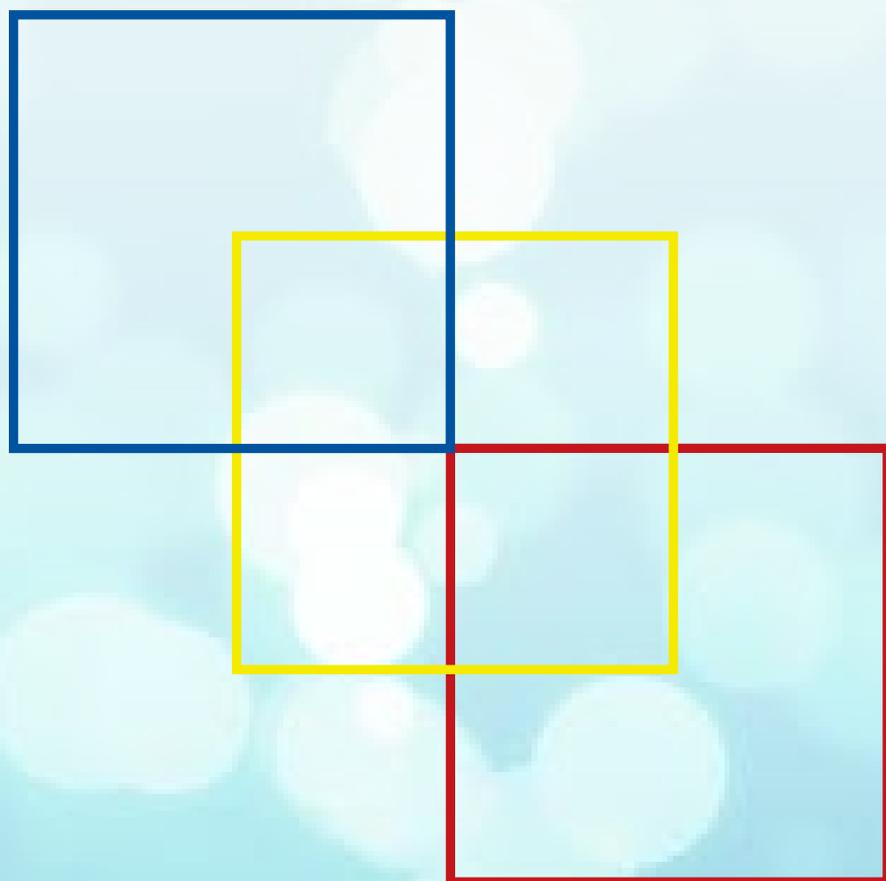




International
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Social Security/ Social Protection In Nepal

Situation Analysis



Dilli Raj Khanal, PhD.

Social Security/ Social Protection In Nepal : Situation Analysis

by¹
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ILO Country office for Nepal
January, 2012

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Preface

The International Labour Conference has outlined several strategies to extend social security by closing coverage gaps and pointed out that effective national strategies should be formed in line with national priorities, administrative feasibility and affordability. The primary goal is to ensure that no one lives below a certain level of income and everyone has access to basic social services. Then, drawing on the basic social floors, it recommends that social protection be extended to provide greater coverage. In addition, reducing poverty, containing inequality and sustaining economic growth is not effective without strengthening labour and social institutions and promoting pro-employment macroeconomic environments.

It was necessary to review the existing conditions in Nepal in order to develop a national strategy for extension of social security along the horizontal and vertical dimensions. This study prepares a comprehensive profile of existing systems, mechanisms and schemes related to social security and then analyses the status of social security in Nepal. It highlights opportunities and trends and recommends measures to facilitate extension of social security to all the workers in the informal economy.

A team led by Dr. Dilli Raj Khanal reviewed existing literature and held consultations with representatives from the government agencies, insurance companies, micro-insurance providers and non-governmental organizations; representatives of trade unions and employers' organizations. A half-day group discussion was organized with the same officials and

representatives again to ensure that the situation analysis reflected the real situation as well as their key experiences and perspectives. Mr. Markus Ruck, Senior Social Protection Specialist, ILO/DWT New-Delhi provided technical inputs by reading the different drafts of the report and providing critical comments and suggestions.

Nepal has already incorporated certain elements of the floor in social relief programs, although in a fragmented manner. A key challenge is to organize these programs as part of a coherent social protection strategy. Nepal needs to put in place a solid floor by reorganizing or upscaling its policies and programmes and then attempting to take the next step of developing the vertical dimension of social protection.

We hope that this study will provide a deeper understanding of the current situation and help guide discussions about a coherent national strategy for extending social security along the horizontal and vertical dimensions.

During the study, various government agencies including Ministry of Labour and Employment, trade unions, employer's organizations, insurance companies, non-governmental organizations and academicians provided valuable inputs and suggestions. We are thankful to all of them.

We would also like to express our special thanks to Mr. Markus Ruck for providing continuous feedbacks and valuable suggestions during the course of the study.

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Executive summary

The MDG report (UNDP, 2011) says that Nepal can reach most of the targets if the government is able to manage resources and build institutional and policy capacity for implementation of strategic interventions. Nepal, however, faces considerable challenges in reaching the target of achieving full and productive employment and decent work for all, including women and young people. Nepal's trade and industry is in crisis and agricultural productivity low. Lack of access to affordable credit and weak law and order situation have weakened Nepal's economy. As a result, a large number of Nepali people are still trapped in poverty and social protection benefits and services remain a privilege. Providing social security to workers is also a challenge because more than 90 per cent of the total labour force operates outside the formal economy.

In welfare economies, social security and protection systems covering universal family benefits, social assistance, and social insurance have been critical in alleviating poverty and enhancing people's living standards. The approaches to social security and protection have transformed since the 1980s, giving more thrust to the universal and progressive dimensions that consider the vertical and horizontal ingredients. Strong austerity measures amidst deepening debt and unemployment problems in the aftermath of the 2008 global financial crisis, which has fuelled social discontent, underlines the importance of the new dimension in social security. In Nepal, social protection plays the

role of a catalyst in consolidating durable peace.

Emerging concepts

The International Labour Conference (ILO, 2011b) has outlined several strategies to extend social security by closing coverage gaps and pointed out that effective national strategies be formed in line with national priorities, administrative feasibility and affordability. The primary goal is to ensure that no one lives below a certain level of income and everyone has access to basic social services. Then, drawing on the concept of national social protection floors, social protection is extended to provide greater coverage. Reducing poverty, containing inequality and sustaining economic growth is not effective without strengthening labour and social institutions and promoting pro-employment macroeconomic environments (Bachelet, 2011).

Nepal has already incorporated certain elements of the floor in social relief programs, although in a fragmented manner. A key challenge is to organize these programs as part of a coherent social protection strategy. Social security in Nepal has received a boost since the 2006 political change, which sought to end exclusion of marginalized groups from access to government services and provide social protection to the poor and the vulnerable. Many cash transfer programmes for the older people, women, and children have been introduced, and these have significantly helped close the poverty gap.

Social protection floor is effective in reducing poverty, containing inequality and sustaining economic growth, however, there is a need to combine these measures with a more comprehensive social security. Nepal needs to put in place a solid floor by reorganizing or up scaling its policies and programmes and then attempting to take the next step of developing the vertical dimension of social protection. “The cost of well-designed social protection floor is small compared to the tax revenues often forgone by not effectively collecting revenue from the wealthy and by not tackling inefficiencies that exist in many expenditure programmes” (Bachelet, 2011).

Existing situation in Nepal

The government of Nepal has expressed commitment to expand safety nets and social protection coverage (GoN, 2009) as social protection plays an important role in addressing structurally generated poverty, post-conflict uncertainties and deeply entrenched social exclusion (Koehler, 2011). Policy intervention guided by social protection concerns became dominant after the 2006 political transformation. However, such programmes are fragmented and are driven by populist or political concerns and do not constitute a comprehensive strategy. There is no social protection floor as such, although the government has sectorwise programmes to protect the poor and the vulnerable groups like women, children, disadvantaged groups, and small farmers. Formal social security schemes in Nepal are highly visible, but limited to the coverage of civil servants, security personnel and a small portion of the private sector.

At present, the closest principle resembling a nationally defined social protection floor is enshrined in the constitution, which states that there will be a separate law to protect the rights of the citizens in general and senior citizens and other deprived persons in particular. The

constitution requires that the state establish rights of all citizens to education, health, housing, employment, and food security. It states very clearly that there will be no discrimination on grounds of gender, caste, ethnicity, and language. Section 17 of Article 35 stipulates that “the state shall pursue a policy to make legal provision to provide allowances to the aged, incapacitated women and the unemployed.

Policies, legal arrangements, and schemes

In welfare economies, social security and protection systems covering universal family benefits, social assistance, and social insurance have been critical in alleviating poverty and enhancing people’s living standards. The approaches to social security and protection have transformed since the 1980s, giving more thrust to the universal and progressive dimensions that consider the vertical and horizontal ingredients. Strong austerity measures amidst deepening debt and unemployment problems in the aftermath of the 2008 global financial crisis, which has fuelled social discontent, underlines the importance of the new dimension in social security. In Nepal, social protection plays the role of a catalyst in consolidating durable peace.

Continuous efforts are being made to expand the existing social protection system. A major problem is that most of the policies and programmes are announced during the budget speech, but the scattered schemes are riddled with difficulties related to accountability and implementation.

The Social Security and Protection of Senior Citizen Act, 2006 was a landmark from a legal point of view, but its implementation is problematic. The Labour Act, 1992, fixes

minimum wage and provides for social security of workers in the formal sector. **The Local Self-Governance Act, 1999**, provides for protection and development of orphan children, helpless women, the elderly, and people with disability. **The Civil Service Act, 1992**, and **Regulations, 1994**, have provisions related to social protection of government employees. **The Nepal Health Service Act, 1997**, outlines various social security and health schemes.

The ILO Convention 102 requires that the signatory state ratify at least three of the nine branches included in the vertical dimension allowing for a systematic extension of social security coverage. The social security/protection system in Nepal is fragile as far as the schemes/contingencies mentioned in the vertical dimensions are concerned.

The Government of Nepal has, in the current budget, approved three social security schemes: workplace accident, maternity protection, and health insurance (MOF, 2011). The budget does not describe in detail the nature and types of benefits under the schemes creating inconsistencies. It is expected that the Social Security Law will help clear such ambiguities by defining the specific benefits under the schemes and devising a framework for financing and distributing these benefits. A key challenge is to increase the number of people covered, ensure minimum benefit to protected persons, and devise the conditions and period of entitlement to benefits.

In the private sector, a majority of the establishments is not willing to provide any kind of health benefit to the workers. Employers in the private sector like to avoid permanent employees as far as possible in order to escape from the perceived additional burden of social security expenditure. They

would rather opt for either daily waged workers or contract workers for whom they are not required by law to provide any kind of social security coverage.

The current year's budget has announced reproductive health as one of the basic social security schemes for contributory workers, but it is not clear whether it is a step to follow the ILO convention related to maternity protection. There is no provision in Nepal, other than maternity leave, to protect the health of a pregnant or breastfeeding woman and her child. It is expected that the concerns of the convention will be specifically and categorically addressed by the Social Security Act.

Universal social pension is highly valued by the elderly despite the amount being very small. It helps them sustain their lives by purchasing medicine, food and clothing. A study conducted by the Geriatric Center Nepal (GCN, 2010) for the government indicates that the old age allowance has put predictability into the lives of the poor elderly people and their families by offering them a guarantee of a minimum standard of living.

Unemployment benefits, which are generally means tested and non-contributory in nature, are designed to provide people with income at times when they are not able to gain employment. There are no such unemployment benefits in Nepal. An attempt was made in 2009 to introduce an unemployment benefit scheme to the industrial workers financed from the money collected through the one per cent social security tax. The trade unions, however, opposed the proposal to use money for non-contributors. Instead, a new scheme was agreed upon, in which the government would provide a minimum living cost to the

unemployed workers unable to support their livelihood. This has not been implemented yet. However, a small step toward this direction is the setting up of a Social Security Fund Office under the Ministry of Labour.

The Nepalese laws' dealing with the informal sector are limited. In 1993, the Ministry of Labour extended sick leave and work injury benefits to establishments employing less than 10 workers. In order to expedite the unionisation of the informal sector workers, the Trade Union Act, 1992, provides for the registration of a union working in the informal sector. The process has suffered due to lack of appropriate laws and laxity in implementation of the existing laws.

Some social protection programmes designed for the vulnerable groups also cover informal sector workers, although in a limited way. For example, food aid programme is targeted to dependents whose guardians have died. Social pensions such as old age allowance, grant for widows over 60 years, and maternity protection allowance are meant for the informal sector workers as well.

Several asset related livelihood schemes exist in Nepal. A number of INGOs, trade unions and health providers have set up community-based micro-insurance schemes in health, life, livestock, and assets. The government has also implemented several programmes like agriculture disaster relief and avian influenza compensation programme. There are regulated and unregulated agricultural insurance markets in Nepal.

The Ministry of Agriculture and Cooperatives (MOAC) provides compensation to farmers whose crops are affected by natural disaster. Compensation is provided to livestock producers in the event of major calamities resulting in the death of animals. Only a few

private commercial insurance companies are involved in crop and livestock insurance in Nepal. As the private commercial insurance sector is absent, the government, cooperatives, and Micro Finance Institutions (MFIs) have taken a lead in providing a range of livestock and crop protection services. There are currently at least four different models of livestock insurance, all with linkages to credit or microfinance for the purchase of livestock.

In the absence of any private commercial crop insurance service, small farmers belonging to rural cooperatives have sought technical assistance from the Department of Agriculture and NGOs to form their own mutual crop insurance schemes. If such strong demand from farmers for crop insurance exists for other crops in other parts of Nepal, the cooperatives may play a central role in promoting the formation of crop insurance committees and the design, rating and implementation of "mutual crop insurance programmes."

The increasing use of micro credit institutions and cooperatives for social insurance is a positive trend, but existing legal frameworks are unable to prevent misuse of funds. In the face of internal and external shocks, there is no policy level clarity on the role of social insurance in enhancing social security of the vulnerable and the excluded.

Social security and informal workers

It is difficult to estimate the size of the informal sector. However, the Nepal Labor Force Surveys (CBS, 1999; CBS, 2008) indicate that more than 90 per cent of the workers in the agricultural sector and 60 per cent of the workers in the non-agricultural sector are outside the formal sector. If both the agricultural and non-agricultural informal sectors are combined, the share of the informal sector comes out to be about 93 per

cent (CBS, 2008). It is notable that the share of the informal sector has not declined over time, posing a challenge to social security arrangements in Nepal.

The challenges are complex. Firstly, the gender dimension needs to be considered from the social security point of view. The participation of female workers in the informal sector is considerably higher than that of the male counterparts. Secondly, the deprived section of population comprising of Dalits, marginalized ethnic groups, minorities and people living in remote geographical regions are deprived of access to social services.

In Nepal, a large number of fragmented social protection programmes exist in the form of cash, in-kind and food transfers like insurance, subsidies and public works programmes. However, social protection as a comprehensive approach directed at reducing poverty, vulnerability, and risk has emerged after the 2006 political change. Government-led social protection initiatives have been less effective than expected. Despite the universal approach of some of the schemes, coverage rates for the key social protection groups vary widely--from an estimated 30 per cent for the elderly to under 10 per cent for people with disability or those entitled to health insurance. About 500,000 people were estimated to be benefiting from programmes like educational assistance, micro-credit (targeted at the poor and for job creation), food for work/ job creation schemes and allowances for senior citizens. The study (ADB, 2007) concludes that only 2.3 million people receive any form of social protection transfers covering less than 10 per cent of the population.

There has been some improvement since 2006, if scaling-up of some programmes or announcements of new programmes are any guide. Programme announcements

also indicate that almost 50 per cent of the population is covered by one scheme or the other. However, in terms of actual coverage and effectiveness at the ground level, the situation is quite different. One reason is the absence of effective monitoring system. The government announces one programme after another without ensuring the effectiveness of ongoing or new programmes. Another reason is the implementation of schemes without following any criteria of adequacy of amount fixed under the social transfer schemes.

The existing formal schemes in the public and the private sectors are insufficient in extending social security along the vertical dimension; it requires the design and implementation of new social insurance benefit schemes. The guiding principles so far available to extend the schemes are the basic social security principles, international best practices, and ILO C102. The tripartite agreement between the government, the private sector, and the trade unions provides for the implementation of four social insurance schemes: unemployment, maternity, sickness, and occupational injury.

Existing social security arrangements, which have limited coverage, exist mostly within the formal sector only. Those workers who do not fall within the “regular” labor-relation do not have any form of social security except the daily wage. This is one of the reasons for frequent labour disputes, which mostly revolve around issues like permanent or temporary position, contract or daily wage, hire and fire, and no-work-no-pay. The Employees Provident Fund (EPF) is a well-established organization providing various social security benefits like old-age benefit, personal accident insurance, survivor benefit and funeral grant, but it covers only formal sector workers and excludes all those in the informal sector. It also covers some of the contingencies as mentioned

in ILO C102. The EPF coverage is limited to 2.50 per cent of the Nepali workforce.

The government has realized that it is necessary to amend the Labour Act of 1992 to create an environment more conducive to generating employment in the country and it is planning to widen the formal sector. Trade Unions, similarly, are demanding that the new Act include informal sector workers as well and provide for distribution of a registration cards or social security cards to the workers so that no one is excluded from the government's social security schemes. According to Social Security Fund Secretariat representatives the government is currently collecting data of informal sector workers with the aim of eventually introducing a unique national identity card.

Likewise, the Social Security Organization Act is also being drafted to replace Social Security Fund Secretariat for better management and effective implementation of social security schemes. The government and trade unions have different views about the required features and negotiations are underway. Current negotiations indicate that many issues are yet to be settled, including those that relate to modalities and coverage of the proposed schemes.

In addition, the National Framework for Social Protection (2069-2079) being developed by the National Planning Commission will give an idea about the type of proposed institutions and targeted groups. Two new Acts are in the pipeline: Social Security Organization Act and Unemployment Insurance Act. These are essential for effective implementation of the horizontal and vertical dimensions of ILO C 102. The Government is working on the Acts, but no timeframe has been fixed.

The current social protection framework has coverage overlaps and disparities. The reform

process under consideration requires that the state provide a basic and modest set of social protection guarantees universally that ensure a minimum package of rights irrespective of class, caste, ethnicity, socio-economic status and geographical situation. Thus, it is necessary that the reformed programmes cover the informal sectors that are not covered by the existing system. The proposed social protection floor is in accordance with the ILO and other UN agencies' standards and can be feasible in the Nepalese context. However, this will require political commitment.

The proposed vertical reforms have a short term, medium term, and long-term approach. In the short term, there will be four benefit schemes: unemployment insurance, maternity insurance, sickness insurance, and occupational injury insurance.

