

Social Protection in Nepal: Labour Markets Outcomes and Fiscal Sustainability

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**SOCIAL PROTECTION IN NEPAL: LABOUR MARKET OUTCOMES AND
FISCAL SUSTAINABILITY**

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I. INTRODUCTION

The term “social protection” is used to refer to a set of policies and programmes designed to reduce poverty, vulnerability and inequality by promoting efficient labour markets, diminishing people’s exposure to risks and enhancing their capacity to protect themselves against hazards and interruption or loss of income (ADB, 2012, p. 4).¹ The ILO broadly describes social protection as a set of public policies and programmes that seek to assure people a minimum level of security and support in meeting their needs (ESCAP, 2011). ESCAP (2015) defines social protection as “a broad set of government transfers of income or services - such as health care, education or labour market programmes - designed to reduce vulnerability and build resilience” (p.13). Hence, social protection is now seen as a critical element of the development discourse as it seeks to protect the poor while facilitating inclusive economic growth by reducing inequality (European Commission, 2010; Alderman and Yemtsov, 2012). As a means of financing investment in health and education, it contributes to increasing productivity and helps people increase their income, take risks and participate in the labour market (DFID, 2006). In general, positive labour market outcomes play a catalytic role in promoting higher but inclusive growth in developing countries where most of the global poor reside (Fiszbein *et al.*, 2013; UNDP, 2013). In addition, social protection “reduces inequalities across key population groups by empowering, for example, women and girls, youth, older persons and persons with disabilities” (ESCAP, 2015, p. 112).

However, it should be recognised that if social protection interventions are not designed judiciously and implemented properly, they may generate distortions, create disincentives

¹See also the United Nation’s Social protection Toolbox: <http://www.socialprotection-toolbox.org/>

to work, decrease output and raise dependency (Alderman and Yemtsov, 2012; Arjona, *et al.*, 2003). Only a robust social protection system can safeguard people's basic rights and establish a firm foundation for both social and economic development by acting as an automatic stabiliser for vulnerable groups affected by crises (ESCAP, 2011, p.3). Therefore, ensuring effective social protection for the poorest and the most vulnerable in a sustainable way remains a challenge for developing countries given their limited financial resources (Fiszbein *et al.*, 2013). Nevertheless, social protection programmes are vital for achieving the 2030 Agenda for Sustainable Development adopted by world leaders at an historic United Nations Summit in September 2015.

Nepal is now in a post-conflict period. As is well established, social exclusion perpetuated along gender, caste and geography lines² was one of the instrumental factors that caused the decade long conflict from 1996 to 2006 (ADB, 2012). Living conditions are still very difficult owing to limited employment opportunities and limited access to quality basic services and physical infrastructure (Holmes and Uphadya, 2009). Despite a decline in the poverty level, poverty intensity among the most vulnerable population remains a major challenge. Poor growth performance; the lack of adequate productive employment; prolonged political instability and social exclusion in terms of gender, caste, ethnicity and language; and unfavourable geography and poor infrastructure, among others, are the major sources of vulnerability and socio-economic insecurity in Nepal (Koehler, 2011). The recent devastating earthquake and the economic blockade in the southern border, have increased social vulnerabilities immensely. Nepal is also prone to other natural calamities like flooding, landslides and fire. In such a situation, social protection is necessary to

² The conflict between 1996 and 2006 claimed around 13,000 lives and displaced more than 200,000 Nepalese and destroyed local infrastructure (Upreti *et al.*, 2012).

