



Developing Nepal's Social Protection Strategy

Poverty and Vulnerability

Nepal is one of the poorest and least developed countries in the world, with a gross domestic product (GDP) per capita of \$236 in 2002.¹ High population growth is one of the reasons for a low per capita GDP. About 23.2 million or almost half of its population is living below the poverty line. With a life expectancy of 58.5 years, Nepal is one of the two countries worldwide where life expectancy for men is higher than for women. Nepal is predominantly rural, and 80% of the population lives on agriculture, which accounts for 40% of GDP. While per capita income grew at a rate of about 2.7% during the 1990s, the incidence of poverty has remained high, largely because of the disparities in ownership of productive resources.²

Although the human development indicators for Nepal have increased over the last decade, the levels of the indicators are low, even by South Asian standards. Nepal is ranked by the United Nations Development Program (UNDP) as among the countries with a low Human Development Index (0.466, rank number 142). Lack of access to basic health services and education, malnutrition, high rates of infant and maternal mortality are the most evident results of widespread poverty. Moreover, inequalities in the distribution of education, health, and other related opportunities remain pronounced at the regional, urban–rural, gender, and ethnic dimensions. Child labor is prevalent, and is significantly higher in districts that have a higher incidence of poverty and lower level of educational attainment, particularly females. According to an International Labor Organization (ILO) study, there are 2.6 million children (7–15 years old) working in Nepal of which 179,000 are involved in the worst forms of child labor, such as hazardous work and prostitution. Other problems in Nepal that require additional attention include trafficking of children and women as well as violence against women.

While progress has been made, human capital formation and human resource development still remain inadequate, and great disparities between men and women, different caste and ethnic groups, and different geographic regions persist, which lead to social exclusion.³ New mechanisms that reflect the dimension of vulnerability among different categories of populations—men, women, and disadvantaged groups—will need to be analyzed to determine group-specific needs.

Current Social Protection Scheme

Social protection is very limited in Nepal. This encompasses the five areas of social protection identified by the Asian Development Bank's (ADB) Social Protection Strategy, such as labor markets, social insurance, social assistance, micro-schemes, and child protection. In labor markets, the formal sector employment is almost stagnant, and the growing labor force is mainly joining the informal sector. While it is difficult to determine the size of the informal sector—due to its nature, being unorganized and unregulated—it is estimated that more than 60% of employed workers are in the informal sector. Of these, a much higher proportion of women compared to men is found. The informal sector is characterized by variation in wage rates, conditions of employment, and discrimination based on gender and age.⁴

The Labor Act, which applies to all enterprises with more than five employees and those in industrial districts,

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provides for some basic protection, such as number of monthly payments, severance pay, and protection against layoffs, subject to the approval of the Labor Department. In spite of the basic character of these protection arrangements, they still lead to increased employer preference to employ on a nonformal basis, that is, without contract. There is therefore a need to amend the Labor Act to make it more flexible and in line with the introduction of better basic social insurance arrangements that consider vulnerable populations' ability to cope with threats to income and livelihood.

Currently, the formal social security systems (provident fund and citizen's investment fund) cover mainly civil servants, army, police, and teachers. The Government is the single largest employer in the country. Any private enterprise with more than 10 employees can join the provident fund on a voluntary basis, while all enterprises can join the retirement plan under the citizen's investment fund. However, there is no mandatory social insurance provision for the private sector. Aside from the formal sector social security provisions, there are various informal, partly traditional, community-based insurance arrangements (microinsurance). A Ministry of Health (MOH) task force is working on a strategy to extend health insurance coverage, one of the top agenda items of MOH. The ILO is assisting the Government on this issue.

Social welfare arrangements for certain groups such as the elderly, disabled, widows, internally displaced persons due to the insurgency, children, and victims of natural calamities, who are mainly under the Ministry of Women, Children and Social Welfare (MWCSW), depend largely on the availability of funds which are generally low. Estimates show that 41% of children aged 5–14 and 21% of children aged 5–9 are working. In terms of child protection, about 30 various nongovernment organizations (NGOs) address concerns of street children, working children, as well as trafficked and migrant children.

