



Supporting the Development of a Social Protection Framework in Nepal

Poverty, Conflict, and Social Exclusion

Poverty reduction and growth in Nepal will largely depend on the peace and stability of the region. The country's development agenda is tied with its peace-building efforts. Nepal has experienced periods of conflict and political instability, including the transition from authoritarianism to democracy, from monarchy to a republic. Despite the signing of the Comprehensive Peace Agreement by the Government of Nepal and the Unified Communist Party (Maoists) in November 2006 declaring a formal end to a decade of rebel insurgency, the country still has to bring the peace process to its final conclusion.

Nepal is one of the least developed countries in the world, with more than 80% of its 23 million people living in rural areas and a little more than a quarter of the population (25.4%)¹ living below the national poverty line. The agriculture sector, which three-fourths of the population depends, contributes about one-third of gross domestic product (GDP). Remittances are one of the main contributors to poverty reduction, accounting for 18% of national income in 2008–2009². However, when estimates of unofficial remittances are included, their share to GDP is likely to rise to 20%–25% of GDP. While Nepal's poverty rate has declined by 42% to 31% in recent years between 1996 and 2004, to be further reduced from 31% to 25.4% between 2005 and 2009,³ socioeconomic disparities between rural and urban areas, gender, and caste and ethnic groups still remain to be persistent issues.

These levels of economic disparity as shown by the increase in Gini coefficient from 32.0 to 41.1 (43.6 in urban areas and 34.9 in rural areas from 1996 to 2004)⁴ have consequential effects to education, access to basic services, livelihood opportunities, health, social safety nets,⁵ and the environment.

Social Protection⁶ in Nepal

While the Government of Nepal has a large number of social protection schemes in place, such as allowances for vulnerable (e.g., widows, senior citizens, the disabled) and indigenous groups; child grants; scholarships for disadvantaged groups; and various employment programs, the lack of an overall strategy and adequate technical and organizational capacity affect program effectiveness, proper delivery, targeting, and reach. Well-designed social safety nets can prevent social exclusion and provide stability to vulnerable groups in the population, mitigating the adverse effects of chronic poverty and social marginalization, which are identified as the root causes of the conflict in Nepal.

Nepal's Social Protection framework aims at reducing multidimensional deprivations and providing people with a basic minimum livelihood.

Nepal's labor productivity (or GDP per worker) is one of the lowest in South Asia due to lack of productive employment opportunities in the country. Nepal's labor law is also one of the most rigid in the region, attributing difficulty in hiring and firing as one of its most problematic aspects. The labor force participation rate for Nepalese aged 15 years and above has remained relatively stable between 1998–1999 (85.8%) and 2008 (83.4%)⁷ with a relatively minor decline, except in the rural areas. The current labor force participation for children aged 5–14 years is 33.9%.⁸ The growing labor force is mostly joining the informal sector, characterized by variation in wage rates and gender and age discrimination, and lack of basic social security.⁹ Social security systems currently cover only formal sector workers, such as teachers, civil servants, and the army and police. The government has recently established a Social Security Fund, financed through a 1% tax on income, which is putting in place minimum social security measures for industrial sector workers following the International Labour Organization (ILO) Convention 102: Social Security (Minimum Standards) Convention, 1952. An independent Social Security Organization has been proposed to manage the Social Security Fund. The Government of Nepal has also drafted an Employment Guarantee Act that seeks to provide 100 days of employment to all poor households. However, availability of funds for social welfare is generally low and competes heavily with other investment priorities in education and health, and wages and salaries of civil servants. The decade-long conflict has also caused wide disparities in health outcomes across caste and ethnic groups. Among Dalit children, 95 out of 1,000 do not survive their fifth birthday, and girls have a higher mortality than boys.¹⁰ The government has committed itself to eliminating the worst forms of child labor. The Ministry of Health and Population, with Deutsche Gesellschaft für Internationale Zusammenarbeit assistance, is also working on a strategy to establish social health insurance schemes. Improving the pro-poor patterns of health spending, building human and social capital of excluded and disadvantaged groups will help reduce social exclusion.

Weak institutional capacity at the central and local levels, lack of access to more inclusive public goods and services as evidenced by the huge rural–urban divide, and low government budget all contribute to social exclusion in Nepal. The government, however, is doing its share in increasing expenditure for social protection programs and is considering expanding a number of existing schemes, such as scholarships, child grants, expanding short-term employment programs, and reintegrating conflict-affected populations into socioeconomic life to promote peace and security.