narrow the gap between the haves and the have-nots and to maintain the stability of the social order in Nepal (ADB, 2012, p. 5). Since it has the potential to facilitate inclusive growth and poverty reduction, social protection has been structured as a prominent public policy tool in Nepal over the past two decades. Although some form of social protection has been under implementation since 1934 with the establishment of the Sainik Drabya Kosh, which was later converted into the Employee Provident Fund, more universal and targeted social protection schemes were introduced from the mid-1990s (Khanal, 2014a). Such schemes were more explicit in post-conflict development and reconstruction programmes (Holmes and Uphadya, 2009; Koehler, 2011). As a result, Nepal was able to make some progress in establishing social protection systems in Nepal. Estimates based on 2009 data show that the social protection index (SPI)³ score for Nepal is 0.068 compared to 0.051 for India, 0.047 for Pakistan, 0.043 for Bangladesh, 0.036 for Bhutan and 0.121 for Sri Lanka (ADB, 2013).⁴ Thus, compared to Bangladesh, Bhutan and India, Nepal does moderately better by spending 2.1 per cent of its GDP on social protection despite being a low income country (ADB, 2013). In terms of numbers, about 4 million people (15 per cent of the population) have benefited from social protection.

Social protection systems can have a positive impact on economic growth if they can have a positive impact on the labour market by increasing the labour force participation rate (LFPR), raising labour productivity and augmenting employment. However, social protection has only had a limited impact on labour market outcomes in the Nepalese

³ The overall SPI is a weighted sum of the SPIs for social insurance, social assistance and labour market programmes (ADB, 2013).

⁴ “This means that when the country’s social protection expenditures are averaged over all potential beneficiaries, it allocates 4.8 per cent of per capita poverty line expenditures to social protection” (Upreti *et al.*, 2012, p. 39).

context. Therefore, an assessment of labour market outcomes in the context of Nepal could greatly contribute to bringing about essential reforms in this critical area at a time when the frequent unanticipated crises in many economies of the world is compounding insecurity and vulnerabilities in the labour market.

1.1 Economic Growth and Employment Trend

One of the characteristics of the Nepalese economy is that it has been growing at a tardy rate of about 4.1 percent on average for the last decade (MoF, 2015). Amidst wider fluctuations, agriculture GDP recorded an average growth of 2.9 percent during 2005-15, while the industrial and service sectors grew by 3.2 and 5.3 per cent respectively during the same period. Even today, the agricultural sector is heavily rain-fed. The dismal performance of the non-agricultural sector was mainly due to the adverse impact of a decade long internal conflict (1996-2006), political instability and a political transition resulting in sour industrial relations and an unfavourable investment climate. A prolonged energy crisis and weak infrastructure also contributed to the sluggish performance of the non-agricultural sector in recent years. Slow positive changes are predicted for the foreseeable future - one of the projections shows that the Nepalese economy will grow at an average annual rate of 4.1 per cent over the period between 2014 and 2020 (IMF, 2015). The sluggish economic growth has also adversely affected the expected changes in the structure of the Nepalese economy. The share of agriculture in total GDP was 46.5 per cent in 1991, which declined to 31.7 per cent in 2015 (MoF, 2015). Now, the share of the service sector accounts for more than half of the GDP. However, the share of manufacturing sector declined from 7 per cent in 1991 to 6.3 per cent in 2015 in Nepal.

On the labour market front, according to the Census of 2011, the economically active population (10 years and above)⁵ increased by 4.43 per cent during the 2001-11 period (Suwal and Dahal, 2014). About 54.2 per cent of the population aged 10 years or above were economically active in 2011, compared to 63.4 per cent in 2001. In contrast, 44.7 per cent of the population aged 10 years or above is not economically active. Despite some changes in the structure of the economy, agriculture is still a dominant labour absorbing sector. As per the Census of 2011, 64 per cent of the economically active population is engaged in agricultural sector. Out of the remaining, 5.63 per cent is employed in the manufacturing sector and the rest in the service sector (Suwal and Dahal, 2014). Survey data show that the LFPR is relatively high and increasing in Nepal. In 2011, the LFPR reached 80.1 per cent from 75.2 per cent in 1996. The female LFPR has also increased overtime, from 66.4 per cent in 1996 to 79.4 per cent in 2011 (CBS, 2011b). As a result, about half a million new workers enter the labour market every year (MoF, 2015). Due to the very limited availability of employment opportunities in the country, foreign employment is seen as a panacea for resolving the severe unemployment problem. About 3.2 million Nepalese live abroad, mostly in South East and Middle East Asian countries, mainly for foreign employment (MoF, 2015). If the population working and living in India and advanced countries are included, the number of people living abroad could add up to a much higher number. This is corroborated by the figures for the absentee population as well. The proportion of the absentee population to the total was 3.2 per cent in 2001 and rose to 7.3 per cent in 2011 (Khatiwada, 2014). Now, remittance inflows stand at almost 30 per cent of GDP. About 56 per cent of households receive remittances (CBS, 2011b),