The policies, rules and regulation to guide the management and operation of the SSF is still in the offing and will take quite some time to be enacted. The fund is contributory in nature, but in order to secure fiscal adequacy and sustainability, a role will have to be played by national and international government agencies, non-governmental organizations and financial institutions.

A key challenge is to harmonize the Social Security Regulation with the new Social Security Fund Act. Currently, about Rs 350 million is unutilized. The proposed Social Security Act is based on ILO Convention 102. According to Article 2 of the Convention, ratifying States are allowed to accept as a minimum three out of the nine branches of social security defined by the Convention, with at least one of those three branches covering a long-term contingency or unemployment with a view to extending coverage to other contingencies at a further stage.

The new Social Security Organization Act is expected to include social security provisions for informal sector workers, but it seems that this is not possible in the next three/four years.

Recommendations

Taking into account the near and long term perspectives, a comprehensive social security and protection policy should be formulated through consensus among the major stakeholders. This should lay out the best possible means of accomplishing the objectives and finding alternative ways to fill the resource gaps. Distinction should be made between individual components of social security and social protection. The models of proposed schemes should be clear; the state's responsibilities and contributory frameworks should be clearly spelt out. Without such policy-led clarity, various proposed laws may face challenges and accomplishment of the intended objectives would become difficult. The implementation timeframe of 10 years stipulated in the social security act is very long and the reasons are not explained. Similarly, the critically important Unemployment Facility Related Act needs to be expedited.

Policy benchmarks in the comprehensive policy frame would be essential in the light of constitutional provisions and international commitments. It is desirable that the policies are driven by a rights-based approach. This demands that at least a universal approach is followed in the context of very low income and high income-inequality. At the same time, there has been a significant departure from ongoing practices because of the low level of social security net and scattering of programmes to appease pressure groups. Assistance to the poor/unemployed and child benefit programmes are essential. They should be followed by scaling up, expansion, better delivery, and effectiveness of universal old

age and disability pension as well as universal primary health care programmes. They may need to be gradually implemented. Therefore, a two-pronged approach may be necessary to ensure that all households working in both the formal and informal sectors come within the horizontal orbit of social security. While determining the phases, it is necessary to set both selectivity and progressivity so that the most vulnerable can get more social transfers with immediate priority. In this respect, revising the present form of senior citizen allowance in favor of the poor and the deprived would be appropriate. While devising social security benefits, a complementary approach could be followed in a phased manner. There is a possibility of duplication of some schemes. Therefore, provisions in the acts should be made in such a way that there is neither duplication nor exclusion of informal sector workers from the orbit of social security net.

There is an urgent need to ensure social security and protection of the informal workers. To some extent, a revised Labor Act will address the problem of excluded workers in the organized sector, but top priority has to be given to workers in the informal sector. Gender discriminations have to be abolished. It is not clear why Nepal is not formulating a separate act for the informal sector workers although such attempts have been made by other countries. Rethinking this issue is important.

An automatic information system should be developed to continuously update data about the labour market including information about labour demand and supply by skill categories. For this, the Employment Exchange Center has to be expedited. For benchmarking of labor force data, it would be appropriate to start a registration or social security card system with institutional arrangements to regularly furnish information from the grassroots.

A parallel policy on insurance scheme is necessary. Considering the horizontal dimension, legal clarity on the role of the private sector, including micro credit institutions and cooperatives, will be necessary. The evolved nine schemes are expected to clarify the role of governmental and the non-governmental sectors. The law should be clear about the role of micro credit institutions and cooperatives. Insurance scheme in the areas of livestock and crops, among others, work better through cooperatives. Health cooperatives among all self-employed and wage earners could be useful. Such initiatives will, if the correct modality is selected, not only ease resource pressures on the government but also provide wider coverage more quickly, making social security sustainable.

Institutions and service delivery means need to be reformed and transformed to make them more transparent, accountable and efficient. It would be timely to create a new organization through enactment of the Social Security Organization Act, but care has to be taken to ensure that there is coherence in policy and institutions, that piecemeal programmes are not announced, and that there is no duplication, shifting of responsibilities and lack of accountability. At the same time, it is essential that the programmes follow a bottom up approach assigning specific responsibilities to the local stakeholders at the village and district levels depending on the nature of the programme.

Like the one per cent social security tax, new schemes should be developed to minimize the government's resource liability. New revenue sources that enhance willingness to pay should be explored to contribute to the social security related programmes. Such programme-specific levies should have a separate account. Hence it is desirable that the proposed social security fund is converted into a social security and protection fund. The creation of a separate

social protection fund for the informal sector workers also is timely and justifiable.

Without appropriate policies on decent work and security of income, vulnerability of the socially excluded people or workers cannot be eliminated. Policies related to access to assets such as land, capital, employment, and resources have to be part of social security policy.

Building on the concept of national social protection floors, a two-fold approach is emerging: a) combining minimum income guarantees in the form of cash transfers to individuals/ households and, b) provision of trained and salaried essential services by the government or the non-profit sector. A similar approach will be desirable in Nepal's context as well. Cash transfers have to be perceived in the light of Nepal's development priorities: inclusive growth, employment generation and poverty reduction. Therefore, cash transfers need to be used as vehicles to move vulnerable people out of poverty.

Social security contributes to a politically stable and socially harmonious society leading to sustainable development over the long run. The fiscal stimulus and other measures pursued to overcome the 2008 financial crisis indicate that social security transfers make immense contribution to economic growth. They work by enhancing domestic demand and consumption leading to internally driven sustainable development, which in turn reduces vulnerability of the economy, including the poor and the disadvantaged people. Social security is the most appropriate means of enhancing human capacity and productive employment opportunities. Considered from these angles, social security and protection can be regarded as a means to equitable development and economic progress. Therefore, driving development through such a paradigm shift will be critical in the Nepalese context as Nepal has embarked on a path of inclusive growth and development.

Chapter 1:

Introduction

1.1 Background

Like other countries in South Asia, Nepal has a large number of people who have no protection against social risks. Despite some good practices, Nepal faces the challenge of extending social security benefits to all workers operating in the informal economy, which accounts for more than 90 per cent of the total labour force. Since a large number of poor people depend on informal activities, there is a need to set up efficient protection mechanisms that can reduce their vulnerability.

Policy makers recognize that workers operating in the informal economy are prone to a greater range and frequency of risks. However, existing social protection systems often exclude this section of the population and cater to the needs of the workers in the formal economy. Exposure to multiple risks affects the daily lives of the excluded groups and inhibits their development. In addition, the most disadvantaged groups like poor women, the elderly, disabled people, and migrant workers are trapped in a cycle of poverty and vulnerability.

Vulnerability is not only a component of poverty, it is also one of its major causes. Inability to cope with risks often pushes people deeper into the poverty trap. The failure to manage risks has an impact that goes far beyond a state of deprivation: it negatively affects human and social capital, further restricting opportunities to improve their working and living conditions.

In an age of globalization, with its uneven impacts and opportunities, it is important to stress on the need for national social security systems that promote social and economic development, or, in a broader sense, social justice. For a country like Nepal, which is trying to bridge a huge social protection gap, the central policy challenge is to design pluralistic social security systems that provide universal access to at least certain minimum level of social protection.

1.2 Study rationale

Recognizing that social security is a human right, a social necessity, and an economic necessity, the International Labour Conference (ILO, 2011a) outlined several strategies to extend social security. The session affirmed that “closing coverage gaps is of highest priority for equitable economic growth, social cohesion and Decent Work Agenda for all women and men and added that “effective national strategies in line with national priorities, administrative feasibility and affordability contribute to achieving these objectives” (ILO, 2011a, p. 69). The conference report further elaborates:

These national strategies should aim at achieving universal coverage of the population with at least minimum levels of protection (horizontal dimension) and progressively ensuring higher levels of protection guided by up-to-date ILO social security standards (vertical dimension). The two dimensions of the extension of coverage are consistent

with moving towards compliance with the requirements of the Social Security (Minimum Standards) Convention, 1952 (No. 102) and are of equal importance and should be pursued simultaneously where possible.

The horizontal dimension should aim at the rapid implementation of national Social Protection Floors, containing basic social security guarantees that ensure that over the life cycle all in need can afford and have access to essential health care and have income security at least at a nationally defined minimum level. Social Protection Floor policies should aim at facilitating effective access to essential goods and services, promote productive economic activity and be implemented in close coordination with other policies enhancing employability, reducing informality and precariousness, creating decent jobs and promoting entrepreneurship (ILO, 2011a, p 69).

In order to support policy dialogue in Nepal on the development of a national strategy for the extension of social security along the horizontal and vertical dimensions, it is important to review the existing conditions in Nepal. This demands a closer examination of systems, mechanisms and schemes related to social security that exist in the public and private sectors, including community-based initiatives. Such analysis will provide all stakeholders with baseline information, particularly on existing concepts and experiences, thus facilitating discussions aimed at improving policies and institutional arrangements.

1.3 Study objectives

The first objective of the study is to prepare a comprehensive profile of social security/social protection in Nepal's formal and informal economies. The study gives special attention

to workers and their families in the informal economy, which contains the largest segment of the national workforce.

More specifically, the study focuses on:

- Policy-, legal and regulatory context of social security and social protection in Nepal;
- Institutional arrangements for social security and social protection in governmental and non-governmental sectors;
- Social security and social protection mechanisms available to the people;
- Social security extension plans that are being considered under the various national-level development programmes.

The second objective of the study is to analyse the status of social security in Nepal; to highlight the innovations, opportunities, challenges and trends; and to recommend the most appropriate measures to facilitate a progressive extension of social security to all the workers in the informal economy, including the most disadvantaged groups.

1.4 Scope of the study

The scope of the study is as follows:

- Documentation of major schemes available for protection against risks associated with health, life, old age, maternity, accidents, unemployment, disability, etc., as spelled out in Convention 102,
- Documentation of assets related to livelihood,
- Compilation and documentation of various schemes organized and managed by government, employers, trade unions, insurance companies, health providers, NGOs, micro-finance institutions, community-based organizations, cooperative societies and other organizations.

1.5 Methodology

Firstly, a critical review of existing literature on Nepal's social security situation was carried out and a comprehensive bibliography prepared. Secondly, separate discussions were held with representatives from the government agencies, insurance companies, micro-insurance providers and non-governmental organizations; representatives of trade unions and employers' organizations were consulted. Finally, a half-day group discussion was organized with the same officials and representatives to ensure that the situation analysis reflected the real situation as well as their key experiences and perspectives.

1.6 Organization of the report

The report has five chapters. Following this introductory chapter, the second chapter reviews literature on social security/social protection. In addition to reviewing the emerging concepts, the chapter analyses the strengths and weaknesses of various practices in both the developed and developing countries. The second chapter includes an examination of studies related to Nepal. The third chapter focuses on the policies, legal arrangements and schemes practiced in Nepal. The fourth chapter assesses the existing social security situation in the country, reviews new initiatives, and assesses the challenges. The last chapter contains the conclusions and recommendations.

Review of literature

2.1 Why social security and protection?

Emphasizing the importance of sustainability, composition and equitable quality of economic growth, the DAC guidelines on poverty reduction (OECD, 2001) recognize that high growth rates are necessary but not sufficient to effectively tackle poverty and vulnerability. Case studies of developing countries show that social protection goes a long way toward tackling poverty, supporting economic growth, and enhancing the effectiveness of growth strategies. Social security strategies include instruments that tackle chronic and shock-induced poverty and vulnerability (Sabates-Wheeler and Haddad, 2005). Social protection improves risk management and facilitates higher return on investments by poor people. It supports human capital development by expanding the capabilities of the vulnerable individuals and helping break inter-generational transmission of poverty.

There are several features distinguishing the emerging paradigm in developing countries. In developed countries, social protection strategies emphasize maintenance of income and protection of living standards for all (especially workers). In developing countries, on the other hand, the focus of social protection is not restricted to compensating those in poverty for their income shortfall; it aspires to have a broader developmental role. Social protection has a strong focus on poverty reduction and providing support to the poorest (de Haan, 2000; Barrientos and Hulme, 2005) as well as on risk and vulnerability (Barrientos,

2010). In other words, it is intent on addressing the causes of poverty, and not simply its symptoms (World Bank, 2001).

Since social protection directly reduces poverty and helps make growth more pro-poor, it is effective in achieving the Millennium Development Goals (MDGs). It increases the involvement of poor people in economic growth, protects the most vulnerable in a downturn, and contributes to social stability. It helps build human capital, manage risks, promote investment and improve participation in labour markets. Social protection programmes can be affordable, even for the poorest countries, and can represent good value for money (OECD, 2009). In OECD countries, social protection systems have proved successful in reducing vulnerabilities for the vast majority of the population and in protecting them against adverse effects of the structural adjustments made to sustain economic growth. Social security systems help to maintain a policy environment that facilitates economic growth and environmental sustainability. They also **lessen social tensions, violent conflicts, and uncontrolled migration**. Social security, therefore, needs to be nurtured through adequate investments. Since the benefits accrue to the society at large, the costs of this investment should be collectively shared (d' Ercole and Salvani, 2003). Similarly, social security is a tool that contributes to raise labour productivity and unblock the full economic potential of a country because people who

are healthy, educated and nourished can be productive.

Historically, crises have played defining roles in developing and strengthening social security policies. Social security regimes, including the German social insurance model, the British Beveridge model and the American Social Security model were responses to emerging social and economic crises (Prasad and Gerecke, 2010). Social security schemes emerged as automatic social and economic stabilizers during the 2009 financial and economic crisis. The crisis created an opportunity to extend social security and recognized it as an essential component of national economic and social development strategies. Countries at all levels of development, which have social security systems in place, are in a much better position to cope with the social fall-out of such crisis (ILO, 2011a).

According to the ILO (2008), social security is an indispensable part of the institutional tissue of an efficient market economy:

Development experience of all new developed market economies has proved this to be true. There is no successful market economy that does not have a fairly extensive social security system. Social security systems have been there as part of the societal fabric supporting the national development process. Market economies with missing or weak institutions, including institutions of social protection/security, are not able to ensure sustainable economic growth and social development in the globalizing world (ILO, 2008).

The debt problem and rising social discontent after the 2008 global financial crisis, largely due to strong austerity measures and unemployment, confirm the importance of social security system, particularly for countries vulnerable to shocks.

2.2 Horizontal and vertical dimensions

The ILO's approach for a campaign to extend social security coverage has two dimensions: the horizontal dimension and the vertical dimension (see Figure 1). The horizontal dimension consists of "the rapid implementation of national social protection floors, i.e. a minimum package of transfers, rights and entitlements that provides access to essential medical care and provides sufficient income to all in need of such protection" (ILO, 2010, p. 3). It comprises the extension of some income security and access to health care, even if at a modest basic level, to the whole population.

According to Maceira (2001), relationships in the horizontal dimension are "established among each of the participating actors or subsystems participating in the health care, which in turn are part of the social insurance network" (p. 39). The horizontal dimension describes coverage patterns from the point of view of *system equity*, or risk sharing between different sub-systems.

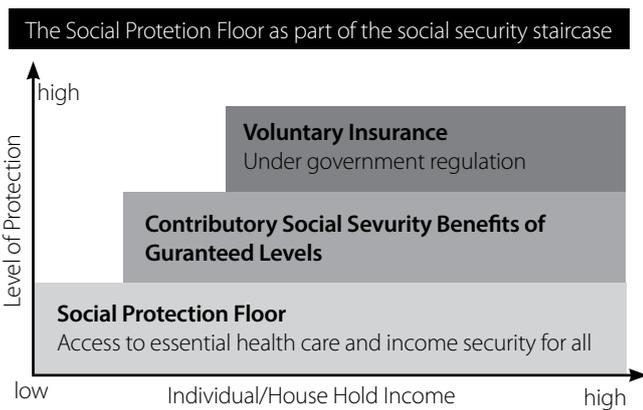
The *vertical dimension*, meanwhile, seeks to provide higher levels of social security and access to higher quality health care at a level that protects the standard of living of people even when faced with fundamental life contingencies. This is in line with the coverage and benefit requirements of the ILO's Social Security Convention (No. 102) or more recent conventions providing for higher levels of protection. The vertical dimension strives for levels of protection higher than the ground-floor level.

Maceira (2001) describes that the relationships, for each of the structures in the vertical dimension participating in the social insurance network are based on the internal operating structure. According to him, "the vertical dimension consists of five levels referring to: (1) sources of financing, (2) fund collection

methods, (3) insurance criteria, (4) service provision structure, and (5) medical staff incentive system. This dimension presents the various aspects of social insurance system coverage from the perspective of *internal efficiency*,” (p. 39).

The image of a “social security staircase” emerges from the extension of social security coverage. It signifies that the social protection system can and should move up the staircase with the extended scope, level and quality of benefits and services provided (GESS). This is necessary as the economy grows and fiscal space is created (See Figure 1).

Figure 1 The Social Security Staircase



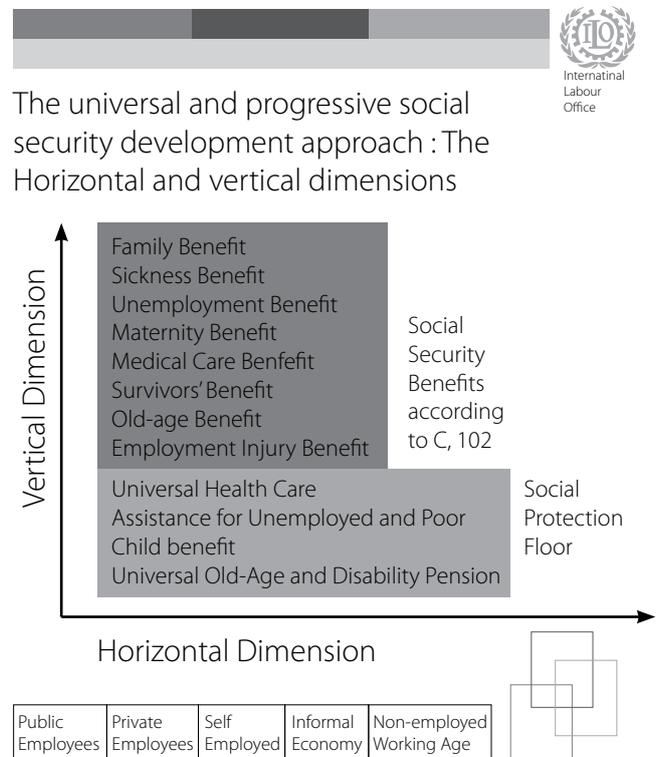
Source:ILO (2011b).

