts) over the projection period for both countries.

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) equalled \$3.13 PPP per day, and in Uganda \$1.26 PPP. Moreover, in 2017, the poverty line represented, respectively, 12.7 per cent of the average monthly earnings of employees in Uganda and slightly more than 15.8 per cent in Nepal, a significant difference in relative terms (ILO, 2022).

A MACRO-MICRO MODELLING APPROACH

The analytical framework for costing and estimating the financing, as well as the redistributive potential of the proposed policy reforms is manifold, with the main components being a macroeconomic model (MEM) and a micro-simulation model (MSM), which serve for fine-tuning their counterpart and the estimation of the results under various scenarios. The static micro-simulation model (MSM) analyses the extent to which the implementation of such policies has a redistributive potential, mainly on poverty and inequality. These are performed on representative household surveys, the Nepal's 2018 Household Risk and Vulnerability Survey (HRVS-2018) and the Uganda National Panel Survey 2018–2019 (UNPS-2018), respectively.

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 macroeconomic model (MEM). The information required for its functioning is drawn on data from national and international sources and forecast for the defined projection period with various and interplaying environments. In addition, the macroeconomic model includes the possibility of modelling an exogenous shock, either on the economic or the labour environment. Finally, the estimated social protection expenditure given by the reform is analysed in comparison with governmental capacity in relation to the fiscal environment. We conclude the analysis by estimating 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.¹⁴

¹⁴ Further resources can be mobilized in 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.

A VIABLE AND IMPACTFUL INVESTMENT

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 aimed at expounding the argument for a global financing mechanism for social protection.

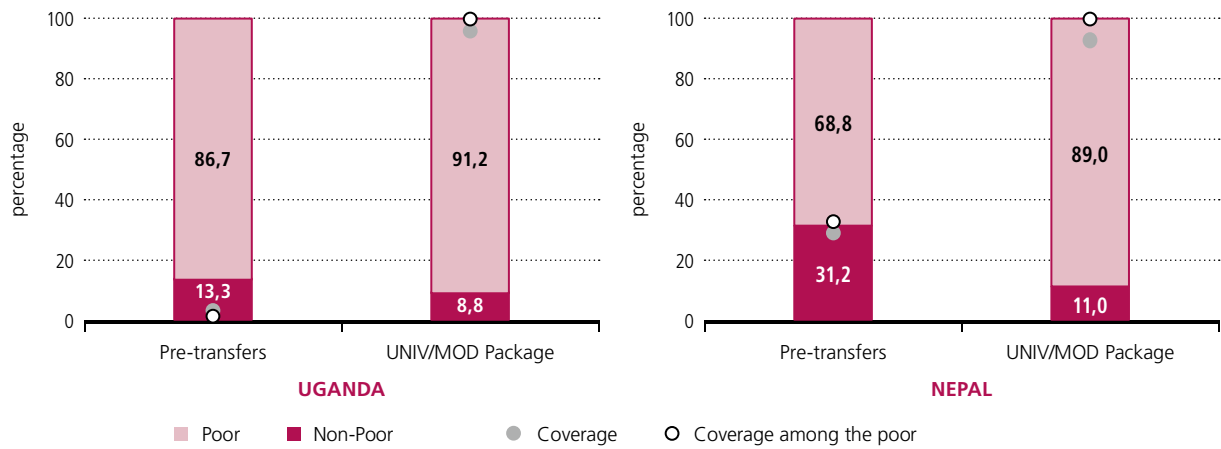
Taking the universal road to social protection entails sizeable redistribution and poverty reduction. By implementing UNIV/MOD reform, the poverty headcount reduction ranges from 34 per cent (Uganda) to 64 per cent (Nepal), and the poverty gap reduction from 42 to 76 per cent, respectively (Figure 1). 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. The Gini coefficient changes from 36.7 to 32.5 in Nepal and from 45.6 to 43.8 in Uganda with UNIV/MOD. Therefore, such universal reform can attain significant results that can set both countries on a relatively easy to administer path to achieve universal protection and the SDG commitments.

In the 10 years analysed, the global commitment is expected to contribute almost \$14.8 billion to finance implementation of the UNIV/MOD package in Nepal and \$18.5 billion in Uganda.¹⁵ These resources could be matched by nationally mobilized resources in 2025 in Nepal and 2028 in Uganda (see Figure 2).

- 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 global funding could reach its peak in 2024, with \$869.4 million contributions for Uganda and \$724.4 million for Nepal. Hence, the total investment required from global partners can reach \$1.6 billion in 2024. The average yearly commitment over the projection period (2020–2029) stands at \$1.2 billion as analysed.
- Given a time-defined contribution from the 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 2020–2030, Nepal could cover most of the total additional costs (57 per cent), and the Fund's share maybe 37 per cent (+2 per cent of ODA)(see Figure 3). In Uganda, the Fund will be the highest contributor (48 per cent of the total).