⁵ The 2011 Nepal Census conducted by the Nepal Centre Bureau of Statistics computed the economically active population as aged 10 years and above, in line with previous censuses.

which has helped make education and healthcare affordable for many households. However, more than 90 per cent of remittances is being used for household consumption, and hence, the vulnerability of the poor has not reduced much. “The largest employer in Nepal is the government, providing employment to civil servants, army, police and armed police as well as teachers who are covered by different laws providing social security protection. Most workers of the private sector, with the exception of those in large public limited companies, do not enjoy the coverage and privileges of public sector employees” (ILO, 2015, 6). According to the 2008 Labour Force Survey, 2.14 million workers (aged 15 years and over) were employed in the non-agricultural informal sector that constitutes 86.4 per cent of total non-agricultural employment (CBS, 2009). About 99.7 per cent of the labour force relies on agriculture, which is almost entirely informal. Hence, it is estimated that 96.2 per cent of the labour force is informally employed (CBS, 2009).

Nepal’s population is young with a median age of 21.4. About 70 per cent of the population is under the age of 35 (ILO, 2014, 2). As a result, youth unemployment (15-24 years) is increasing, more so in urban areas, from 7.6 per cent in 1998-99 to 13 per cent in 2008 (ILO, 2014).

1.2 Status of Social and Human Development

Nepal, despite being one of the least developed countries in the world, has made some improvements in human development over time, by making satisfactory progress in some important socio-economic fronts. Socio-political participation is also increasing, along with growing inclusion in civil society and political activities (Upreti *et al.*, 2012). Nepal’s HDI value increased from 0.384 in 1990 to 0.548 in 2014, and the country was ranked

145th out of 188 countries in terms of HDI.⁶ In South Asia, Nepal is above Pakistan (146th position) and Afghanistan (171th position).

On the health front, the infant mortality rate (per 1,000 live births) declined from 98.8 in 1990 to 29.4 in 2013 (World Bank, 2016). Similarly, the maternal mortality rate (per 100,000 live births) declined to 291 from 790, and the adult female mortality rate (per 1,000) declined from 305.4 to 142.8 during the same period. Life expectancy at birth increased from 54.2 years to 69.2 years during the same period. Female life expectancy at birth reached 70.7 years compared to 67.8 years for males in 2013 (World Bank, 2016).

On the educational front, the total adult literacy rate (15 years and above) increased from 33.0 per cent in 1991 to 59.6 per cent in 2011 (World Bank, 2016). During the same period, female literacy increased from 17.3 per cent to 48.8 per cent. The youth (15-24 years) literacy rate reached 84.8 per cent in 2011, with a male youth literacy rate of 89.9 per cent and a female youth literacy rate of 80.2 per cent (World Bank, 2016).

Nepal has also improved its gender inequality index (GDI) - from 0.658 in 2000 to 0.489 in 2014.⁷ Similarly, Nepal's performance on the Gini index, as per the World Bank's estimate, declined from 43.3 in 2003 to 32.8 in 2010 (World Bank, 2016).⁸

Although the poverty rate has declined in recent years from 42 per cent in 1996 to 23.8 per cent in 2013, the poverty rate is estimated to have risen by 2.5 percentage points after the

⁶See the UNDP Trends in the Human Development Index, 1990-2014: <http://hdr.undp.org/en/content/table-2-human-development-index-trends-1980-2013>

⁷See the UNDP data on the gender equality index: <http://hdr.undp.org/en/content/gender-inequality-index> and <http://hdr.undp.org/en/composite/GII>

devastating earthquake of 25 April (MoF, 2015). As per the multidimensional poverty index, as much as 44.2 per cent of the population lived below the poverty line in 2014.⁹ Similarly, the inequality adjusted HDI stood at 0.401 in 2014, (UNDP, 2015) indicating highly unequal human development in Nepal.