Development of the Social Protection Framework

The Government of Nepal implemented a Three-Year Interim Plan (fiscal year [FY]2008–FY2010) as a development strategy, which is an extension of the Tenth Development Plan (FY2003–FY2007), focusing on poverty reduction, peace building, delivering effective public services, and addressing growing inequality and exclusion. The role of social protection in contributing to reducing vulnerability and income inequality has been well recognized by the government since the mid-1990s when the first cash transfers were introduced. The coverage of these programs has since been expanded and the benefit amounts increased. In FY2010, the government spent more than NRs7.2 billion on cash transfers alone. Adding to this, expenditures on pension of public service employees, scholarships, and other cash or in-kind transfers amounted to more than NRs26.5 billion, accounting to more than 2% of GDP. However, Nepal's social protection agenda is not guided by an overall strategy or policy framework. There are inherent weaknesses and gaps in the policy formulation process, planning, delivery, and monitoring and evaluation systems.

Recognizing the need to strengthen the policy framework to guide the country's social protection agenda, the Government of Nepal requested for assistance of the Asian Development Bank (ADB) in developing a national social protection framework. The small-scale capacity development technical assistance (S-CDTA)¹¹ was included in the 2010 Nepal Country Program and commenced activities in May 2010. The project was completed in April 2011.

The S-CDTA facilitated the formation of a national steering committee on social protection, chaired by the member secretary of the National Planning Commission and represented by seven sectoral ministries. Social protection task teams were also formed within these ministries and provided training on social protection. The intra-ministerial social protection task teams was responsible for mapping the existing social protection programs within their ministries and the ministry's vision and objectives for social protection in the next 10 years. This information was collated by the national steering committee on social protection to prepare a draft national social protection framework, which defines social protection in Nepal and identifies the government's priority areas for the next 10 years. The framework defines social protection as *'a set of benefits available to individuals, households and communities from the state, market, civil society or households, or through the combination of them all, aiming at reducing multi-dimensional deprivations and providing people with a basic minimum livelihood'*.

The framework also identifies Nepal's social protection floor, which is the priority focus of the government, encompassing the broad areas of (i) essential cash transfers, (ii) child protection, (iii) essential health services, (iv) free education up to grade 12, and (v) employment promotion schemes. The intra-ministerial social protection task teams are now developing sectoral social protection action plans, including cost estimates to finance the ministries' social protection agenda for the next 10 years. The framework

is a living document that will be updated periodically as more evidence on social protection becomes available.

ADB's Country Partnership Strategy 2010–2012 supports Nepal's objective of peace and stability by promoting inclusive social development and governance and capacity building. ADB will help Nepal to strengthen social protection systems, improve basic access to basic financial and social services, and design well-targeted programs for the poor and marginalized.

Endnotes

- ¹ Central Bureau of Statistics. 2010. *Nepal in Figures*. Kathmandu.
- ² United Nations. 2010. *Nepal Millennium Development Goals Progress Report*. Kathmandu.
- ³ Endnote 2.
- ⁴ ADB. 2010. *Supporting the Development of a Social Protection Framework for Nepal (S-CDTA-NEP)*. Manila.
- ⁵ The ADB Social Protection Framework (2005) notes that "social safety net" and "social security" are sometimes used as an alternative to "social protection." Internationally, the most commonly used term is "social protection." The term "social safety net" is less precise and it is sometimes used to refer to a whole set of programs and policies or welfare programs targeted to the poor. "Social security," on the other hand, is generally used to refer to comprehensive mechanisms and coverage in high-income countries and less applicable to newer areas, such as community and area-based schemes.
- ⁶ Social Protection, as defined by the ADB Social Protection Framework (2005), is a set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income.
- ⁷ CBS. 2008. *Nepal Labour Force Survey 2008: Statistical Report*. Kathmandu.
- ⁸ Endnote 2.
- ⁹ ADB. 2003. *Technical Assistance to Nepal for the Social Protection Study*. Manila.
- ¹⁰ United Nations Development Programme. 2009. *Nepal Human Development Report: State Transformation and Human Development*. Kathmandu.
- ¹¹ Endnote 4.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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