The floor level comprises a set of basic guarantees for all. For people with tax-paying or contributory capacity, a second level of benefits as a right (defined and protected regarding the minimum levels by law) can be introduced and, finally, for those with need or wish for high levels of protection, a “top floor” of voluntary private insurance arrangements can be organized (but should be subject to regulation and public supervision in the same way as all private insurance schemes). This metaphor is appropriate to all countries, albeit that the number of people whose only protection consists of basic social guarantees

is naturally larger in countries at lower income levels or with limited fiscal space (ILO, 2011b, p. 137).

The combined vertical and horizontal dimensions are generally explained in terms of universal and progressive social security development approach (Figure 2)

Figure 2 The universal and progressive social security development approach



2.3 Practices in developed and developing countries

Social protection and its function, scope and scale in developed and developing countries vary widely. In both welfare democracies and developing societies, publicly provided social protection is targeted both at the most vulnerable families and economically active citizens and their dependents (Esser et al., 2009, p. 94). However, social protection underwent an important transformation in the developing countries. Against a background of economic crises, structural adjustment

and globalization, social protection came to describe a policy framework for addressing poverty and vulnerability. Whereas social assistance in developed countries is largely a “residual safety net charged with protecting a small minority of individuals and households from the effects of poverty,” in developing countries, social assistance has a primary role within social protection and is developmental in scope,” (Barrientos, 2010, p. 10).

“Social protection is one of the most powerful tools that any society has to combat poverty and to invest in its own social economic development. All we need in developing country context is 4 per cent GDP (gross domestic product) to reduce the poverty rate in a country by about 14 per cent. Social protection schemes have succeeded in reducing poverty and providing income security in developed countries over the years. Developing countries are following suit with programmes such as cash transfer arrangements and universal health care.”

Michael Cichon, Director of the UN International Labour Organization’s (ILO) Social Security Department. UN News centre, 17th February, 2011

Social insurance in developing countries has generally declined in the last two decades. This has been the case in Latin America and China where such schemes were relatively popular. By contrast, developing countries have rapidly extended social assistance programmes in the last 15 years. The Minimum Living Standards Scheme in China, for example, expanded from 2.4 million beneficiaries in 1999 to over 22 million in 2002, as the economic restructuring led to rapid increase in unemployment among workers in state-owned enterprises. The Child Support Grant in South Africa was introduced in 2001 and rapidly scaled up to over 7 million beneficiaries in 2005 (Barrientos, 2010).

Initially instituted in the European and Latin American countries in the early 20th century, social security programmes are

now found across the world (PRB, 2009). In developed countries, social security covers workers and their dependents against old age, unemployment, health, and other risks. In developing countries, on the other hand, formal-sector workers have access to social insurance and the very poor have some access to social assistance and health services but large population groups are not covered (Dethier, 2007). Cross-country studies show that social security has helped reduce poverty drastically: by at least 40 per cent in Europe and by 28 per cent in the United States. Table 1 shows the antipoverty impact of these programmes in eight OECD countries.

Table 1 Antipoverty effects of government spending in selected countries

Country	Share of poor people by income source, in selected OECD countries (Percentage reduction in poverty ¹)				
	Market income	Social insurance (and taxes)	Social assistance	Social insurance	Overall
Belgium	31.0	8.7	7.9	71.9	74.5
Canada	24.8	13.8	11.9	44.4	52.0
Finland	18.1	11.4	5.4	37.0	70.2
Germany	28.6	9.9	8.2	65.4	71.3
Netherlands	21.6	10.9	8.9	49.5	58.8
Sweden	29.2	11.6	6.4	60.3	78.1
United States	23.7	19.3	17.0	18.6	28.3
Average	26.1	13.6	9.8	46.9	61.8

Source: Smeeding (2006)

Pension system, health insurance and unemployment insurance are the major types of social security system in the developed countries. Pension systems in developed countries cover more than 90 per cent of the labor force (Dethier, 2007). Pension systems (including minimum pension schemes in developed countries) are strongly redistributive, yielding a sizable difference between poverty rates before and after transfer. They, however, have limited potential for preventing old-age poverty in developing countries because

of their low coverage. Social security system practiced in developed countries can be adopted in developing countries where poverty levels are much higher, mean income levels are lower, distribution of income is more unequal, labor markets are fragmented, and the informal sector is larger. According to Dethier (2007), developing countries are experiencing major difficulties in extending coverage to and raising contributions from non-poor, informal-sector workers for several reasons like fiscal constraints, administrative constraints, incentive constraints and increasing informality.

Pension systems also differ in the role that the public and the private sectors play. In a strong mandatory system, where the link between pension and pre-retirement earnings is strong, voluntary private provision will have a greater role. In some countries, primarily in Latin America, the private sector is involved in running mandatory pension systems. The private sector also plays an important part in providing pension in several OECD countries. With the exception of the United States, all developed countries now have universal health insurance. European health insurance systems offer the same services as market insurance but redistribute income by raising participants' contributions in proportion to their income. Successful health care provision systems can be mainly public, mainly private, or mixed. There is no perfect model and each existing system has problems. The key issue related to universal health coverage is how to maintain fiscal sustainability. Since medical expenditures are increasing rapidly, considerable effort goes into devising methods to contain medical spending in the face of third-party incentives. The methods include cost sharing, preferred providers, health maintenance organizations and diagnosis-related groups.

2.4 Study findings in the context of Nepal

Social protection plays an important role in addressing socio-economic insecurities in Nepal: structurally generated poverty, a fragile post-conflict situation, and deeply entrenched forms of social exclusion (Koehler, 2011). Therefore, the Government of Nepal (2009) has expressed commitment to expand safety nets and social protection coverage. As such, social protection is expected to play a wider role in consolidating the peace process as well (Samson 2008). Holmes and Upadhyay (2009) consider that a coherent social protection strategy is an important step toward designing social protection initiatives and defining the roles and responsibilities of government institutions, donors and NGOs.

Legal provisions in Nepal related to social security of employees are discriminatory and ignore a large number of the population. The Labour Act, 1992, and supplementary regulations, which apply to organizations employing more than ten people, contain certain labour security provisions. However, these legal provisions in addition to excluding organizations employing less than ten people, also ignore the entire informal sector (Gautam, 2007). Social security is restricted to public sector employees and a limited number of private sector workers. There are discrepancies and ambiguities in laws based on position, employment status (regular or contract), and gender. As a result, employees in both the public and the private sectors are vulnerable (Badal, 2005). This is why the ADB (2009) stresses the need to amend the Labor Act to make it more flexible and supportive of basic social insurance arrangements that enable vulnerable groups to cope with threats to income and livelihood. The Government of Nepal (2009) indicates that government-led social protection initiatives in Nepal have focused mainly on

tax-financed social assistance: cash transfers to the elderly, widows and disabled. According to the 2009 Budget Speech, the Government of Nepal finances 95 per cent of such a national social security scheme with just 5 per cent external contribution.

An independent evaluation (ILO, 2010) shows that the formal social security schemes in Nepal are limited to the coverage of civil servants, teachers, the military and police, or about 500,000 people out of the country's estimated 24 million. The percentage of Nepalese people employed in the formal economy is about 6 to 8 per cent and even among them only a small proportion is covered by the existing social security systems.

Koehler's(2011) review of social protection schemes in Nepal, which covers the public and private sectors as well as some isolated schemes implemented by NGOs, finds that social protection transfers have become a highly

visible component of social policy since 2008. At the same time, it questions the suitability and adequacy of such schemes in addressing Nepal's socioeconomic challenges: lower per capita income, continued political violence, an unsettled constitutional and political environment, and degradation of the environment, recurrent natural disasters, and systematic social exclusion. It also questions the design, delivery and monitoring of such social initiatives.

The significance of social security has increased immensely. In Nepal, a number of social security initiatives have been taken and their coverage examined in recent years. However, a comprehensive study focusing on the poor and deprived sections of the society, particularly those in the informal sectors, is yet to be carried out. There is a need to assess social security in terms of both the horizontal and vertical dimensions by taking into account the universal and progressive social security development approach.

Chapter 3:

Review of policies, legal arrangements and different schemes

3.1 Policies and their directions

In 1995, a universal social pension system was introduced in Nepal. Its breakthrough schemes served senior citizens above 75 years, single women (widows) above 60 years and people with disability. The Ninth Plan (1997 - 2002) had further policy focus on the deprived population; it aimed to uplift the Dalits and certain ethnic groups. It became mandatory for Village Development Committees (VDCs) and District Development Committees (DDCs) to use part of their grant for income-raising and skill development programmes for the excluded ethnic community. In 1997, a National Committee for the Development of Nationalities (NCDN) was formed followed by the enactment of the National Foundation for the Development of Indigenous Nationalities (NFDIN) in 2002. Unlike the past plans, the Tenth Plan/Poverty Reduction Strategy Paper (PRSP) (2002-2007) recognized that the root cause of poverty and deprivation in Nepal was social exclusion in the form of caste, ethnicity, gender and remoteness. Hence, it underlined the need to pursue an inclusive development policy; the shift paved the way for earmarking more resources to the social development and poverty related programmes (NPC, 2002).

A policy intervention driven by social security and social protection emerged after the 2006 political change. Since then, a diverse range of social protection schemes such as cash, in-kind and food transfers as well as insurance, subsidies and public works programmes have been implemented (Table 2). The universal

pension system has been up-scaled; the lower age limit for the universal old-age pension has been fixed at 70 years.

The 2010/2011 budget (MoF, 2010) announced a new social security fund to be generated by levying one per cent tax on the salary of government and non-government employee. This was followed by the formulation of a Social Security Fund Management and Operation Regulation 2011 (2067). This scheme provides insurances for unemployment, employment accident, sickness, maternity, dependent, disability, elderly or old aged, medical treatment and family. Despite the accumulation of a huge fund, the scheme is yet to be put into operation. The 2011/12 budget (MoF, 2011) proposed the establishment of the Social Security Fund in view of unspent funds and said the government will further clarify the operational guidelines through a proposed Social Security Law.

Following the Madrid action plan, the government has formulated a National Plan of Action, 2006 (2062) for senior citizens. The multidimensional approach covers economic, health and nutrition, education, entertainment and legal aspects. Similarly, the two Three Year Interim Plans (2007-2010 and 2010-13) emphasized the necessity of ensuring a dignified life for elderly citizens.

A steady progress has been made in the health sector on both the policy and programme fronts. The First (1976-1996) and Second

(1997-2017) Master Plans emphasize universal access to primary health care. Primary health care, provided by the government directly, is now free in the rural areas. However, the effectiveness and proper use of freely available medicine remains problematic. Private insurance companies also provide health insurance on a limited scale.

The Ministry of General Administration (MoGA), in coordination with the Ministry of finance, is now implementing a health and accident insurance programme for civil servants as immediate relief. The government is currently discussing the initial proposals to provide accident insurance worth Rs 5 lakh and health insurance worth Rs 3 lakh. The schemes cover spouses and children up to the age of 21 years. Under the scheme government employee or their kin can claim 100 per cent of the insurance in case of permanent disability or death due to an accident. The scheme, which covers accidents caused by atomic radiation or war, also provides for partial and temporary disability.

The current budget (2011/12) has many small programmes targeting the most deprived. In many cases, the proposed programmes are to be implemented through cooperatives (Table 2). The programmes declared are numerous and have been proposed in a very scattered form.

Social security through micro credit programmes is expanding every year. There are some social security programmes, especially for the poor, under the Poverty Alleviation Fund like income generating and social programmes for women, Dalit, ethnic groups, the deprived and the third gender. There are also scattered programmes implemented through formal / institutional mechanisms to uplift the poor and the disadvantaged. Such programmes include:

- small farmers development programme
- intensive banking programme
- Production credit for rural women
- banking with the poor
- rural development bank programmes
- baal Mandirs
- rehabilitation and relief works
- inter caste marriage initiative programme

There are ongoing NGO/INGO/Civil society initiatives that cover income generation, education and health related programmes. Trade unions also regularly support non-formal education, health, and income generation. They are also engaged in providing relief to the workers during strikes, lockouts and natural calamities. Public Health Concern Trust, Kathmandu Model Hospital, BP Koirala Institute of Health Science, BP Memorial Hospital, TU Teaching Hospital, Patan Hospital, Manmohan Hospital and Lalitpur Medical Insurance agency provide free health services to the poor. Public Health Concern Trust (PHCT) provides services through its own clinic and pharmacy. BP Memorial Hospital has been carrying out health insurance campaigns since 1997 (See Annex IV and V).

Financial cooperatives, farmers' and women's organizations provide services to the people working in the informal sector. Traditional informal practices also exist to protect people from emergencies and difficulties. These informal mechanisms provide protection through family, community, kinship, religion, caste and ethnicity based arrangements.

Annex I, II and III list the major civil services (public) and private schemes. Acts and regulations on social security are presented in Annex VII.

There are other ongoing programmes. Food for Work, renamed Rural Community

Infrastructure Works (RCIW) gives cash and in-kind payments to the poor through labor-intensive community-level infrastructure projects. Welfare fund for civil service covers work injuries, maternity, and micro-enterprise development. Local Development Fund (SF) supports small infrastructure, micro-credit for very poor farmers and small farmers, credit for rural women, and emergencies.

The District Development Committee Block Grant distributes grants to support local governance and community development. The main objective is to develop infrastructure and improve service delivery according to the beneficiaries' preferences. Top-down grant to Village Development Committees (VDCs), run by the MoLD, gives block grants to support local governance and community development.

A closer review of various policies and programmes indicates that continuous efforts are being made to expand the social protection net. A major problem is that most of the policies and programmes are announced during the budget speech, but the scattered schemes are riddled with difficulties related to accountability and implementation.

This year's budget (2011/12) has several important features related to social security. They are:

- pension to all single women
- free education to all Dalits and girls up to grade 12
- financial support to pregnant women
- cash incentives to mothers, health institutions, health workers and transport service providers
- free delivery service to the mothers
- school stipends for Dalit and girl children
- employment oriented skill trainings for Dalits and other disadvantaged communities as part of "One Family One Employment" programme in the Karnali Zone
- an agency (Rastriya Seep Abhilekhalaya) to keep a record of employment seekers and employees
- development of Information Center into Employee Exchange Centre
- a study on employment priority programmes for people with physical and mental disability
- rehabilitation programmes for conflict affected people
- special packages to the Badi community
- ongoing relief programme to groups like Haruwa, Charuwa and Kamalri

The table below provides a summary of the policies and programmes under implementation or announced in the current budget.

Table 2 Summary of social security and protection programmes

Type	Objective	Coverage	Agency	Funding	Mechanism
Formal sector social security and health insurance	Insurance against unemployment, sickness, accident and old age	A small segment of the formal sector	Ministry of Labour	Government, employers, employees	Sickness benefit, public employees
Food aid	Address extreme hunger and malnutrition	Public food distribution system/ Food for Work schemes	Ministry of Education	Government/ aid agencies	Survivors benefits/ informal economy and unemployed
School meal programmes	Address malnutrition/ serve as incentive for school attendance				Child benefit/ unemployed
Employment schemes	Rural employment and rural infrastructure; Karnali Employment Programme (KEP): 'One family one job'	Public or development agency-based public works, cash for work	Ministry of Labour/ MoLD	Government/ aid agencies	Survivors benefits/ informal economy and unemployed
District block grants and top up grants	Funds to finance local governance and community development		MoLD		Survivors benefits/ informal economy
Disability allowance	For persons living with disability or sight-impaired, as per MLD criteria	Rs 500–1000 per month, depending on severity	MoLD	Government	Invalidity or disability benefit/ Unemployed
Social pensions	Security for the elderly	Entitlement for all citizens over age of 70, (over 60 in Karnali Zone), or if identified as Dalit community, Rs500 per month	Government, distributed by local unit of MoLD	Government	Universal old age disability pension / unemployed
Widows' grant	Social assistance	Widows over 60, means-tested and scaled up and given from the date of becoming a widow		Government	Survivors benefits/ informal economy and unemployede
Health access subsidies	Reduce maternal and infant mortality through birth assistance	Birth grants medical and transport costs	Government, distributed by local health workers/ midwives	Aid agencies	Medical care benefits and family benefit/ unemployed working age
Education grants	Social inclusion	For socially excluded groups – girl children, Dalit children	Government, distributed by local unit of MoE	Government	Child benefits/ unemployed

Type	Objective	Coverage	Agency	Funding	Mechanism
Technical education scholarship for girl children	Gender equality	For girl students in low-income families in disadvantaged regions and communities	Government, distributed by local unit of MoE	Government	Unemployment benefit/ self employed and private employees
Categorical grant for threatened ethnicities'	Social inclusion and diversity	For all members of ethnic or language communities with small and declining numbers of people Rs 500 per month, and Rs 1000 for most at risk community to attend technical college	Government, distributed by local unit of MoLD	Government	Survivors benefits/ unemployed
Child benefit	Address child malnutrition	For Dalit children from birth till 5 years; two under-5 children per family in low income households; for all families in Karnali Zone, Rs200 per month per child	Government, distributed by local unit of MoLD	Government	Child Benefit/
Geographical grant	Address remoteness	For disadvantaged groups such as Dalits, single women and people living in the Karnali Zone	Government, distributed by local unit of MoLD	MoLD and MoCWW	Survivors benefits and assistance for unemployed poor/ unemployed
Marriage allowance	Social inclusion	Grant for wedding expenses for widows from socially excluded groups and inter-caste marriages, Rs 50,000- 100,000	Government	Government	Survivors benefits
Monthly allowances for ex-combatants	Political stability	Introduced as part of the Peace Agreement	Government	Ministry of Interior and Nepal Army	Family benefit/ informal economy
Subsistence allowance for families affected by the civil war	Political stability and social justice	Allowances to families of those who perished or became disabled during conflict	Government	Government	Survivors benefits and invalidity/ disability benefit/ informal economy
Cooperatives in house to house and employee village to village	Security for the villagers	Special facilities given to the cooperative which operate in the areas of marginalized communities	Government	Government	Survivors benefits
Formation of cooperative fund	Security for conflict victim, martyrs families, landless and informal sector workers	Conflict victim, martyrs families, landless and informal sector workers	Government	Government	Survivors benefits
Facility to small farmers to buy machines	Security of small farmers	Small farmers who have small parcel of land	Government	Government	Survivor benefits

Type	Objective	Coverage	Agency	Funding	Mechanism
Establishment of transport workers cooperative in nationwide youth employment	Security of the transport workers Create employment through partnership between the cooperatives, government and the private sector	Assist to buy bus and taxi by workers cooperative Creation of more employment opportunity for the youth	Government	Government	Survivor benefits
Loan to the backward and deprived youth for own employment	Social inclusion	Engage youth in industrialization by giving loans up to Rs 2 lakh	Government	Government	Unemployment benefits
Loan to rickshaw drivers	Social inclusion	Rickshaw ownership through special loan facilities To enhance their skills	Government	Government	Unemployment benefits
Upliftment of Dom, Chamar, Mushar, Kami, Sarki, Kami	Social inclusion		Government	Government	Survivor benefits
Priority to conflict victims, the poor and ethnic groups for foreign employment	Social protection	Special training to enhance skills to make them employable outside the country	Government	Government	Unemployment benefits
Free education to all Dalits and girls	Social inclusion	Free education up to grade 12	MoE	Government	Benefits to the deprived
Village-level clinic programme	Social security	Villagers' health checkup	MoH	Government	Sickness benefit
Income generating, employment, and education programme for slum, Kamiya, Haliya, Haruwacharuwa, Kamalri, Badi, Ghandharba and bonded labourers	Social inclusion	Provide special opportunities to these deprived for fulfilling their basic needs	Government	Government	Survivor benefits
Source: Koehler, Stirbu and Cali, 2009; GoN, 2009; Dhakal, 2010; and MoF, 2011.					