1.3 Literature Review

Numerous studies have analysed social protection from various dimensions at the international level. Some of the important studies in this area include Arjona *et al.* (2003), DFID (2006), EC (2010), Alderman and Yemtsov (2012), UNDP (2013) and ESCAP (2015). Arjona *et al.* (2003) lists various arguments showing that social protection can be good for growth. First, social protection may lead to a more cohesive society so that the government can take “difficult” political and economic decisions for structural adjustment. Second, social protection provides security to low income groups who are trailing behind the average in terms of participation in the market economy. Third, keeping children out of poverty with the help of social protection may have long term benefits in terms of social and human capital for the development of the country. Arjona *et al.* (2003) found that especially active social spending programmes, which are designed to increase employment activity in the economy, are good for growth.

There are many ways in which social protection can be seen as an investment in the workforce (DFID, 2006). Regular and predictable cash transfers help the poor maintain a basic level of nutrition and cover the costs of using services. DFID (2006) cites the examples of South Africa and Brazil, where the receipt of old age pensions is associated

⁹<http://www.ophi.org.uk/multidimensional-poverty-index/mpi-2015/mpi-data/>

with increased school attendance, especially among girls aged 12 to 14 years,¹⁰ and Bangladesh, where the Cash for Education Programme has resulted in a 20-30 per cent increase in school enrolment among beneficiaries. In addition, social protection helps to raise productivity by helping the poor cope with risks. With social protection, the poor may not be forced to sell productive assets such as farm animals, take children out of school or reduce their household's nutritional intake (DFID, 2006; Alderman and Yemtsov, 2012). The poor can even use the cash transfers to make small investments such as Oportunidades programme in Mexico, where beneficiaries invest a quarter of the money they receive in smallscale enterprises and agricultural production (DFID, 2006). Cash transfers in poor rural areas can also increase the demand for local goods and encourage people to invest in providing goods and services. Along with the development of the local market, cash transfers tend to increase the participation of people in the labour market by helping them meet the costs of job-seeking. For example, survey data from South Africa shows that labour force participation increased from 46 to 50 per cent for households that received social grants over a sixmonth period, and remainedunchanged at 70 per cent for other households (DFID, 2006).

More importantly, DFID (2006) mentions that when women have access to income and assets, it can have a direct impact on productivity. For example, in Burkina Faso, agricultural production increased by an estimated 10 to 20 per cent when women had equal access to farming supplies. Social protection also helps to increase the flexibility of the labour market. For example, in South Korea, social protection was strengthened in the

¹⁰ Educating girls is especially important in that it both improves their productivity and reduces fertility rates, which allows for greater economic participation (DFID, 2006).

1990s to win workers' support for the introduction of greater labour market flexibility, including a significant number of lay-offs. The impact of social safety nets on growth and productivity has been assessed by Alderman and Yemtsov (2012). They argue that social protection works through nine channels at three broad levels to increase growth and reduce poverty. These three levels and nine channels are: (i) the macro and national level (by promoting social and political cohesion, deepening the capital market and stimulating aggregate demand); (ii) the local and community level (by creating productive assets through public work, improving the functioning of the labour market and creating local spill-over from increased demand); and (iii) the household level (by accumulating and protecting assets, increasing entrepreneurial activities and increasing human capital and productivity).

A recent study of the UNDP (2013) focuses on social protection policies and labour market outcomes across six countries -India, Kenya, Malawi, Mexico, Peru and Tajikistan. As per the study, social protection policies should help create jobs in the economy to reduce poverty, should complement other economic policies for higher economic growth and should protect the economically weaker sections from unexpected outcomes. It also shows that the designing of effective pro-poor growth and social protection policies is determined largely by the administrative capacity and level of development of a particular country. Based on the experience of the countries researched, the study concludes that small farm policies, microfinance, education, and labourintensive public works programmes are critical for possible interlinkingbetween economic growth and social protection(UNDP, 2013).