The Government has committed itself to eliminate the worst forms of child labor and to eliminate all kinds of child labor by 2010. While most of the social protection programs are under MWCSW, other ministries like the Ministry of Labor, MOH, Ministry of Local Development, and Ministry of Education and Sports are also involved in social protection programs. The MOH operates a network of 69 district hospitals (out of 75 districts) and about 4,000 primary health care centers and sub-health posts. For insurgency-prone areas, the Ministry of Home Affairs and the Ministry of Defense conduct rehabilitation programs and rescue operations for affected communities, including housing and life skills development.

Nonetheless, the various existing schemes and activities in the field of social protection still remain

dispersed. While current social protection activities bring benefits, they rarely contribute toward strategic change unless these are linked to policy development. Hence, this is a very important consideration for the development of a country's social protection strategy. Essentially, the question of affordability and sustainability of social protection in a country where economic indicators are worsening needs to be raised. Economic growth may be one source that can support social protection, which, in turn, can contribute to economic growth if the poor have mechanisms that protect them from shocks and increase their ability to take risks to pursue livelihoods. Social protection interventions can have positive effects on the people's demand and willingness to take risks, and can contribute to building social cohesion and social stability in the country.

Developing the Social Protection Strategy

In 2003, in line with its social protection strategy, ADB provided technical assistance (TA) for a Social Protection Study in Nepal. The study was primarily intended to assist the Government in developing a comprehensive national social protection strategy that will help reduce the vulnerability of the most needy and disadvantaged sections of society, ensure adequate coverage for most of the population, and contribute toward translating the Government's policy objective of poverty reduction into effective programs. It was also aimed at forming the basis for a comprehensive training of government staff in the field of social protection.

The outputs of the Social Protection Study included:

- assisting the Government of Nepal in the discussion and planning of social protection policy and activities;
- facilitating discussions with stakeholders, especially with development partners like the ILO, who have also made major contributions to the development of social protection in Nepal;
- increasing awareness about existing social protection schemes and their advantages and disadvantages; and
- contributing significantly to increase the importance of social protection in Nepal.⁵

Aside from the relevant achievements, some lessons were derived from the study. One lesson identified the need for an institutionalized discussion forum in the field of social protection in Nepal, which brings together stakeholders and increases ownership. In addition, an area requiring action is the need for training and awareness building among government officials and stakeholders in the area of social protection. Moreover, pilot projects are necessary to improve, develop, and test social protection schemes, which are adapted to the reality and the

possibilities in Nepal, including those that can help to support the peace process.

Specific recommendations proposed to further improve social protection in Nepal include the following:

Establishment of a National Employment Program.

The program would operate for a period of up to 5 years as a form of temporary social safety net to assist poor rural households. Then the program's long-term financial sustainability would not be an issue. As some elements of the program already exist within current program arrangements, costs would depend on the degree to which existing arrangements were extended. The program would target four of the identified Social Protection Strategy priority vulnerable groups—landless day laborers, smaller subsistence farmers, and poor *Dalit* (untouchables or outcastes) and indigenous households—in aggregate, an estimated 2 million households nationally.

Establishment of District Welfare Funds in all

75 districts. The purpose of the *District Welfare Funds* would be to provide adequate financial support to destitute aged, widows, and people with disabilities on an ongoing basis. Unlike the National Employment Program (NEP), arrangements would be a permanent social protection program feature. The target groups would be persons aged 65 and over, widows aged 50 years and over, and severely disabled people who were able to satisfy a proxy means test. It is estimated that there are some 650,000 persons who would be eligible for payments on this basis.

Development and implementation of a training and awareness program.

Government and other stakeholders should develop and implement a training and awareness program, targeting decision makers, social partners such as trade unions and employers' federations. In the long run, pilot projects in most effective areas of social protection will be helpful. Capacities on both policy preparation and service delivery have to be strengthened before pilot projects can be undertaken.

Endnotes

- ¹ Among ADB's developing member countries, only Afghanistan and Tajikistan have a lower per capita GDP.
- ² UNDP: Nepal Human Development Report 2001.
- ³ UNDP. 2002. *Human Development Report*. Kathmandu.
- ⁴ ADB. 2003. *Technical Assistance to Nepal for the Social Protection Study*. Manila.
- ⁵ ADB, 2005. *Technical Assistance Completion Report on the Social Protection Study (TA 4097-NEP)*. Manila.

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