3.2. Constitutional provisions, Acts and Regulations

The Interim Constitution of Nepal (GoN 2007a) Article 13 states that there will be a separate law to protect the rights of the citizens in general and senior citizens and other deprived persons in particular. It states very clearly that there will be no discrimination on grounds of gender, caste, ethnicity and language. Section 17 of Article 35 stipulates that “the state shall pursue a policy to make legal provision to provide allowances to the aged, incapacitated women and the unemployed.” The responsibilities of the state as defined by the Interim Constitution 2007 include:

- Restructuring of the state to eliminate all forms of discrimination
- Ensuring proportional representation of under-represented groups in the organs of the state
- Formulating a common minimum program for socio-economic transformation
- Pursuing a policy of adopting scientific land reform programs
- Establishing rights of all citizens to education, health, housing, employment and food sovereignty
- Providing relief, reconstruction and rehabilitation to the victims of armed conflict.

There are many Acts related to social security. The Social Security Fund Management and Operation Regulation, 2011 (GoN 2011) is the first regulation of its type directly addressing issues of social security.

The Social Security and Protection of Senior Citizen Act, 2006 was a landmark from a legal point of view. This is the first law in Nepal promulgated to provide social security to senior citizens aged 60 and above.

Within senior citizens also, those who have no means of income and subsistence, no assets and no family member to take care of them have been defined as ‘helpless senior citizens’. Section 3 of the Act provides for family members to take care of the elderly people; senior citizens can sue their family members if they do not fulfill their duties. The Act seeks to ensure that the elderly obtain various services like healthcare, drinking water, legal services, special facilities and discounts. The Act provides for District Senior Citizens Welfare Committee (DSCWC), Senior Citizens Welfare Fund (SCWF), Care Centers and Day Service Centers. The implementation of the Act faces a lot of challenges.

The Labour Act, 1992 provides for fixation of minimum wage as per the recommendations of the Minimum Wage Fixation Committee with representatives from the employers, trade union and the government. The government can fix the minimum wages when there is no formal tripartite committee. Until 2000, when Nepal fixed minimum wages for agricultural workers, the informal sector workers were deprived of the minimum wage fixed by the government. Tea estate workers also work under a minimum wage system although the rate is lower than the one in the manufacturing sector.

The Local Self Governance Act, 1999, provides for protection and development of orphan children, helpless women, the elderly and people with disability. **The Civil Service Act, 1992**, and **Regulations, 1994**, have provisions related to social protection of government employees (Annex I). **The Nepal Health Service Act, 1997**, outlines various social security and health schemes (see Annex VI and V).

Table 3 Some other existing Acts, Regulations and social security institutions

Acts and Regulations	Existing institutions
Bonus Act, 1974	Employees Provident Fund Dept., 1959
Retirement Fund Act, 1985 (never implemented)	Transport Workers Welfare Fund, 1972
Citizen Investment Trust, 1990	Service regulations for various public enterprises and Tribhuvan University (different years)
Rastriya Beema Sansthan, 1967	Regulations related to health, education etc. after 1990
Social Welfare Council Act, 1993	
Labour Regulations for Tea Estates 1994	

Source: Khatiwada, 2003.

The Transportation Act, 1992 and **Transport Regulation, 1997**, require insurance facilities to the transportation workers. Article 8 (1) of Section 148 of the Act provides for compulsory insurance to the vehicles. The Act clearly indicates that vehicle insurance is mandatory to receive permit to operate. Similarly, Section 149 says the driver, helpers, staff, and security persons have to be ensured by the vehicle owner or management committee. In case of death or disability due to an accident, insurance money has to be given to the closest relative or the authorized person or the disabled. Section 150 of the Act provides for passenger insurance. The Act covers compensation for funeral costs. The list of insurance companies is presented in Annex VII.

The ILO Convention 102 requires that the signatory state ratify at least three of the nine branches included in the vertical dimension allowing for a step-by-step extension of social security coverage. The convention, in the administration of the schemes, seeks to guarantee defined benefits with the participation of both employers and workers; it holds the state responsible for providing benefits and running of the institution's administration. The Convention proposes collective financing of the benefits either through insurance contributions or through taxation.

The social security/protection system in Nepal is fragile as far as the schemes/contingencies

mentioned in the vertical dimensions are concerned.

3.3 Available schemes and their status

3.3.1 Schemes for civil servants, public, organized and informal sector workers

Social Health Protection (SHP)

The Government of Nepal has, in the current budget, approved three social security schemes: workplace accident, maternity protection, and health insurance (MOF, 2011). The budget does not describe in detail the nature and types of benefits under the schemes creating inconsistencies.

A key challenge is to increase the number of people covered, ensure minimum benefit to protected persons, and devise the conditions and period of entitlement to benefits. Another problem is that the recently announced SSF programme primarily benefits those who are already benefiting. This will blur the distinction between the non-contributory schemes and the contributory schemes that are meant only for workers and employees in the public and the private formal sectors. Therefore, a clear definition of benefit terminologies is important. For example, in relation to medical benefits, there are various terminologies used in different

legislations in Nepal such as *Ausadhi Upachar* (medical treatment), *Upachar Kharcha* (treatment expenses), *Ausadhi Upachar Kharcha* (medical treatment expenses), *Ausadhi Upachar Subidha* (medical treatment benefit), *Upachar ko Byabastha* (provision of treatment), *Swastha & Upachar* (health & treatment), *Swasthopachar* (Health treatment), (Badal, 2009). These terminologies used in different laws, rules and regulations mean the same thing, i.e., medical benefits. However, the difference in terminologies creates confusion in understanding the models, options, coverage, benefit packages etc. to be offered to the beneficiaries.

The following schemes are available under the SHP:

Sick leave

Employees in public or in private sector are entitled to paid, half-paid and unpaid sick leaves. Civil servants and other public sector employees are entitled to 12 days paid sick leave per annum, private sector employees get

15 days half-paid leave per annum. Workers in the formal sector get up to 15 days sick leave with half pay. In enterprises with less than 10 workers, there is a provision for 15 days leave with half pay, according to the Ministry of Labour. However, the coverage of the sick leave benefits is limited; it is not available to workers in the informal economy. Contractual workers can enjoy such benefits only if there is a special provision in the contract. Non-eligibility of paid leave is a clear indication of job insecurity and hence a good indicator for identifying informal jobs (Raveendran et al., 2006). Sick leave is granted to the workers without any extra benefits including sick leave accumulation. A similar provision is found in Tea Estate Labour Law, Working Journalist Regulation and the Additional Post Office Regulation. The Child Labour Rule also has no provision for sick leave accumulation unlike that in civil service, the security agencies and public schools where sick leave accumulation is a right.

Table 4 Sickness leave and salary related provisions (Different laws)

Sickness leave and facilities	Name of Law
6 days leave with full salary	Additional Postal Regulation
	Armed Police Regulation
	Nepal Army Leave Regulation
	Civil Service Regulation
	Nepal Health Service Regulation
	Parliament Secretariat Employee Administration Regulation
12 days leave with full salary	Auditor General Department Employee Related Regulation
	Marshal Regulation
	Local Self Governance Regulation
	Nepal Police Regulation
	Working Journalist Regulation
12 days leave but silent on salary	Retired Army Appointment (Special Case) Regulation 2059
15 days leave with full salary	Labour Law
	Tea Estates Related Labour Law
15 days leave with full salary or 30 days leave on half salary	TU Teacher and Employee Service Clause Regulation
24 day leave with full salary	Child Labour (Prohibited and Regularity) Regulation

Source: Various acts, laws and regulations.

In the private sector, a majority of the establishments is not willing to provide any kind of health benefit to the workers. The 1974 Bonus Act requires the private sector enterprises to provide basic medical benefits to employees and their dependents. Similarly, the 1993 Labor Code requires private sector employers to pay 50 per cent wages for sick leave up to 15 days a year, provided the employee has been continuously employed by the same employer for at least a year. Even in the public sector, the state does not provide such benefits to the daily-wage employees although the employees are in the job for many years. Employers in the private sector like to avoid permanent employees as far as possible in order to escape from the perceived additional burden of social security expenditure. They would rather opt for either daily wage workers or contract workers for whom they are not required by law to provide any kind of social security coverage. Some business houses, nevertheless, provide nominal social security benefits in order to avoid frequent turnover of employees and to retain loyalty. Even the state is reluctant to provide permanent status to the employees in order to avoid social security expenditure.

Maternity health protection

ILO has adopted Conventions No. 3, 103 and 183 for the purpose of maternity protection, which is a basic human right and a serious issue under integrated social system. The Convention No. 183 covers more categories of women workers, including women employed in atypical forms of dependent work who, until now, often received no protection. The length of maternity leave is extended from 12 to 14 weeks. Health protection is specifically addressed for the first time by providing that a pregnant or breastfeeding woman is not obliged to perform work that is prejudicial or

establishes a significant risk to the mother and her child's health. Protection from dismissal, although no longer absolute, now applies not only during maternity leave but also during the entire pregnancy and a certain period of time after return to work. Women are also protected from discrimination in the workplace relating to maternity and are entitled to a daily reduction of hours of work for breastfeeding without losing any pay.

The current year's budget has announced reproductive health as one of the basic social security schemes for contributory workers, but it is not clear whether it is a step to follow the ILO convention related to maternity health. It is expected that the concerns of the convention will be specifically and categorically addressed by the Social Security Act.

Health protection

There is no provision in Nepal, other than maternity leave, to protect the health of a pregnant or breastfeeding woman and her child. Civil Service Act, 1992, allows 60 days paid leave for a maximum of two times during the service period. Similarly, the Labour Law requires that all private sector employees, whether permanent or temporary, be allowed 52 days paid leave for up to two times during service period. The same for tea state workers, as mentioned in Tea Plantation Labour Rule, is only 45 days. But these leaves are very short compared to the 14 weeks of paid leave including six weeks of compulsory leave after childbirth as specified by the ILO Convention No. 183. INGOs, multilateral and other diplomatic agencies, however, provide 90 days' paid leave.

Establishments with less than 10 employees do not provide maternity leave to their workers, forcing a pregnant woman to quit her job. In case of personal acquaintance or links,

she may be reinstated in her job, but this is very rare. The entire informal sector workers are excluded from maternity leave benefits. Similarly, contract workers in the civil service are also excluded from maternity leave.

Maternity leave

Maternity leave can be extended for a period longer than the leave facility if there is evidence of hardship. The Civil Service Act allows pregnant employees to avail additional maternity leave of up to six months without pay. This provision does not exist in any other legislation. Similarly, leave in case of miscarriage is also not mentioned. Labour Act, however, allows another maternity leave if one of the two children dies and the mother is pregnant again.

Paternity leave is not popular in Nepal. The provision was introduced for the first time in the Tribhuvan University (TU) Teachers and Employees Service Rule 2050, which allows seven days paid leave for a single time. A later amendment in the Civil Service Rule allows 15 days of paternity leave for a maximum of two times with full pay. A similar provision has also been added in the recent amendment of Remuneration, Terms and Service of Judges of District Court and Appellate Court. There are no paternity leave provisions for private sector employees.

The Convention No. 183 requires that maternity benefits in cash, enough to ensure a proper and healthy condition of a woman and her child, have to be provided during maternity. In addition, medical benefits need to be provided. However in Nepal, only the Civil Service Act, 1992, and the Prison Rule, 2019, allow for maternity benefit, but not in the way as spelled out in the convention. It is

rather provided as a child care benefit of Rs. 5000 and Rs. 1000 respectively.

In Nepal, no specific provision for employment protection and non-discrimination exist, although termination of employment during maternity leave is not common. The Labor Act allows women workers time to take care of their children. Legal provisions require that an establishment with more than 50 workers has to set up a childcare room, but this is practiced only in a few organizations. There is no such provision for breast feeding in any other legislation.

Occupational safety and health

Labour Act and Regulations have provisions for health and safety. Only a few acts and rules mention occupational health safety standards that need to be maintained by various establishments. However, depending upon their nature, scale and resources, organizations attempt to maintain minimum health and hygiene standards. But this does not apply to informal workers. Generally workers in small and medium enterprises such as garment, carpet, and pashmina factory are obliged to work in unhygienic conditions. Similarly, safety of employees/workers in majority of larger manufacturing entities is often neglected by the manufacturers.

Labour regulations require that adequate health and hygiene standards have to be maintained in the work place, including the supply of drinking water and availability of sanitation facilities. Similarly, measures have to be taken to protect the eyes in places where workers deal with materials like glass, lead, or mercury. Furthermore, arrangements need to be made to protect workers against fire and hazardous substances. In case of informal workers, for example in trekking, plantation, construction

and rafting, employers should provide safety equipment.

Medical expenses

Labour laws in Nepal have some provisions that require compensation of medical expenses due to workplace accident or accident while on duty. They may be provided for general circumstances as well. In case of work related accidents, Labour Rule, 1993, requires the employer to pay for the whole expenses incurred for the treatment of the worker. The worker is also required to be paid the full remuneration for the period he or she is in a hospital. Treatment at home, however, will require the payment of only half the workers' remuneration. In case the treatment goes on for over a year, the employer is not required to pay remuneration.

Only the Labour Law mentions accident as a separate case for medical coverage. Other legislations include workplace accidents within the broad category of medical expenses. The medical expenses in other legislations include both workplace accident and accident off duty.

Expenses incurred during treatment are reimbursed to the civil servants, security personnel, TU employees, public school teachers, and health workers. However, there are some limitations. For example, Tea Estate Labour Rule, 1993, stipulates that the maximum amount that can be reimbursed as medical expenses is equal to two months' salary for the entire service period. However, for other employees/workers the reimbursement can range from 12-21 months' salary depending on the position, grade and years of service (See Box 3.1). Contractual workers in the civil service are excluded from the medical expenses.

Medical benefit is also provided through direct free treatment facility to security personnel in their own respective hospitals. Similarly,

a Civil Servant Hospital, built with Chinese assistance, is in operation since 2009. The hospital provides 40 per cent concession to the gazette officers while government pensioners, non-gazetted officers and their families receive 50 per cent discount.

Some trade unions were eager to open a hospital for private sector employees/workers including informal workers. Informal workers in risky and hazardous jobs are more likely to sustain serious injuries and accidents. They expressed their serious concern about informal workers dying because they could not receive proper treatment. The representatives proposed this scheme as a part of Integrated Social Security.

Disability compensation

Labour Law requires that a lump sum equal to five years of remuneration calculated at the rate of remuneration being drawn at the time (just before) disability should be paid in cases of physical disability. The rule requires that in cases of death, a lump sum compensation equal to three years' remuneration calculated at the worker's rate of remuneration just before the death should be paid to the immediate kin. However, such compensation is not provided if the injury or disability occurs at a time when the worker is not performing an official duty.

Provision on occupational diseases

There is no provision for medical expenses and compensation for occupational diseases in any legislation.

Termination on health ground

Most legislation requires that the employee leave the job if he or she has an accident during duty period and then is unable to perform his or her duties. However, Nepalese legislations do not mention anything about workers who cannot perform their duty due to prolonged

illness or accident that is not work related. As such, employers have to terminate the job of such workers on disciplinary grounds.

Universal old age pension

The Eighth Plan, 1992-1997, for the first time, incorporated some policies assuring social security to the vulnerable citizens for maintaining a dignified social life. It was during this period that an old age allowance of Rs.100 was provided to each individual above 75 for the first time in the history of the country. Although it mentioned that the elderly would receive free medical treatment and help from the government, it could not be put into operation. The Ninth Plan, 1997-2002, formulated a policy related to senior citizens. A record of senior citizens getting monthly allowance was maintained along with the operation of old age home on a pilot basis³. Health care services and discount on airfare were introduced. But due to lack of appropriate budgeting, the absence of a legal framework, and the absence of a work plan, these programmes could not be properly carried out.

Later, two additional social security programmes, allowances for widows above 60 years and people with disability, were announced. Currently, the age limit of elderly receiving the allowance has been reduced to 70 years and the universal flat pension has been increased to Rs. 500 since September 2008. The allowances are managed by the Ministry of Women, Children and Social Welfare and distributed through the village level units of the MoLD.

The government adopted a senior citizens health facilities programme in 2006, which stipulated a senior citizen's health facilities

fund in each district that could provide free medicine and treatment up to Rs 2000 at a time. In 2009/10, the government promised to provide free health service for heart and kidney patient aged 75 and above. The budget also has a provision to establish a health center in each of the five development regions. However, there are financial, human and institutional challenges to accomplish these targets envisaged in the budget. These schemes cannot cover a large number of elderly people and the coverage itself is limited.

A study conducted by Help Age International (2009), to assess the impact of universal social pension reveals that the pension was highly valued by the elderly despite the amount being very small. It helped them sustain their lives by purchasing medicine, food and clothing. A study conducted by Geriatric Center Nepal (GCN, 2010) for the government indicates that the old age allowance has put predictability into the lives of the poor elderly people and their families by offering them a guarantee of a minimum standard of living.

In addition to the government-run old age home in Pashupati, there are about 70 such organizations, most of them charity organizations, registered with the government (GCN 2010). These private organizations have been helping old people from the funds raised through individual initiatives as well as from national and international donor agencies. Most of these old age homes are reportedly facing financial problems and have not been able to provide adequate services.

The Tenth Plan, 2002-2007, ensures the rights of senior citizens including social security rights by way of:

³ The only old age home run by the government for is the PashupatiBridhashram in the premises of PashupatiNath Temple since 1976.

- preparing necessary laws and amendment of existing ones
- coordinating with local institutions, NGOs and civil societies for the works/programmes related to senior citizens
- encouraging formation of community based clubs and old-age homes; establishment and extension of pilot old-age homes in five development regions
- adopting policies to create geriatric wards in all regional and zonal hospitals
- carrying out publicity to develop a system of honoring, respecting and serving senior citizens and including the subject matter in school curriculums
- updating the record of senior citizens
- implementing social insurance schemes for senior citizens.

The Interim Plan, 2007-2010, also adopted the rights of senior citizens. Box 1 shows the policies and programmes for senior citizens as mentioned in the Interim Plan. Similar programme and policy focus has been made in the current Three Year Plan, 2010-13.