¹⁵ Total 2020–2030 period total costs adjusted by inflation to 2020 prices.

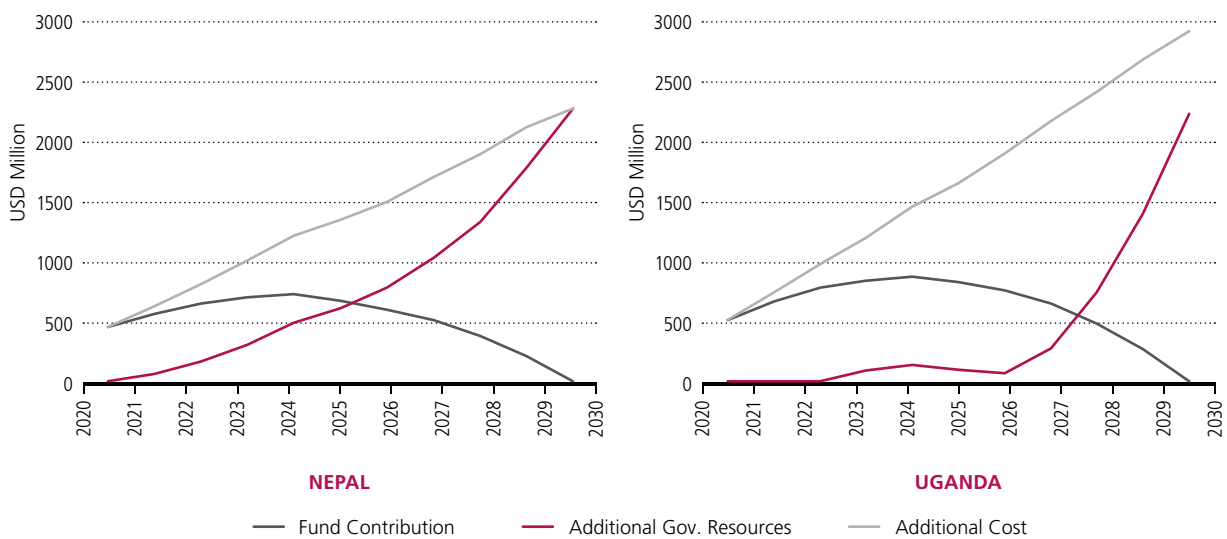
Figure 1
Comparison of poverty rates pre- and post-transfers



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.

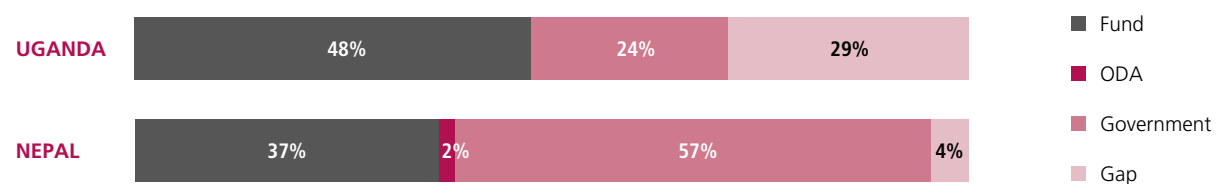
Figure 2
Global Contribution and Government Additional Resources



Note: The graph shows the Fund's contribution (RED Line) in relation to the new mobilized resources (BLU Line) and the total cost (BLACK Line)

Source: Authors' elaboration.

Figure 3
Share of Total Cost by Financing Component



Note: Share of additional costs 2020–2030 by financing component. ODA not included in the case of Uganda.

Source: Authors' elaboration.

While global contributions are expected to be a viable tool to finance the gaps emerging in the start-up period and in times of crisis, government financing capacities are key to the long-term sustainability of the social protection system. 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.

THE ›EFFECTIVE‹ ADVOCACY ELEMENT

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 into an annual investment that amounts to \$77.9 billion globally. Other estimates (Valverde et al 2020) put the gap at 18.2 per cent of GDP, amounting to \$92.5 billion annually to fill it. Filling such gaps is one of the major challenges for human development today and a matter of great urgency. 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 crisis (ILO 2021).

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.