Unemployment Benefits

Unemployment benefits, which are generally means tested and non-contributory in nature, are designed to provide people with income at times when they are not able to gain employment. There are no such unemployment benefits in Nepal. An attempt was made in 2009 to introduce an unemployment benefit scheme to the industrial workers from the money through the one per cent social security tax. The trade unions, however, opposed the proposal to use money for non-contributors. Instead, a new scheme was agreed upon, in which the government would provide a minimum living cost to the unemployed workers unable to support their livelihood. This has not been implemented yet. However, a small step toward this direction is the setting up of a Social Security Fund Office under the Ministry of Labour.

Pension and gratuity schemes for informal sector workers

The Nepalese laws dealing with the informal sector are limited. In 1993, the Ministry of

Box 1 Policies and programmes for senior citizens in the Interim Plan (2007-2010)

Policies on the three year interim plan (2007-2010)

- Develop legal and institutional mechanisms to ensure welfare and rights of senior citizens
- Expand old age homes, allowances and other economic social security programmes
- Provide special facilities to elderly people in hospitals and public transports
- Formulate policies to respect and utilize the knowledge, skills and experiences of senior citizens in national development and social transformation
- Motivate local government, private sectors and civil society organizations to provide appropriate services and facilities to senior citizens

Programmes on the three year interim plan (2007-2010)

- Health treatment for senior citizen programme
- Senior citizen central fund mobilization
- Studies on senior citizen
- Institutional strengthening programme
- Social security, insurance and livelihood programme
- Inclusion of subjects related to senior citizens in non-formal and formal education
- Programme to encourage private sector, local bodies, NGOs and community organizations
- Provision of geriatric home

Source: NPC, 2007b.

Labour extended sick leave and work injury benefits to establishments employing less than 10 workers. In order to expedite the unionisation of the informal sector workers, the Trade Union Act, 1992, provides for the registration of a union working in the informal sector. The process has suffered due to lack of appropriate laws and laxity in implementation of the existing laws. The Labour Act, 1992; T.U. Act, 1992; and Bonus Act, 1974, provide special clauses for the informal sector. The Trade Union Act, however, has been put in operation only for the purpose of registering unions. The Labour Act has made special provisions for long working hours, tip allowances⁴, overtime and half-day allowances during maintenance period of vehicles, appointment letters, minimum wages, and, for transport workers, the right to file a case in labour office against any dispute. The Labour Act also mentions the right to fix daily wages of construction workers by District Administrative Office. They can also file a case against any dispute in the District Administrative Office.

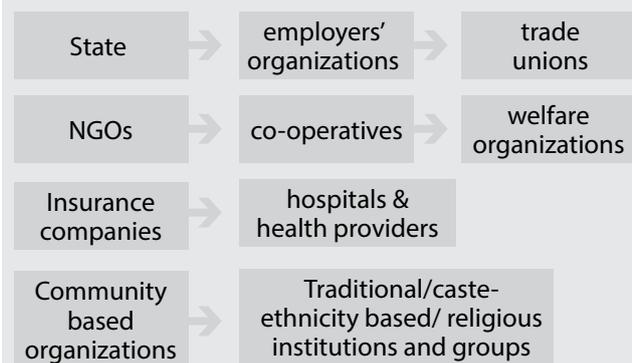
Transport workers who work in the informal sector are entitled to get accident benefits. The Vehicle and Transportation Management Act allows compensation for accidents under a compulsory insurance provision. Similarly, workers in rafting, adventure, mountaineering, travel and trekking agencies should have accident coverage. In the case of construction workers, the employer should have a group insurance policy for work-related injuries.

Some social protection programmes designed for the vulnerable groups also cover informal sector workers, although in a limited way. For example, food aid programme is targeted basically to dependents whose guardians have

died. Social pensions such as old age allowance, grant for widows over 60 years, and maternity protection allowance are meant for the informal sector workers as well (See Table 2).

Besides implementing the nine contingencies as per the ILO convention, some additional schemes may be desirable for a country like Nepal. Any collective or public intervention may be considered social protection if it provides social security to the vulnerable and protects them from risks. In order to fulfill this purpose, a concerted effort by all stakeholders, including civil society, may be required (See Box 2).

Box 2 Organizations for effective social protection



3.3.2 Asset Related Livelihood Schemes

Several asset related livelihood schemes exist in Nepal. A number of INGOs, trade unions and health providers have set up community-based micro-insurance schemes in health, life, livestock and assets. The government has also implemented several programmes like agriculture disaster relief and avian influenza compensation programme. There are regulated and unregulated agricultural insurance markets in Nepal. Insurance Board (*Beema Samiti*) regulates Nepalese life and non-life insurance markets. According to the Insurance Board, agricultural crops, livestock and poultry insurances are

⁴A term mostly used in the hospitality industry, a tip/allowance is the amount earned by an employee that the law allows his or her employer to take as a credit against the minimum wage requirements for that industry. Tip credits/allowances differ from industry to industry.

approved classes of insurance business in Nepal. However, agricultural insurance has not been specially identified as an authorized category; this class of business currently falls under miscellaneous insurance. On the other hand, some credit and microfinance entities, both public and private, in the non-regulated insurance market are not registered or licensed by the Insurance Board to operate as insurance companies. They provide credit-guarantee protection and do not constitute commercial insurance. For example, Deposit Insurance and Credit Guarantee Corporation (DICGC), cooperatives, and micro-insurance programs are some of the players in the unregulated insurance market. The DICGC is regulated by the Insurance Board (*Beema Samiti*) whereas the other two are not registered with or licensed by the Board to operate as insurance companies.

Agricultural Disaster Relief Programmes

The Ministry of Agriculture and Cooperatives (MOAC) provides compensation to farmers whose crops are affected by natural disaster.

Compensation is provided to livestock producers in the event of major calamities resulting in the death of animals. The MOAC disaster relief programmes are implemented through the Departments of Agriculture and Livestock and their respective district-level units. The District Natural Calamities Rehabilitation Committee is responsible for assessing the damages resulting from a major event and submitting requests for disaster compensation to the District Agriculture or Livestock offices. In the case of crop losses, the compensation is usually paid in the form of free seeds and inputs for the new season. Compensation is also provided to repair damaged irrigation infrastructure. In the case of livestock, compensation is usually paid in kind in the form of vaccines or medication for livestock, or occasionally replacement of stock such as poultry, goats, and fingerlings.

Table 5 provides a summary of the financial support provided by MOAC under the Natural Disaster Relief programme between 1997/98 and 2006/07.

Table 5 Financial support from MOAC provided to the districts affected by natural calamities

Year	Types of natural calamities	Supported sector	Amount in NRs (Million)	District
2006/07	Hail	Agriculture	5.00	Kathmandu, Bhaktapur, Tanahu, Lamjung, Kaski, Myagdi, Gulmi, Doti, Darchula, Okhaldhunga, Salyan, Rolpa, Puthan, Bhojpur, Arghakhachi, Syanga
	Flood	Agriculture	2.80	Banke, Bardiya, Dhanusa, Mahotari, Siraha, Saptari, Sarlahi, Rautahat, Rupandehi, Sunsari, Bara, Kailali, Parsa, Udyapur, Baglung, Myagdi
	Flood	Livestock	2.20	Banke, Bardiya, Dhanusa, Mahotari, Sunsari, Saptari, Siraha, Sarlahi, Rautahat, Bara, Parsa, Rupandehi, Baglung, Bajura
2005/06	Drought	Agriculture/livestock	44.20	All Terai districts of Eastern and Central Development Regions
2004/05	Drought/snow in mountains	Agriculture	2.01	22 districts
		Agriculture	4.06	34 districts
2002/03	Flood	Agriculture / livestock	15.92	28 districts
1997/98	Flood	Agriculture	14.00	Affected districts across country

Source: ISDR and World Bank, 2009.

In order to avoid any future overlap between the crop and livestock programmes on the one hand and government disaster relief programs on the other, the roles and linkages between the two should be reviewed and clarified.

Poultry, avian influenza: Government compensation mechanism

In response to concerns over outbreaks of avian flu, the Nepal government launched a National Avian Influenza Pandemic Preparedness and Response Plan in 2007/8 with the assistance of World Bank. The programme is implemented by the Directorate of Animal Health. A key component is a compensation fund designed to offset poultry owners from the compulsory destruction of birds, eggs and poultry feed during efforts to contain avian flu. The World Bank proposed compensation at a flat market-based rate of NRs 100 per bird irrespective of age or breed and NRs 500 for parent stock. Providing compensation for epidemic diseases in livestock is problematic because many institutions are not willing to insure epidemic diseases because of the systemic nature of epidemic diseases and the potential for losses to accumulate over large regions.

Agriculture Insurance Programmes

Only a few private commercial insurance companies are involved in crop and livestock insurance in Nepal. The main reasons include:

- Lack of awareness on the part of insurers about crop and livestock insurance products, operating systems and procedures;
- Lack of accurate time-series animal mortality data and crop production loss or damage data to establish technical premium rates;
- Absence of rural sales distribution and administration network outside major towns and cities;

- High administration costs of dealing with very small individual farmers; and
- Non-availability of agricultural reinsurance protection.

As the private commercial insurance sector is absent from the small-scale farmer agricultural insurance sector, the government, cooperatives and Micro Finance Institutions (MFIs) have taken a lead in providing a range of livestock protection and crop protection services reviewed below.

Non-regulated livestock insurance

Livestock insurance has been implemented in Nepal since 1987. There are currently at least four different models of livestock insurance, all with linkages to credit or microfinance for the purchase of livestock.

Deposit Insurance and Credit Guarantee Corporation (DICGC): The earliest livestock insurance (credit-guarantee) programme was developed by the Nepal Rastra Bank (Central Bank of Nepal) in conjunction with the DICGC in 1987 and was specifically designed to protect commercial banks' lending to small farmers to purchase cattle, buffalo or small ruminants (i.e., livestock credit insurance). The coverage provides comprehensive mortality and loss of working use protection for livestock. However, on account of the DICGC's extremely high administration and overhead costs, as well as the fall in the volume of insured livestock business, the programme has been operating at a loss. The programme has not been reinsured at any stage in the past 20 years.

Small Farmer Cooperative Limited (SFCL), Livestock Insurance: The origins of the SFCLs date back to the mid-1970s when the Agricultural Development Bank

Limited (ADBL) established a Small Farmers' Development Project. At its peak, this project extended credit to over 200,000 small farmers in 450 sub-project offices in over 600 villages in Nepal. The programme was, however, extremely costly for ADBL to administer and in the beginning of 1988, in conjunction with GTZ, a process was initiated to transform the best performing sub-project offices into Small Farmer Cooperatives (SFCLs) and to transfer responsibility to the cooperatives for providing savings and loans to their members and to manage wholesale credit disbursements from ADBL to their members. After capacity enhancement of small farmers, hand-over to the SFCLs began in 1993.

In 2001, GoN/ADBL formed the Sana Kisan Bikas Bank Ltd, SKBB (Small Farmers Development Bank) to provide wholesale credit, consultancy services and non-financial services to the SFCLs. Today there are a total of 228 (219 functioning) SFCLs in 40 districts of Nepal. Approximately 200 of the SFCLs have formed their own livestock insurance committees and provide individual animal mortality coverage and loss of use of the animal to their members. The programmes appear to be effectively managed by the SFCL Livestock Insurance Sub-Committees which receive basic training from the Department of Livestock in animal health and simple veterinary procedures.

The operating loss in the case of SFCL is lower as compared to that of DICGC. This is basically attributed to the SFCLs much lower claims ratio that can be explained by

the high degree of control exerted by the cooperative livestock committees over their livestock insurance programmes. It is also noticeable that the SFCLs average operating and administrative costs are more than 15 times lower than the operating costs of the DICGC programme. This evidence suggests that in the future there is merit in investigating further the potential to scale-up cost-effective (low administrative cost) crop and livestock insurance through the agricultural cooperatives in the country.

Community Livestock Development Programme (CLDP):

The third type of livestock insurance programme in Nepal is being implemented under the Community Livestock Development Programme, CLDP, which is funded by the Asian Development Bank (ADB). It is implemented by the Department of Livestock Services with technical support from the FAO. There are two different models of livestock insurance programmes under the CLDP: a) community managed insurance schemes for dairy animals and goats, and b) milk cooperative managed insurance schemes. The livestock insurance policy covers all risks mortality and loss of use and is closely linked to livestock credit.

Box 2 summarizes the key strengths and challenges of the CLDP. Like the SFCL, the CLDP represents a mutual livestock insurance programme managed by the community for its members. Group cohesion ensures that the insured animals are closely monitored and managed and that mortality rates and insurance claim rates are minimized.

Box 3 Strengths and challenges faced by CLDP

Strengths	Challenges
<ul style="list-style-type: none"> ● Mortality rate is decreased; risk is lowered ● Fund is generated within the community ● Easy and fast to claim and get indemnity ● Effective monitoring of the insured animals ● Timely treatment and vaccination of insured animals ● The community feels ownership of the animals ● Increases mutual understanding and cooperation between the farmers and the cooperative/community 	<ul style="list-style-type: none"> ● In case of epidemic outbreak, the community/cooperative may not cover indemnity claims of insured animals ● No legal recognition of community/cooperative managed livestock insurance scheme

Source: ISDR and World Bank (2009)

Centre for Self-Help Development (CSD):

The fourth type of livestock insurance (protection) programme is provided by CSD, an NGO which provides microfinance linked to livestock insurance and works with women's groups. The CSD does not attract any form of government premium subsidy support or external reinsurance protection. The livestock insurance programme is very small, generating less than Rs 100,000 in premiums yearly over the past 5 years, and the programme has suffered financial loss each year (loss ratio is greater than 100 per cent). In addition, the CSD is providing integrated life insurance, household contents insurance and maternity health care insurance; it has proved very popular with the women's groups and has been able to accumulate significant reserves. The key challenges for the CSD livestock programme include:

- i) Measures to increase profitability, increase sales volumes, and spread risk need to be identified.
- ii) The livestock protection programme has no disaster reinsurance protection. Some form of excess of loss coverage needs to be considered.

Non-regulated Crop Insurance

Traditionally there has been no crop insurance in Nepal because it is perceived as being difficult to design and implement by both the formal insurance sector and the non-regulated MFI/Cooperative sectors. There are, however, two pilot crop insurance programmes that have been implemented on a pilot basis in selected areas of Nawalparasi and Chitwan districts since 2007. These two pilot crop insurance programmes have been initiated by local farmers with technical and financial assistance from the local Departments of Agriculture.

In September 2005, strong winds destroyed a high proportion of 400 ha of bananas owned by several hundred small farmers in Kawaswoti VDC, Nawalparasi District, causing losses over NRs 29 million (US\$414,000). To protect against future damage, the banana growers sought assistance from the Department of Agriculture to design their own windstorm insurance programme. In the initial phase, the DoA assisted the VDC members to form a new Agriculture Insurance Multipurpose Cooperative which was registered with the Department of Cooperatives in June 2006. Similarly, in response to severe hail damage

to their vegetables in 2006, members of the Janodya Multipurpose Cooperative, Ramnagar VDC, Nawalparasi District requested assistance from the local agricultural development office to design insurance services for vegetables and their main cereal crops (Box 4).

In the absence of any initiative from the commercial insurance sector, it is commendable that the local cooperatives and local agriculture officers took the initiative to develop crop insurance programmes to insure against local climatic exposures.

Box 4 Pilot cooperative mutual crop insurance programmes for bananas and vegetables

Scope

- District Agriculture Office initiated the pilot programme in 2007 in response to farmers demand for crop insurance
- Covers bananas grown in Kawaswoti and Shiva Mandir VDCs and vegetables, paddy and maize grown in Ramnagar, Nawalparasi District

Features

- Damage-based indemnity policy
- Insured perils:
Bananas: windstorm, flood, landslide and hail
Paddy/Maize: hail, drought
Vegetables: hail, drought, frost and diseases
- Bananas: Premium NRs 2 per banana plant for compensation of NRs 15 per plant (13.33% premium rate)
- Vegetables: Premium NRs 100 per 0.033 ha (katha); Compensation NRS 1500/katha (15.0% premium rate)
- Paddy/maize: Premium NRs 50 per katha, compensation NRs 750 (15% premium rate)

Role of Government

- Product development through Department of Agriculture
- Capacity development and training of farmers and on-going technical support
- Provided financial grants to capitalize cooperative credit and savings fund and crop insurance fund
- No premium subsidy support to date

Outcomes

- The farmer members are to be commended for forming mutual insurance cooperatives with DOA assistance
- A technical review and strengthening of the crop policies is suggested (e.g., introduction of deductibles)
- Uptake is very slow under both crop insurance programmes, now in second year
- If the cooperative model is to be successful, need to consider ways of scaling-up

Source: ISDR and World Bank (2009)

The above examples demonstrate that in the absence of any private commercial crop insurance service, small farmers belonging to rural cooperatives have in recent years sought technical assistance from the Department of Agriculture and NGOs to form their own mutual crop insurance schemes. If such strong

demand from farmers for crop insurance exists for other crops in other parts of Nepal, the cooperatives may play a central role in promoting the formation of crop insurance committees and the design, rating and implementation of “mutual crop insurance programmes”.

Chapter 4:

Social security situation and initiatives with focus on informal workers

4.1. Formal and informal sectors in Nepal and social security challenges

It is difficult to estimate the size of the informal sector. However, the Nepal Labor Force Surveys (CBS, 1999; CBS, 2008) indicate that more than 90 per cent of the workers in the agricultural sector and 60 per cent of the workers in the non-agricultural sector are outside the formal sector (See Table 6). ILO (2004) specifies the following fields as being part of the informal economy in Nepal:

1. *Farm and farm related*: self-employed, very small land holders, landless farm workers, tillers, cattle herders, former Kamaiyas, Haliyas, daily wage workers, exchange-labourers under *parma*⁵ tradition, and workers engaged in non-registered economic activities related to livestock, poultry, kitchen-gardening, dairy, fisheries, sericulture, and bee farming.
2. *Trading*: street vendors, hawkers.
3. *Craft-workers*: artisans working with materials like clay, metal, bamboo and wood.
4. *Construction*: daily wage workers related to building, wood work, road, stone quarrying, brick kiln.
5. *Transport*: porters, cleaners, Khalasis, loaders, rickshaw pullers, auto-mechanics and helpers.
6. *Micro enterprises*: family-based enterprises workers in various types of production and services.

7. *Other services*: barbers, cobblers, tailors, blacksmiths, traditional entertainers.

Classifying in this way, the NLFSs clearly indicate that informal economy is quite large in Nepal. If both the agricultural and non-agricultural informal sectors are combined, the share of the informal sector comes out to be about 93 per cent (CBS, 2008). It is notable that the share of the informal sector has not declined over time, posing a challenge to social security arrangements in Nepal.

As the table below shows, the challenges are complex. Firstly, the gender dimension needs to be considered from the social security point of view. The participation of female workers in the informal sector is considerably higher than that of the male counterparts. The share of female workers in the non-agricultural formal sector is only about 3.5 per cent, while the agricultural sector is fully female dominated. The male workforce has moved either to the urban areas or to foreign countries in search of better job opportunities. Secondly, the deprived section of population comprising of Dalits, marginalized ethnic groups, minorities and people living in remote geographical regions are deprived of access to social services. The recent estimates based on deprivation-based poverty show that the level of poverty in Nepal is as high as 65 per cent (UNDP, 2010).

⁵ Exchange labour system in Nepal

Table 6 Formal and informal employment of persons aged 15 above (Number in thousand)

Sector	Total		Male		Female	
	1999	2008	1999	2008	1999	2008
Agriculture	7,203 (76.1%)	8705 (73.90%)	3,176 (67.1%)	3429 (62.13%)	4,027 (85.2%)	5275 (84.28%)
Non-agriculture formal	603 (6.4%)	932 (7.9)	509 (10.7%)	711 (12.87%)	94 (2.0%)	221 (3.52%)
Non-agriculture informal	1,657 (17.5%)	2142 (18.2%)	1,052 (22.2%)	1379 (25%)	605 (12.8%)	763 (12.2%)

Source: CBS, 1999, 2008.

4.2. Coverage of social security schemes

In this sub-section, security schemes have been divided into two parts: the first part covers the horizontal dimension of the social protection floor and the second part covers the vertical dimension of the nine contingencies as mentioned in the ILO Convention No. 102.

4.2.1. Horizontal dimension: the social protection floor

In Nepal, a large number of fragmented social protection programmes exist in the form of cash, in-kind and food transfers like insurance, subsidies and public works programmes. However, social protection as a comprehensive approach directed at reducing poverty, vulnerability and risk has emerged after the 2006 political change.

Government-led social protection initiatives have been less effective than expected. Nepal ranks poorly in comparison with other countries in the region in terms of social-protection expenditure, coverage, poverty-targeting and impact (Baulchet *et al.*, 2006). Similarly, an index developed by the Asian Development Bank (ADB, 2007) ranks Nepal's social protection

system at 0.19 on a scale of 0 to 1 (See Table 7). Despite the universal approach of some of the schemes, coverage rates for the key social protection groups vary widely--from an estimated 30 per cent for the elderly to under 10 per cent for people with disability or those entitled to health insurance. About 500,000 people were estimated to be benefiting from programmes like educational assistance, micro-credit (targeted at the poor and for job creation), food for work/ job creation schemes and allowances for senior citizens. The study (ADB, 2007) concludes that only 2.3 million people receive any form of social protection transfers covering less than 10 per cent of the population.

Table 7 Social Protection Index (SPI) ranking of South Asian economies

Country	Ranking	Remarks
Sri Lanka	0.47	above average
India	0.46	above average
Bangladesh	0.33	average
Maldives	0.28	average
Nepal	0.19	below average
Bhutan	0.17	below average
Pakistan	0.07	below average

Source: ADB, 2007.

Table 8 Social protection indicators (Nepal)

SPI Component		Nepal	South Asia	Low HDI	All Asia
Expenditure on SP	(Total expenditure as % of GDP)	2.3	3.1	3.0	4.8
Coverage of SP					
The un-/underemployed	(percentage of total of U/U)	27	12	22	31
The elderly	(as percentage of pop. aged 60+ years)	35	21	19	52
The sick	(percentage of pop. with health insurance or in receipt of subsidies)	3	6	3	22
The poor (social assistance)	(percentage of poor pop.)	18	57	25	54
The poor (microcredit)	(percentage of poor pop.)	28	29	26	18
The disabled	(percentage of disabled pop.)	6	8	8	41
Children with special needs (CWSN)	(percentage of poor children aged 5-14 years)	40	58	38	62
Overall coverage indicator	(weighted average of coverage subcomponents)	0.18	0.23	0.17	0.35
Distributional impact of SP (poverty targeting)	(percentage of poor pop. receiving some assistance)	0.35	0.55	0.38	0.57
SP impact on incomes	SP expenditure per poor person as percentage of annual per capita poverty line income/expenditure	0.07	0.15	0.09	0.23
The Social Protection Index		0.19	0.28	0.20	0.36

Source: ADB, 2007.

There has been some improvement since 2006, if scaling-up of some programmes or announcements of new programmes are any guide. The elderly pension entitlement age has now been reduced to 70. The population share of 70 years and above, according to the population census of 2001, is roughly 6.4 per cent. This ratio might have slightly increased now. The Women Human Rights (WHR) estimates the population of single women to be around 45,000 and, based on the new provisions for all single women getting pension, their share could be around 0.2 per cent of the total population. All Dalits of Karnali are now provided pension and their population could be roughly 0.1 per cent of the total. The population of people with disability is around 0.45 per cent of the total. The formal schemes of social security recorded under the Employees Provident Fund covering civil servants, teachers, the military, the police and employees in the private sector is around 1.8 per cent of the total popu-

lation or 2.5 per cent of total labour force. The combined total population with universal social security coverage is about 9 per cent. The share of social expenditure in total government spending has surpassed 40 per cent (MoF, 2011). All these indicate that both universal coverage and social security schemes in terms of transfers and other benefits have gone up considerably.

Programme announcements also indicate that almost 50 per cent of the population is covered by one scheme or the other. However, in terms of actual coverage and effectiveness at the ground level, the situation is quite different. One reason is the absence of effective monitoring system. The government announces one programme after another without ensuring the effectiveness of ongoing or new programmes. Another reason is the implementation of schemes without following any criteria of adequacy of amount fixed under the social transfer schemes.

4.2.2 Vertical Dimension: Social security benefits

The existing formal schemes in the public and the private sectors are insufficient in extending social security along the vertical dimension; it requires the design and implementation of new social insurance benefit schemes. The guiding principles so far available to extend the schemes are the basic social security principles, international best practices, and ILO C102. The tripartite agreement between the government, the private sector and the trade unions provides for the implementation of four social insurance schemes: unemployment, maternity, sickness and occupational injury.

Existing social security, which have limited coverage, exist mostly within the formal sector only. Those workers who do not fall within the “regular” labor-relation do not have any form of social security except the daily wage. This is one of the reasons for frequent labour disputes, which mostly revolve around issues like permanent or temporary position, contract or daily wage, hire and fire, and no-work-no-pay.

The Employees Provident Fund (EPF) is a well-established organization providing various social security benefits like old-age benefit, personal accident insurance, survivor benefit and funeral grant, but it covers only formal sector workers and excludes all those in the informal sector. It also covers some of the contingencies as mentioned in ILO C102. The EPF coverage is limited to 2.50 per cent of the Nepali workforce (See Table 9). It has a mandatory coverage of all government and semi-government employees, and private organizations with 10 or more employees can voluntarily avail the EPF schemes. EPF excludes self-employed, temporary, part-time and household workers.

Table 9 EPF coverage in the formal sector

Area	Number of contributors	Percentage
Civil Servants and the public sector	89000	19.77
Nepal Army	93000	20.67
Nepal Police and Nepal Armed Police	81000	18.00
Private organizations, corporate sector	97000	21.56
Education	90000	20.00
Total	4,50,000	100

Source: EPF, 2010/11.

The EPF used to cover government and semi-government organizations only. In 1978, EPF's scope was extended to cover public-school teachers and employees. In 1991, the scope was further broadened to include the private sector: private schools, universities, diplomatic missions and non-governmental organizations employing at least ten people on a permanent basis. The EPF started with 40,000 members in 1962, but by 2010/11, with the expansion of the private sector businesses and facilities, it has increased 10 fold.

4.3. New initiatives on the legal, institutional and policy fronts

4.3.1 Legal⁶

The government has realized that it is necessary to amend the Labour Act of 1992 to create an environment more conducive to generating employment in the country. In order to widen the formal sector, it plans to bring all firms or enterprises having 1 employee, as opposed to the current requirement of 10 employees, within the orbit of the Labour Act.

Trade Unions, similarly, are demanding that the new Act include informal sector workers as well and provide for distribution of a registration cards or social security cards to

⁶ This section is based on the focus group discussions with concerned stakeholders.

the workers so that no one is excluded from the government's social security schemes. According to Social Security Fund Secretariat representatives the government is currently collecting data of informal sector workers with the aim of eventually introducing a unique national identity card. The trade unions are also demanding that, in case of formal sector, at least 20 per cent should be contributed by the employers and 10 per cent by the workers in addition to the one per cent tax. Despite the proposal being accepted by the FNCCI, there is no clarity on how the 20 per cent will be used.

Likewise, the Social Security Organization Act is also being drafted to replace Social Security Fund Secretariat for better management and effective implementation of social security schemes. The government and trade unions have different views about the required features and negotiations are underway. Social Security Fund Secretariat considers that the draft is still vague in the absence of accurate data. There is also a conflict of interest between the Ministry of Finance and the Ministry of Labour and Transport Management. The Ministry of Finance wants to save the collected fund until the promulgation of an Act, whereas the Ministry of Labour wants to invest the funds to generate more money. The Social Security Fund secretariat considers that the government's maternity health scheme is vague about providing benefits. Trade unions, meanwhile, want the one per cent tax to be treated like a provident fund. Current negotiations indicate that many issues are yet to be settled, including those that relate to modalities and coverage of the proposed schemes. In addition, the National Framework for Social Protection which is being drafted and if adopted will give an idea about the type of proposed institutions and targeted groups.

A committee has been formed to provide recommendations about the Social Security Fund, and its Secretariat will take full shape only after the required legislation. However, the government has already enacted a social security regulation and therefore the Social Security Fund Secretariat is engaged in working out 3 schemes.

The government is drafting an Unemployment Benefit Insurance Act in order to provide allowances to the unemployed. There are many unresolved issues in this area as well. In the absence of accurate and authorized data, the Fund Secretariat has no bench mark data to determine the status of unemployment in the country. The CBS has also not been able to provide such data so far. Due to the lack of data, fixing compensation and replacement rate has been a problem. Trade unions insist that providing unique social security card to all work forces will resolve this issue.

Efforts are also being made to amend the Trade Union Act, 1992 in order to create efficient mechanisms for dialogue and negotiations. Likewise, the National Labour Committee Act is also being proposed for quicker, easier and more effective implementation of enacted laws. The trade unions have also floated the concept of a Worker Justices Commission as one of the constitutional bodies.

Two new Acts are in the pipeline: Social Security Organization Act and Unemployment Insurance Act. These are essential for effective implementation of the horizontal and vertical dimensions of ILO C 102. The Government is working on the Acts, but no timeframe has been fixed.

The Social Security Organization Act has been designed to develop an organizational structure that can deal with social security

and protection related programmes. It proposes an organization committee consisting of representatives from employers, trade unions and the government, and an executive officer for administrative work. The proposed responsibilities are: a) collection of information on formal and informal sector workers, b) issuing of social security cards for labourers and civil servants, c) fixation of the contribution rate to both the workers and the employers for social security fund and d) monitoring the progress and effectiveness of the programmes.

The Unemployment Insurance Act, meanwhile, will specify the amount and period of insurance for the unemployed. The Act will provide for insurable income for those who will participate and contribute; it will also include a clause spelling out after what time period a contributor will be entitled to receive unemployment insurance.

4.3.2 Vertical and horizontal reform initiatives

Horizontal Reform

The current social protection framework has coverage overlaps and disparities. Figure 3 shows the current situation.

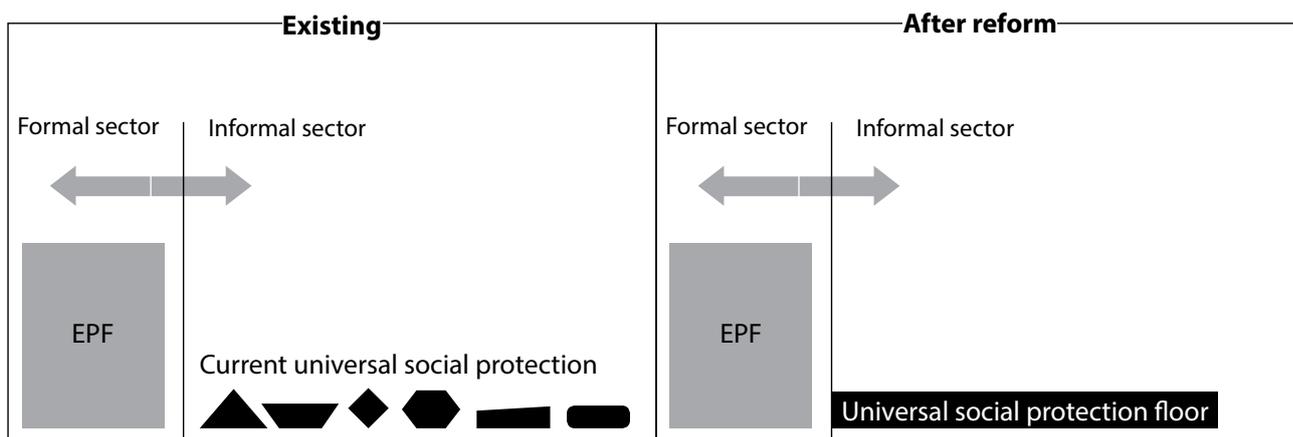
The reform process under consideration requires that the state provide a basic and

modest set of social protection guarantees universally that ensure a minimum package of rights irrespective of class, caste, ethnicity, socio-economic status and geographical situation. Thus, it is necessary that the reformed programme cover the informal sectors that are not covered by the existing system. The five major transfers and services in the package as identified by the National Steering Committee on Social Protection are:

- i) Social assistance to senior citizens, widows, people with disabilities and members of at-risk ethnic groups
- ii) Universal child protection grant
- iii) Free education up to grade 12 in community (government) schools
- iv) Free basic health care services
- v) Employment guarantee scheme

Although these interventions are not new, they have been proposed to consolidate and extend existing coverage. This proposed social protection floor is in accordance with the ILO and other UN agencies' standards and can be feasible in the Nepalese context. However, this will require political commitment to a greater extent.

Figure 3 Situation before and after horizontal reform



Vertical Reform

The proposed vertical reforms have a short term, medium term and long term approach. In the short term, there will be four benefit schemes: unemployment insurance, maternity insurance, sickness insurance and occupational injury insurance. A problem with this approach, seems to be that the expenditure of these four schemes will exceed the amount of revenues collected with the 1 per cent social security contributions. Therefore, either the rate of contribution has to be increased to 1.33 per cent or the provisions under these four schemes have to be reduced. Increasing the contribution is possible because the employers' organizations have agreed to contribute 20 per cent after the Social Security Organization Act is passed.

Table 10 Revenue and Expenditure of the Social Insurance Fund

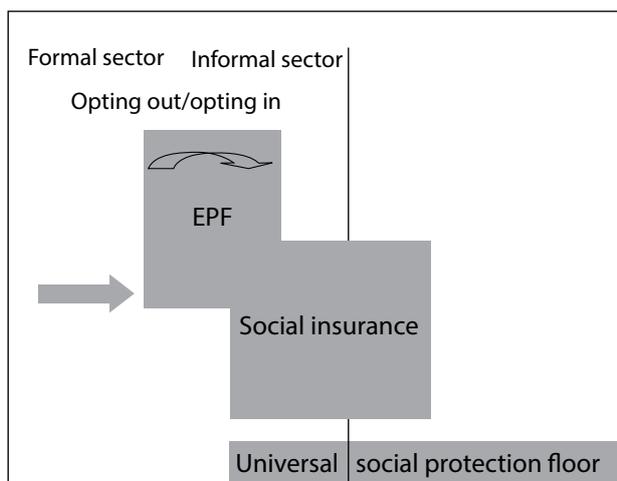
Revenue and Expenditure	NRs (in millions)	per cent contribution
Net Annual Revenues for the SI Fund (1)	546,3	1.00
Expenditure		
UI	357,3	0.65
Maternity	149.6	0.27
Sickness	84,6	0.15
Occupational Injuries	134,0	0.25
Total Expenditure (2)	725,4	1.33
Surplus/deficit = (1) – (2)	-179,1	-0.33

In the medium term, pension insurance for old age and survivors benefit will be introduced. An alternative is to bring more workers under the current EPF. This will be a sensible option for the short term as the introduction of a pension insurance scheme will take some time. In the longer run, however, the introduction of an insurance scheme could be suitable. With the expansion of coverage to the current informal sector, workers could then be given the choice

of either enrolling in the existing EPF or insuring themselves under the new scheme. A further option would be to introduce an opt-out/opt-in provision for the current members of the EPF, although this would probably require an amendment in the law. The current members of the EPF would then be able to transfer their EPF savings to the new Pension Insurance Fund.

Figure 4 shows the vertical dimension where an increasing number of workers are included under the new Social Insurance Framework and where, after the introduction of pension insurance, an opt-in provision would exist for the current members of EPF.

Figure 4 Vertical reform: Social insurance



4.4 The challenges ahead

4.4.1. The Social Security Fund: Still an uncertainty

The policies, rules and regulation to guide the management and operation of the SSF is still in the offing and will take quite some time to be enacted. The fund is contributory in nature, but in order to secure fiscal adequacy and sustainability, a role will have to be played by national and international government agencies, non-governmental organizations and financial institutions.

A key challenge is to harmonize the Social Security Regulation with the new Social Security Fund Act. Currently, about Rs 350 million is lying unutilized. Though the government appointed all members of the Social Security Fund Management Committee in 2010, the committee was not given enough budget and support to start negotiations with service providers for the implementation of the employee welfare schemes.

The trade unions, government and employers are still debating about the path to social security. Of the three parties, the trade union federation has already made public its preliminary proposal. It wants to use the money from the 1 per cent social security tax for the proposed Social Security Fund to be used. This is expected to cover 2 million workers immediately and 12 million workers eventually if all the formal and informal workers can be brought under the scheme by 2020 as set by the tripartite mechanism. The schemes to be included, however, have not been identified yet.

Further discussions between the social partners and the government are required to fix the contribution rate. After a lot of debate, the government also agreed to make a contribution. Initially, the unions proposed a contribution of 1 per cent by the workers, 2.5 per cent by the employers and 2.5 per cent by the government. However, the Employers' Organization (FNCCI) and the Workers' Organisations agreed on 24 March 2011 that the workers' contribution would be 11 per cent (including 10 per cent provident fund) and the employers' contribution will be 20 per cent (including 10 per cent for the provident fund). The government is supporting the administrative expenses incurred in the collection and management of the fund.

Since the proposed Social Security Act is based on ILO Convention 102, at least three schemes have to be introduced. The tripartite working committee has proposed four schemes to begin with: medical treatment, accident insurance, maternity health protection and unemployment insurance. Although the government has assured that these schemes, other than unemployment insurance, will be announced through its current budget, it remains uncertain given the current political climate.