An important question to ask is to what extent do donors see investments in social protection as a way to build resilience and hence reduce future vulnerability and humanitarian demands? Advocacy and communication are essential to establish a rights-based culture of social protection, to inform policymaking, and to ensure that programmes are aligned with international standards and meet people's needs. Well-coordinated advocacy is pivotal if the fund is to succeed in its efforts. Building on this study, advocacy efforts based on empirical data may lead to piloting the fund's work in those countries. Such an effort should focus on the next steps for encouraging donors to participate and get involved in the fund. The main message is that the fund through supporting SP floors would have extremely positive effects for people living in vulnerable situations. The straightforward message: funding social protection will improve the quality of life of millions of people.

There are many important aspects that need to be examined in effective advocacy campaigns. The first is: **What would be the added value of a fund for social protection vis-à-vis existing coordination mechanisms and institutions?**

For such a fund to be effective, it has to be advocated within the countries it aims to support. We know that the largest financing gaps are in low-income countries (LICs). And while we know something of LICs' views,¹⁶ the presence of the countries' voice, context and commitment in the debate is crucial. Therefore, it is necessary to explore which LICs would be able and willing to lead in making the case for such a fund, at the same time, being aware of the national capacity and strategy for long-term success through the envisioned transition from the fund's support to self-sustained financing. Some questions that could be raised to understand the country's position could include: *What priority do the LIC governments place on publicly funded social protection? Does this reflect the priorities of their population? How critical is long-term predictable funding for LIC governments? And does ›long-term‹ mean 5, 10 or 20 years? And are LICs reluctant to ask because it will increase aid dependency (at least in the short term)?* Thus one or more countries could then be pioneers that could further expand on advocacy efforts.

Understanding the dynamics of **who will be financing such a fund** is also vital. While we know something of donors' views, it would be necessary to obtain better evidence. The key challenge here is to find a core group of donors that would be willing to take the lead in championing the objectives of the fund. At a minimum, this would need to be two major donors – ideally both from the G7 (which includes the EU) – plus another from the G20 which would work collaboratively with the countries in establishing their social protection systems.

Finally, it is imperative to have a good awareness of **who the other stakeholders are**. Building social protection systems and floors is the overall and primary responsibility of the state. But helping the state are workers and employers, organizations, civil society, investors and, with support from academia, INGOs, including UN agencies and other development partners. They shape national social protection strategies and implement social protection policies and programmes. Each of these stakeholders has specific reasons to favour a social protection floor, for example:

- governments, for reasons related to reducing poverty, enhancing social justice and social peace, economic growth and sustainable development in their country;
- workers' organizations and civil society because social security is a human right and because it contributes to fair and inclusive societies;
- employers' organizations and private sector enterprises because social protection contributes to the productivity

¹⁶ Reference blog – SP SITE e.g. University of Manchester domestic political economy analyses in a range of LICs

of workers, the competitiveness of enterprise, and because it increases domestic demand;

- the UN system because it promotes delivery as One on social protection as the most efficient way to achieve tangible poverty reduction and sustainable development results in countries;
- development partners because social protection is a driver of fair, inclusive and sustainable development.

An advocacy plan should factor in all the elements described in the previous sections – goals and objectives, target groups and the specific activities to be undertaken, as well as set out stakeholder roles and responsibilities, time frames, expected short-term and long-term outcomes, and available and needed resources. A good advocacy plan will be able to respond to newly identified needs for political support and awareness-raising or for influencing improvement strategies that include reorganizing or mobilizing additional resources for the fund. Global contributions for the establishment of a social protection fund should be seen a worldwide long-term resilient financing mechanism based on the social policy principle of solidarity within a global risk pool, in which all people (or countries) contribute based on their economic capacity and receive support related to specific contingencies.

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There is global consensus that governments should ensure that people have access to at least a floor of social protection. Many governments however often fall short due to weak administrative systems and inadequate financial resources. An answer to this conundrum is a dedicated financing facility, in the form of a global solidarity fund, that enables the global community to systematically and sustainably support national efforts in poorer countries to reduce poverty and inequality through social protection.



The fund would eventually steer beneficiary countries to progressively increase their own funding by identifying new sources of national revenue and ensuring sustained levels of support for countries committed to these programmes. The funding would be time-defined and eventually tapers off, raising the issue of how, and over what duration, can resources be mobilized at the national level. While global contributions are critical in the start-up period, national ownership of the process and improvement of government financing capacities are key for the long-term sustainability of the established social protection system.



The study referred to in this brief examined two country cases (Nepal and Uganda) in order to produce evidence on the viability of a global solidarity fund in those contexts. In both case studies, it was shown that the fund is possible at a relatively low cost, is paramount to supporting the achievement of social protection targets, and that taking the universal road to social protection ensures a social justice outcome of reduced poverty and inequality.



Building on this study, advocacy efforts based on empirical data may lead to piloting the fund's work in, in addition to supporting the global discussions on the creation and feasibility of a global solidarity fund for social protection.

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