The following challenges have been identified for the fund's operation:

- The extension of the programme to the grass roots level and coverage of all the workers requires huge resources, which are unavailable.
- It is not clear whether the Ministry of Finance should collect the fund from the employers/workers as social security tax or the Social Security Fund office should collect it as a social security contribution.
- The employer organizations are deducting social security tax at their own discretion; existing legislation does not specify whether it is to be deducted from the employees/workers basic salary or the salary they receive.
- The introduction of future schemes requires proper estimates/projections so that proper planning for can be made. This is yet to be initiated.
- There is confusion among various stakeholders about the social security contribution. The Ministry of Finance and the employees/workers understand it as a new direct tax but with a new name. Trade union representatives report that the workers are not aware of the objectives of the social security tax.

- The much talked about social security ID is difficult to introduce at a time when the distribution of national ID to all the citizens itself been problematic. The fund office is planning to provide electronic ID to the workers, which will be very time consuming.
- Frequent changes in the government has created confusion among the stakeholders over the government's view on social security; there is a patchwork of small programmes and provisions with frequent overlaps and even more frequent gaps. Major political parties have differing views on social security issues.

4.4.2. Social security of informal workers: Still a long way to go

The new Social Security Organization Act is expected to include social security provisions for informal sector workers, but it seems that this is not possible in the next three/four years. Employer organizations like FNCCI and CNI are sceptical about the social security of informal sector workers. However, they express their moral support to any type of social protection programme introduced by the state. They argue that the state should take the overall responsibility for informal sector workers as the employers cannot contribute toward the social security fund because of low earnings as well as seasonal nature of the jobs. As such, tax financed programmes of protection should be separately introduced for them. The government is positive about introducing separate social protection programmes for the informal sector workers. The FNCCI and trade unions are in favour of providing social security ID to all the workers so that they are covered by social security programmes introduced by the state. Countries like India have started providing medical, maternity and unemployment

guarantee to the informal sector workers. Following are the emerging issues related to the social security of the informal sector workers:

- Majority of the informal sector workers are female who are more vulnerable than the male. The strength of the union in the particular workplace determines the type and extent of social security available to these workers. Child care arrangements and reproductive health care as well as OSH related provisions also depend on the bargaining power of the union. Women in the informal sector have low wages, long working hours, no fringe benefits and no incentive earnings.
- Core labour standards like ILO Core Convention No. 87 on freedom of association⁷; Convention No. 100 on equal pay; Convention No. 111 on discrimination; Convention No. 138 on age bar for employment etc., are not implemented in Nepal. Despite ratification of the Convention No. 29 on forced labour, effective implementation is a problem.
- Identification of informal sector workers is a major problem. There are three broad categories of informal sector workers in Nepal: a) self-employed, b) wage workers, and c) unpaid family workers. There are three further sub-categories of informal sector workers within the second category of wage workers: a) people working in microenterprises, family-based units and establishments with less than 10 workers and b) agricultural workers, former kamaiyas, construction workers, domestic servants, street workers, home-based workers, bonded workers, porters and loaders, socially excluded groups, and

⁷Trade union Act 1992 mentions the freedom of association for informal sectors with special provision for agriculture workers, but the right to collective bargaining is not mentioned anywhere for the informal economy.

Dalits. Social security needs of these groups may be quite diverse depending upon their occupation, caste/ethnicity, habitat/area/topography and gender. Therefore, it is difficult to extend the coverage among all these groups. Nevertheless, the minimum social protection can be ensured at this stage depending upon the type of risk they are likely to face, like natural, social, economic, environmental and health.

- Existing laws are neither adequate nor uniform. There are insufficiencies, discrepancies and ambiguities based on position, status (regular or contract), gender and vulnerability of employees in both the government and private sectors. The laws are insufficient in protecting the informal sector workers.
- Several social protection transfers meant for targeted groups can also be delivered to informal sector workers. But the fragmented nature of such programmes and the low level of the actual monetary benefits undermine any significant improvement in their socioeconomic security. Moreover, none of these transfers are directed at building assets at the household level, which is the only substantive way of overcoming poverty. There is also a risk of prolonging exclusion. For example, the special package announced this year for Badi community may reinforce existing group identities.

4.4.3. Agricultural insurance in Nepal: Challenges ahead

Nepal faces institutional, technical, operational and financial challenges in relation to agricultural insurance.

Institutional challenges

- i Farmers lack awareness of and access to agricultural insurance
- ii There is a lack of national framework for agricultural insurance
- iii The objectives of government for agricultural insurance and targeted beneficiaries are not clear
- iv There is no legal and regulatory framework for agricultural insurance
- v Current insurance legislation does not recognize the informal crop and livestock insurance programmes implemented through the cooperatives and MFIs
- vi There is a lack of exposure to international agricultural insurance technology
- vii There is a limited range of crop and livestock insurance products
- viii Availability of quality, long term time series data on crop production and yield is a challenge

Financial challenges

- i Private commercial insurance companies have limited financial capacity and are reluctant to take a lead in investing in agricultural insurance
- ii Cooperative agricultural insurers have limited financial capacity and none of their programmes are currently reinsured

Operational challenges

- i Private commercial insurers lack rural branch networks
- ii Agricultural insurance for small farmers have administrative costs

Chapter 5:

Conclusions and recommendations

5.1 Conclusions

5.1.1 In welfare economies, social security and protection systems covering universal family benefits, social assistance and social insurance have been critical in alleviating poverty and enhancing people's living standards. The approaches to social security and protection have transformed since the 1980s, giving more thrust to the universal and progressive dimensions that consider the vertical and horizontal ingredients. Strong austerity measures amidst deepening debt and unemployment problems in the aftermath of the 2008 global financial crisis, which has fuelled social discontent, underlines the importance of the new dimension in social security. In Nepal, social protection plays the role of a catalyst in consolidating durable peace.

5.1.2 Various steps undertaken since the 1990s indicate that Nepal, with its discriminatory social structure, has been aware of the importance of social security in ending social exclusion and vulnerability of the poor and deprived groups. In 1995, a universal social pension system was introduced covering old aged, single women and disabled. The coverage was low compared to the severity of social security problem from both the vertical and horizontal standpoints. The historical Interim Constitution, 2007, framed after the sweeping political change of 2006, which banned discrimination on the grounds of gender, caste, ethnic groups and languages, guided new laws, policies and institutional arrangements.

5.1.3 A wide range of social protection schemes such as cash, in-kind and food transfers, as well as insurance, subsidies and public works programmes exist in Nepal today.

5.1.4 Many programmes in recent years have been introduced haphazardly through budgetary statements without sufficient preparatory work. The nature and coverage of these programmes indicate that many of them have been guided by piecemeal or appeasement approach rather than by a well thought-out social security policy. There is no comprehensive policy on overall transfers which could also comprehend social security and protection related issues more judiciously. Conceptual clarity is needed in the areas of social security and social protection while devising policies and programmes; there is confusion about which programmes should be government funded and which programmes should be contributory. Key problems are related to issues of responsibility, sustainability, monitoring and corruption control.

5.1.5 Implementation remains a major issue. Core labour standards are not implemented in the informal economy.

5.1.6 Identification of the informal sector workers has not been pursued in a way that could be helpful in fulfilling international commitments. There are three types of informal sector workers in Nepal: a) self-employed, b) wage earning, and c) unpaid family members. Failure to identify the different categories of

informal sector workers makes it difficult to provide universal coverage.

5.1.7 Despite improvement in the social security net compared to the period before 2006, the coverage and effectiveness remain major issues. Many programmes are directionless because they have not been based on criteria like contribution to equity, poverty reduction and minimization of vulnerability. The fragmented nature of social protection transfers and exclusion of the informal sector workers from social security pose additional problems. Some forms of social transfers, introduced with the aim of overcoming social exclusion, may reinforce exclusion. None of the programmes seek to build productive assets in households that are most vulnerable. As a result the programmes do not contribute to structural transformation required for socioeconomic security.

5.1.8 There are some positive developments in the legal, regulatory and institutional fronts to address lapses in approaches, policies and coverage. The drafting of a new Social Security Act is in the final stages. Similarly, the preparation of a new Social Security Organization Act is expected to replace the existing Social Security Fund Secretariat providing for an effective organization with a broader approach, policy coherence and institutional arrangements. There are still confusions and ambiguity in the planned arrangements, partly due to a lack of conceptual clarity on social security and partly due to the differing views of the stakeholders. Most of the new legislations do not cover the informal sector workers; the trade unions are demanding that they should be included within the orbit of the new social security system. Complications will arise if there is no tripartite consensus before finalization of the drafts and there is no conceptual clarity in line with ILO recommendations. Unless the social security

issue of informal sector workers, primarily the most deprived, is addressed, new initiatives will lead to more confrontation rather than to solutions.

5.1.9 The increasing use of micro credit institutions and cooperatives for social insurance is a positive trend, but existing legal frameworks are unable to prevent misuse of funds. In the face of internal and external shocks, there is no policy level clarity on the role of social insurance in enhancing social security of the vulnerable and the excluded.

5.2 Recommendations

5.2.1 Taking into account the near and long term perspectives, a comprehensive social security and protection policy should be formulated through consensus among the major stakeholders. This should layout the best possible means of accomplishing the objectives and finding alternative ways to fill the resource gaps. Distinctions should be made between individual components of social security and social protection. The models of proposed schemes should be clear; the state's responsibilities and contributory frameworks should be clearly spelt out. Without such policy-led clarity, various proposed laws may face challenges and accomplishment of the intended objectives would become difficult. The implementation timeframe of 10 years stipulated in the social security act is very long and the reasons are not explained. Similarly, the critically important Unemployment Facility Related Act needs to be expedited.

5.2.2 Policy benchmarks in the comprehensive policy frame would be essential in the light of constitutional provisions and international commitments. It is desirable that the policies are driven by a rights-based approach. This demands that at least an universal approach is followed in the context of very low income and

high income inequality. At the same time, there has been a significant departure from ongoing practices because of the low level of social security net and scattering of programmes to appease pressure groups. Assistance to the poor/unemployed and child benefit programmes are essential. They should be followed by scaling up, expansion, better delivery and effectiveness of universal old age and disability pension as well as universal primary health care programmes. They may need to be implemented in a phase-wise manner. Therefore, a two-pronged approach may be necessary to ensure that all households working in both the formal and informal sectors come within the horizontal orbit of social security. While determining the phases, it is necessary to set both selectivity and progressivity so that the most vulnerable can get more social transfers with immediate priority. In this respect, revising the present form of senior citizen allowance in favor of the poor and the deprived would be appropriate. While devising social security benefits, a complementary approach could be followed in a phased manner. There is a possibility of duplication of some schemes. Therefore, provisions in the acts should be made in such a way that there is neither duplication nor exclusion of informal sector workers from the orbit of social security net.

5.2.3 There is an urgent need to ensure social security and protection of the informal workers. To some extent, a revised Labor Act will address the problem of excluded workers in the organized sector, but top priority has to be given to workers in the informal sector. Gender discriminations have to be abolished. It is not clear why Nepal is not formulating a separate act for the informal sector workers although such attempts have been made by other countries. Rethinking this issue is important.

5.2.4 An automatic information system should be developed to continuously update data about the labour market including information about labour demand and supply by skill categories. For this, the Employment Exchange Center has to be expedited. For benchmarking of labor force data, it would be appropriate to start a registration or social security card system with institutional arrangements to regularly furnish information from the grassroots.

5.2.5 A parallel policy on insurance scheme is necessary. Taking the horizontal dimension into account, legal clarity on the role of the private sector, including micro credit institutions and cooperatives, will be necessary. The evolved nine schemes are expected to clarify the role of governmental and the non-governmental sectors. The law should be clear about the role of micro credit institutions and cooperatives. Insurance scheme through cooperatives work better in the areas of livestock and crops, among others. Health cooperatives among all self-employed and wage earners could be useful. Such initiatives will, if the correct modality is selected, not only ease resource pressures on the government but also provide wider coverage more quickly, making social security sustainable.

5.2.6 Institutions and service delivery means need to be reformed and transformed to make them more transparent, accountable and efficient. It would be timely to create a new organization through enactment of the Social Security Organization Act, but care has to be taken to ensure that there is coherence in policy and institutions, that piecemeal programmes are not announced, and that there is no duplication, shifting of responsibilities and lack of accountability. At the same time, it is essential that the programmes follow a bottom up approach assigning specific responsibilities to the local stakeholders at the village and

district levels depending on the nature of the programme.

5.2.7 Like the one per cent social security tax, new schemes should be developed to minimize the government's resource liability. New revenue sources that enhance willingness to pay should be explored to contribute to the social security related programmes. Such programme-specific levies should have a separate account. Hence it is desirable that the proposed social security fund is converted into a social security and protection fund. The creation of a separate social protection fund for the informal sector workers also is timely and justifiable.

5.2.8 Without appropriate policies on decent work and security of income, vulnerability of the socially excluded people or workers cannot be eliminated. Policies related to access to assets such as land, capital, employment and resources have to be part and parcel of social security policy.

5.2.9 Building on the idea of national social protection floors, a two-fold approach is emerging: a) combining minimum income guarantees in the form of cash transfers to individuals/ households and, b) provision of trained and salaried care services by the

government or the non-profit sector. Similar approach will be desirable Nepal's context as well. Cash transfers have to be perceived in the light of Nepal's development priorities: inclusive growth, employment generation and poverty reduction. Therefore, cash transfers need to be used as vehicles to move vulnerable people out of poverty.

5.2.10 Social security contributes to a politically stable and socially harmonious society leading to sustainable development over the long-run. The fiscal stimulus and other measures pursued to overcome the 2008 financial crisis indicate that social security and protection transfers make immense contribution to economic growth. They work by enhancing domestic demand and consumption leading to internally driven sustainable development, which in turn reduces vulnerability of the economy, including the poor and the disadvantaged people. Social security is the most appropriate means of enhancing human capacity and productive employment opportunities. Considered from these angles, social security and protection can be regarded as a means to equitable development and economic progress. Therefore, driving development through such a paradigm shift will be critical in the Nepalese context as Nepal has embarked on a path of inclusive growth and development.

ANNEX

Annex I: Summary of cash transfer programme details in Nepal

Cash transfer mechanism	Time	Objective	Target group and coverage	Value/type of transfer	Administrative arrangements	Cost
Unconditional cash transfers						
Pension and allowance for widowed, disabled and endangered indigenous people	Pensions started in 1994; widows allowance in 1997, endangered indigenous groups in 2009	Support family-based systems	Over 70; all single women over 60; quota for people with full and partial disability. 2001-2: 245,000 elderly; 258,000 widows	Rs 500 per month (US\$6.40) Rs 1000 (US\$12.81) for full disability; Rs. 300 (\$3.84) for partial disability	Delivered three times a year. Policy and coordination by MWCS and implemented by MLD.	Tax revenues; 2006/07 0.23 per cent of Nepal's GDP
Child Grant cash transfer		Child grant to promote right-based approach and social cohesion	Propose pilot target children 0 – 3 or 0 – 5 in Mid and Far West Districts	Rs. 250 (US\$3.20) per month per child. Linkages to birth registration and nutrition	UNICEF; ADB; MWCSW and MLD key GoN partners.	Est. US \$2mil for pilot
Conditional cash transfer						
Reaching the most disadvantaged groups in rural development	Completed: 2007-9	To help meet the urgent needs of the ultra poor	1,000 households	Up to \$350 cash and in-kind. (one-off over two years)	Funded and designed by ADB.	\$685,000
Strengthening decentralized support for vulnerable and conflict-affected families and children	2008-2012	Investment for a sustainable livelihood	4,000 conflict affected and vulnerable families	Family cash allowance of \$120 plus \$87 seed money allocated for one year	Funded by ADB and JICA. Executing agency MoWCSW, implemented by DWD	\$2 million
Pilot conditional cash transfer for education		Improve primary education outcomes	6,000 ultra-poor households	Maximum of Rs. 900 per month (US\$11.53) depending on number of children	Funded by UNCDF, WB and Ministry of Education. Payments to be made four times a year. Implemented by the MLD, funded by UNCDF	USD \$3,772,670
Support to Safe Motherhood Programme (SSMP) / Safe Delivery Incentive Programme (SDIP)	2004 ongoing	Reduce maternal mortality and morbidity	All women who have delivered in a public health facility. Free health care in 25 low HDI districts.	1500 NRs (US\$20) in mountain districts; 1000 NRs (\$12.81) in hill districts; 500 NRs (\$6.40) in Terai districts	DFID; Ministry of Health;	DFID committed £5m for the 4 year period (2004-2009).
Education scholarship	2004 – ongoing	Improve education amongst Dalits and disadvantaged girls	Dalits and disadvantaged girls (50% of those in disadvantaged groups)	Rs. 500 (US\$6.40) a year	The primary scholarship programme is funded by donors but funds are channeled through the government.	Component of Education for All Programme sector-wide programme with national coverage and annual budget of about US \$20 m.

Source: Holmes, R. and Uphadya, S. (2009)

Annex II Schemes for civil servants and other public sector employees

Contingencies	Benefits
Maternity	60 days paid leave, 2 times during service tenure
Work injury	If overseas treatment is needed, Medicare (mentioned in the last row) + amount decided by a committee formed under regulation based on recommendation of Medical Board + paid leave
Work accident	Full medical expenses + medical facility mentioned below + paid leaves If job is terminated due to invalidity, payment of Rs 10000 + 20 per cent of monthly salary as invalidity pension + normal pension
Death by work accident or lifelong invalidity	Pension + 50 per cent of the pension + salary of 3 months Survivors benefit and family benefits Pension for 7 years to the spouse as survivors benefit Education allowance of maximum Rs 2400 per year for 2 children up to the age of 18 + maximum 15 per cent of basic salary Rs 1800 in case of non-gazetted employees
Voluntary retirement	Gratuity based on service years For 5-10 years of service – ½ month's salary per year For 10– 5 years of service -1 month salary per year For 15-20 years of service –1.5 months salary per year
Old age	Provident fund 10 per cent contribution from employee's monthly salary + matching contribution by the employer (HMGN) is deposited to PF account and paid in lump-sum along with compound interest to the respective employee/heir on his retirement/death Pension Monthly pension = salary at retirement X service years/50
Death during job tenure	Administered through EPF from welfare fund ranging from Rs.40 to 75 thousand Employees in health service Rs 150,000 For Maoist victim,police families Rs 700,000
Sickness	12 days paid leave per annum
Medicare	Officers = 12 month's salary in the entire service years Non gazetted I = 18 month's salary Non-gazetted others = 21 month's salary In case of fatal disease, assistance up to Rs. 100,000 in recommendation of Medical Board.

Source: Civil Service Act (1992)

Annex III Existing schemes for private sector employees in the formal sector

Contingencies	Benefits
Maternity	A paid leave of 52 days two times during service period 45 days in tea estates
Work injury	Full medical expenses under certification of Doctor + paid leaves in case of hospitalization, but half-paid leaves if not hospitalized.
Work accident	Maximum 5 years' salary depending on the quantum of disability Maximum 4 years' salary in tea estates A detail of the quantum of disability and compensation is provisioned in Regulation under Workmen's Compensation.
Death by work accident or lifelong invalidity	Salary of 3 years to the nearest family member + priority in employment to one of the family member
Voluntary retirement	Gratuity based on service years for tea estates after 4 years only Gratuity based on service years more than 3 years for permanent employee For 3-7 years – every service years half month salary For 4-10 yrs- 10days salary per year For 10-15 yrs-20 days salary per year For 15+years – 1 month salary per year Retrenchment benefit For 3-7 years- ½ months salary per year For 7-15 years-20 days salary per year 15+ years- 1 month's salary per year Retrenchment benefit is alternative to gratuity
Old age	Provident fund 10 per cent contribution from employee's monthly salary + Equal contribution by the employer to be deposited to PF account Total amount with compound interest pay back to the respective employee/heir on his/her retirement/death 5 per cent of per month salary contribution from employee's + Equal contribution by the employer in the case of tea estates
Death during job tenure	Payment depends on practice of the enterprise and strength of the union
Sickness	Half paid leave for 15 days per annum
Medicare	First-aid to all Compensation to all from national and local welfare fund created through bonus fund under Bonus Act 1974 (70 % of fund remaining after bonus distribution goes to Local Welfare Fund and 30 % to the National Welfare Fund) Immediate relief from welfare fund to family member in case of accident or sickness

Source: Upadhaya, U. (Unpublished)

Annex IV Health insurance models existing in Nepal

No.	Insurance Model
1.	Hospital based micro-social health insurance scheme: Initiated in 2000, the BP Koirala Institute of Health Sciences offers services to rural and urban household members through linkage with Village Development Committees (VDC), co-operatives, business associations, and educational institutions. The premium for urban areas is four times higher than for the rural areas and the scheme covers 2 400 members from 565 households. The service package includes free consultations and investigations in out- and in-patient departments, free hospital beds and medicines and operation charges beyond a certain limit. The entire premium, contributions go to the hospital. The income shows surplus, but does not include expenditures borne for manpower, equipment costs etc.
2.	Community, health post-based insurance model: Initiated in 1976 as Lalitpur Medical Insurance Scheme; this scheme has a coverage of 19 to 52 per cent rural population in six health posts. The premium varies and is fixed by the local committee with drug subsidies coming from the government. Feebased and free clinical service is provided in the clinic, although the charges are discounted for the referred cases in Patan Hospital. There is no surplus revenue over the expenditure. Sustainability may be a problem with the existing premium.
3.	Health cooperative model: A Non Governmental Organization (NGO), PHECT (Public Health Concern Trust) Nepal, offers health service through Cooperative Society with the members maintaining a daily savings of nominal amount to contribute for health, both in rural and urban areas. Community clinics provide primary services and referrals to Kathmandu Model Hospital (KMH). Fifty per cent of the total collections go to KMH. Subsidy is provided to the poor on referral cases. There is coverage for 2 038 persons from 438 households. The General Federation of Nepal Trade Union (GEFONT) supports another cooperative scheme for transport and industrial workers. A monthly premium is paid by the workers to establish a Health Cooperative Fund, which runs a clinic for primary service and the referred cases go to KMH as above. For the poor, PHECT Nepal provides financial support as solidarity. It covers only 500 families (2 members from each family) out of 300 000 GEFONT members.

Source: Pande and Maskay (2004)

Appendix V An example of health insurance programme management

- As a first step, a list of all residents in the VDC will be prepared with the help of local VDC secretariat.
- Respective Sub Health Post (SHP) or an institution as decided by the SHP-HI (Health Insurance) Committee will collect the premium and deposit it in the account of the Ico (Insurance Company)/SHP/VDC.
- Upon receipt of the list of Insurance Fee Payees, Ico will issues ID card and a record book of treatment to all insured people. Since repeated addition and change in the list complicates the whole process effort will be made to make it a one-time affair in a year.
- HCF (Health Care Facility) will provide health services based on the instruction given to them in the treatment record book.
- Upon completion of the treatment or as indicated in the book, HCF will immediately request for payment from the Ico.
- A local HI committee under the chairmanship of the respective VDC will be formed including NGO or clubs existing in that VDC. They will be involved in planning, implementing and monitoring the programme.
- Large joint family or ethnic group or some form of community group insurance may be decided by the local committee in which a separate rate of premium may be decided by the insurance company.
- How other dependent members in the family can be considered to be included in the HI scheme will be discussed and decided locally.

Source: Karki, B. B. (2003)

Annex VI Insurance companies in Nepal**Life insurance companies**

National Life Insurance Company Limited
Nepal Life Insurance Company Limited
Life Insurance Corporation (Nepal) Limited
American Life Insurance Company Limited
Asian Life Insurance Company Limited
Gurans Life Insurance Company Limited
Surya Life Insurance Company Limited
Prime Life Insurance Company Limited

Non-life insurance companies

Nepal Insurance Company Limited
The Oriental Insurance Company Limited
National Insurance Company Limited
Himalayan General Insurance Company Limited

United Insurance Company (Nepal) Limited
Premier Insurance Company (Nepal) Limited
Everest Insurance Company Limited
Neco Insurance Limited
Sagarmatha Insurance Company Limited
Alliance Insurance Company Limited
NB Insurance Company Limited
Prudential Insurance Company Limited
Shikhar Insurance Company Limited
Lumbini General Insurance Company Limited
NLG Insurance Company Limited
Siddhartha Insurance Limited

Life and non life insurance companies

Rastriya Beema Samsthan (Government owned)

Annex VII (1) Running social protection programmes by the government

Programme	Target group	Amount given/received	Starting date
Elder (old) aged citizen allowance	People over 70 years without pension; all Dalits and people living in Karnali zone over 60 years	Rs 500 per month	2051 BS
Single and widow allowance	All women above 60 years	Rs 500 per month	2054 BS
Disability support allowance	People above 16 years with full disability	Rs 1000 per month	2066 BS
	People above 16 years with partial disability	Rs 300 per month	2066 BS
Child protection grant	For up to two children in Karnali Zone and for poor Dalit family	Rs 200 per month	2066 BS
Education scholarship for all	Dalit, people with disability, Karnali Zone, marginalized and conflict affected children	Rs 400 per year	2066 BS
Maternity protection facility	Check up and delivery services for pregnant women in government hospitals	Mountain districts Rs 1 500 Hill districts Rs 1000 Tarai districts Rs 500	2062 BS
Karnali employment programme	Unemployed people, 100 days per year	Daily Rs 200	2063 BS
Endangered ethnic/indigenous group	10 listed groups	Rs 500 per month Rs 1000 per month for a Raute community member	2066
Elderly citizen health checkup/treatment programme	Above 60 years	Rs 2000 two times per year	

Annex VII (2) Legally guaranteed health facilities

Name of the law	Sickness leave (SL)	SL accumulation	Maternity leave	Maternity facilities	Sutkeroleave	Medicinal expenses	Treatment expenses	Compensation on death	Disability compensation	Welfare fund schemes	Service termination
Additional Postal Regulation (AtiriktaHulak Regulation)	√										
Armed Force Regulation	√	√	√			√	√	√	√		√
Nepal Army (Pension, Gratuity and other Facility Law)	√	√	√			√	√	√	√	√	√
Nepal Health Service Regulation	√	√	√	√	√	√	√	√	√		
Parliament Secretariat Employee Administration Regulation	√	√	√						√		
Auditor General Department Employee Related Law	√	√	√								
Marshal Regulation	√	√	√								
Education Regulation	√	√	√			√	√	√			√
Labour Regulation	√		√			√		√	√	√	√
Tea Estates Related Labour Regulation	√		√			√	√	√	√	√	√
Local Self Development Regulation	√	√	√								
Nepal Police Regulation	√	√	√			√	√				√
Retire Army Appointment (Especial Case) Regulation	√										
TU Teacher and Employee Service Clause (Sarta) Regulation	√	√	√		√	√	√	√			
Sramjivi Journalist (Patrakar) Regulation	√	√	√			√	√		√	√	
Child Labour (prohibited and regularity) Regulation	√										
Supreme Court Judge Service Clause and Facility Related Regulation	√	√				√	√	√	√		
Appeal and District Court Judge Service Clause and Facility Related Regulation	√	√	√	√	√	√	√	√	√		
Constitutional Bodies Executives Servicing Clause and Facility Related Regulation	√					√	√				
Prisoner Regulation				√							
Transport and Transport Management Regulation								√			

Source: Various acts, laws and regulations

Annex VII (3) Legally guaranteed facilities in the private sector

Subject	Permanent	Trial period	Contract	Wage based	Less than 10 employees	Remarks
Pension						
Provident fund	√					
Gratuity	√					
Unemployment insurance						
Compensation on deduction	√					
Sickness leave	√				√	
Labour treatment expenses						
Accident treatment expenses	√	√	√	√	√	
Family treatment expenses						
Disability compensation	√	√	√	√		If the accident occurs during work
Compensation after death	√	√	√	√		If the accident occurs during work
Maternity leave	√	√				
Leave to father for maternity care						

Source: GEFONT (2011)

Note:

- i) In case of wage labour it was depend upon provision mention on Labour Law.
- ii) If death of Transportation Labour and Tourist Guide and Tourist Porter due to accident then dependent can get compensation was provisioned on Vehicle and Transport Management Regulation and Tourism Regulation.
- iii) In Mentioned Facilities Provident Fund both Party contribution and others are within the responsibilities of employers themselves.

Annex VII (4) Maternity leave and salary related provisions

Sickness leave and facilities	Law	Remarks
52 days leave with half salary	Labour Law	Maximum two times but no leave for father
60 days leave with half salary	Tea Estates Related Labour Law	Maximum two times but no leave for father
	Armed Police Force Regulation	Maximum two times but no leave for father
	Education Regulation	Maximum two times but no leave for father
	Nepal Health Service Regulation	Maximum two time but no leave for father
	Parliament Secretariat Employee Administration Regulation	Maximum two time but no leave for father
	Auditor General Department Employee Related Regulation	Maximum two time but no leave for father
60 days leave with full salary	Marshal Regulation	Maximum two time but no leave for father
	Nepal Police Regulation	If more than two times sick than adjust from yearly leave, but no leave for father
	Nepal Army Regulation	Not specified, but no leave for father
	Civil Service Regulation	Maximum two times (but Supreme Court verdict not to limit). Leave for father 15 days with 6 month without salary leave added
	Working Journalist Regulation	Maximum 2 times, 6 month without salary leave with leave for father times for 15 days
75 days leave with full salary	TU Teacher and Employee Service Clause Regulation	Maximum two times (30 days prior to delivery and 45 days after delivery). Temporary and contractual employees will get 60 days and 30 days for those who served less than 2 years. Leave for father is 7 days, single time
98 days with full salary	Appellate and District Court Judge Service Clause Facilities Related Act Regulation	Maximum 2 times with leave for father 15 days

Source: Various acts, laws and regulations

Annex VII (5) Treatment compensation

Name of the Law	Medical expenses and compensation during service period
Armed Police Force Regulation	12 months salary to all officers 18 months salary to junior level or same level 21 months salary to non graded Every type of treatment available during terrorist attacks
Nepal Police Regulation	12 months salary to all officers 18 months salary to junior level or same level 21 months salary to non graded Every type of treatment available during terrorist attacks
Nepal Army Regulation	12 months salary to all level of officers 16 months salary to Major and honorary Captain level or same level 12 months salary to <i>Subedar</i> 21 months salary to all
Civil Service Regulations	12 months salary to each level officers 18 months salary to non-gazetted first or same level civil service workers 21 months salary to non level service worker No provision to give any compensation to contract service worker Additional facility as per government decision Cases recommended by the medical board can get up to Rs 5 lakhs
Education Regulation	12 months salary to high (secondary) school level teacher 18 months salary to lower secondary level teacher 21 months salary to primary level teacher
Tea Estates Related Labour Regulation	Two months salary to all
Local Self Governance Regulation	12 months equal salary to officers 18 months equal salary to junior level officers
Nepal Health Service Regulation	12 months equal salary to officers 18 months equal salary to junior officers
Constitutional Bodies Executive Service Clause and Facility	12 months equal salary
TU Teacher and Employee Service Clause Regulation	12 months salary to Professor, Assistant Administrator and above level 18 months salary to Assistant Trainers, Main Assistant and similar 21 months salary to Driver, Typist and Junior level officer 2 months equal salary to Executives if not an employee of TU
Supreme Court, Appellate at Court and District Court Judges Facility	12 months salary
Working Journalist Regulation	One month salary every year

Source: Various acts, laws and regulations

Annex VII (6) Compensation and insurance related schemes

Name of Laws/Regulations	Compensation for disability or death
Education Regulation	Death due to accident during the working period 50 per cent additional on pension to spouse throughout life two children will get compensation for study upto 18 years Rs 30 thousand to secondary (high) level teacher and Rs 20 thousand for all junior teachers
Industrial Trainee Training Law	According to law, but still not fixed
Supreme Court, Appellate Court and District Court Judge Service Clause and Facility	Disability during the work Rs 10 thousand Full salary additional leave without reducing sickness leave All treatment expenses without deducting sickness expenses Full disability during work Additional pension for whole lifetime Additional Rs 10 thousand financial facility Treatment expense Educational allowance to children upto 18 years Rs3 lakhs insurance for Supreme Court and Rs 2 lakhs insurance for other courts
Nepal Army (Pension, Gratuity, Other Facility, Bylaw) Regulation	Death due to accident during work 50 per cent increase with gratuity to dependent Educational allowance to children upto 18 years Children allowance for children up to 21 years Married daughter and service/job holder children will not receive benefit If disability during the working period with fully unable they will get 100 per cent salary equal pension and if less disability not full unable/disable they will get pension on the ratio of disability
Armed Force Police Regulation	Death due to accident during work 50 per cent additional amount with gratuity to the dependent who gets pension Educational allowance to children upto 18 years Children allowance for children up to 21 years Married daughter and service/job holder children will not receive benefit In case of accident leading to inability to work, pension with additional of 20 per cent In case of complete disability, then 100 per cent salary with pension
Nepal Police Regulation	Death due to accident during the working period 50 per cent additional amount with gratuity to the dependent who gets pension Educational allowance to children upto 18 years Children allowance for children up to 21 years Married daughter and service/job holder children will not receive benefit In case of accident leading to inability to work, pension with additional of 20 per cent will be given In case of complete disability, then 100 per cent salary with pension
Civil Service Regulation	Disability due to accident during the working period Rs 10 thousand if incapacitated Full salary additional leave without deducting sickness leave All medical treatment expenses not deducting treatment expenses Complete disability due to accident due to work: Pension for whole lifetime Additional Rs 10 thousand financial facility All treatment expenses compensated Educational allowance to children upto 18 years Children allowance for children up to 21 years
Tea Estates Related Labour Regulation	3 years salary if death due to the accident during work Four years salary for complete disability on a proportional basis of compensation Treatment expenses borne by the employers One year full salary for hospital stays and half salary for home stays
Labour Regulation	3 years salary if death due to accident during work 5 years salary for full disability on a proportional basis Treatment expenses borne by the employers' One year full salary for hospital stays and half salary for home stays

Vehicle and Transportation Regulation	Death due to accident Rs 150 thousand for driver Rs 100 thousand for assistant driver Rs 50 thousand for passenger
Sramjivi Journalist Regulation	50 per cent salary will be given by employers' in case of mental and physical disability during work
Child Labour (Prohibited and Regulated) Regulation	15 per cent compensation for long-term disability
Travel Expenses Regulation Upto 7 years travel insurance and treatment insurance	

Source: Various acts, laws and regulations

Annex VIII Social security survey

Checklist: Trade Unions/Employer's Organization/Insurance companies/Micro Insurance companies/NGOs/INGOs

- 1 Name of Programme/scheme/type of scheme
- 2 Administration: Who administers the programme?
- 3 Institutional Arrangements
- 4 Objective of the Programme: Why was the programme introduced? Is there any slogan attached with the programme? What problem does this programme try to address?
- 5 Elements: What does the programme consist of? How does the programme work? What channels are used to distribute the programme (institutional arrangements)?
- 6 Geographical area/entitlement: Which regions/sections/sector of the country/population does it cover? Who does the programme cover? Who is entitled for the programme?
- 7 Funding source: From where does the fund come? What are the sources of revenue?
- 8 Scheme expenses:
 - Social benefits: cash benefits, In-kind benefits, rerouted social contributions
 - Administrative costs
 - Transfer to other schemes: to reduce the deficit
 - Other expenditure: interest on loans, taxes on income and wealth, and others
- 9 Benefits inventory and benefits expenditure
 - List of benefits
 - Characteristics of all benefits and total expenditure on each benefit
 - Main function covered by each benefit
 - Level of protection: Basic or supplementary
 - Contributory or non-contributory benefits
 - Periodic or non periodic benefits
 - Benefits in cash, in-kind or rerouted contributions
 - Benefits directed at individuals or households
 - Means-tested benefits or not
 - Guaranteed minimum or not
 - Eligibility for the benefits
- 10 Detailed information on the number of beneficiaries and benefit amounts (optional/as per necessity)
 - Number of beneficiaries (for each of the benefits) (By sex and age group)
 - Average benefit levels (provide the average benefit in payment for the last month of the reporting period and for the last month of the previous reporting period)
- 11 Extension plans, if any. Explain all the details about the extension plans: Innovations. special plans for informal sector
- 12 Sustainability of the funding source
- 13 Challenges and opportunities to facilitate the progressive extension of social security and social protection to all informal economy workers and especially to the most disadvantaged groups.

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Social Security/ Social Protection In Nepal : Situation Analysis

The International Labour Conference (ILO, 2011a) has outlined several strategies to extend social security by closing coverage gaps and pointed out that effective national strategies be formed in line with national priorities, administrative feasibility and affordability. The government of Nepal has expressed commitment to expand safety nets and social protection coverage. Policy intervention guided by social protection concerns became dominant after the 2006 political transformation. However, most of the policies and programmes are announced during the budget speech, but the scattered schemes are riddled with difficulties related to accountability and implementation. In order to support policy dialogue in Nepal on the development of a national strategy for the extension of social security along the horizontal and vertical dimensions, this review has been made. This includes a closer examination of systems, mechanisms and schemes related to social security that exist in the public and private sectors, including community-based initiatives. This analysis will provide all stakeholders with baseline information, particularly on existing concepts and experiences, thus facilitating discussions aimed at improving policies and institutional arrangements.



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