Furthermore, the ESCAP (2015) report, after discussing the importance of social protection in sustainable development, suggests that social protection spurs economic growth by contributing to improving labour productivity and social integration. The report establishes a strong positive correlation between social spending and the level of output per worker as well as inclusive economic growth (ESCAP, 2015, p. 13). According to the report, the positive effects of social protection include social integration, increased trust on the government, higher domestic demand, smoother consumption among the poor people and lower income inequalities. The report presents a comprehensive set of recommendations to strengthen the social protection systems of developing countries.

In Nepal, a few studies in recent years addressed issues relating to social protection. These include Holmes and Uphadya (2009), Koehler (2011, 2014), NPC (2012 a), Khanal (2012), and Khanal (2014). Holmes and Uphadya (2009) reviewed the role of cash transfers, one component of social protection, in the post-conflict environment. They argue that the design of the cash transfers programmes, and problems relating to their implementation, have led to the schemes having a minimal impact on poverty reduction so far. However, the programme has had an important social impact and has helped improve family relations for beneficiaries. Their findings and conclusion is based on stakeholders' opinions rather than factual evidence.

Koehler (2011) points out that Nepal has exceeded the Copenhagen Social Summit 1995 goal of earmarking at least 20 per cent of its fiscal budget for social expenditures. There are, however, considerable challenges and issues at the design, delivery and monitoring stages (Koehler, 2011). NPC (2012a) carried out an institutional and beneficiary survey in eight districts to assess the effectiveness of the social security allowance programme in

Nepal. The study found that the lack of support staff and the non-registration of the demise of beneficiaries were the most commonly cited problems in updating the records. Local governments also appear to be lax in following the operational manual on distributing cash transfers.

At the same time, Khanal (2012) analysed the social security and social protection programmes in Nepal. He argues that these 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 is running various programmes to protect poor and vulnerable groups like women, children and the disadvantaged. In contrast, formal social security schemes are only available to civil servants, security personnel and a small proportion of the private sector (Khanal, 2012). Workers engaged in the informal sector, which is about 90 per cent of the labour force, do not have any form of social security, which is a major challenge for Nepal's social security system. Further, Khanal (2014) presents some challenges in the existing social protection system, such as the need to address diverse requirements and groups, narrow coverage, leakages in distribution, poor information management and lack of institutional capacity. Recently, the ILO (2015) also reviewed Nepal's initiatives to bring its Social Security Fund within the net of the Social Security Bill 2015 tabled in the parliament. The government is planning to implement comprehensive social security schemes in Kathmandu Valley, and to cover the whole country over five years. The ILO is helping Nepal develop its institutional capacity as well (ILO, 2015). Thus, a quick review shows that there is a gap in the literature with regard to studies analysing the relationship between social protection and labour market outcomes for decent work and inclusive growth in the context of Nepal, which this study aims to fill.

1.4 Objectives

The main objective of the study is to review the social protection system from the perspective of the labour market in Nepal -particularly, to examine the impact of the social protection system on labour market outcomes, particularly on (i) labour market participation; (ii) productivity and human capital development; (iii) migration; and (iv) gender equality. It also aims to assess the fiscal sustainability of the social protection system.

1.5 Data and Methodology

The study uses relevant data from the Labour Force Surveys, Census and Living Standard Surveys conducted by the Central Bureau of Statistics. In addition, the Economic Survey of the Ministry of Finance, the World Development Indicators database of the World Bank and the Human Development Reports of the UNDP have also been used. The study has taken the years between 1991 and 2014 as the same period for comparing and analysing the impact of social protection. After 1990, many legislations such as the Labour Act, Civil Service Act, Trade Union Act and Social Welfare Act and social security allowance were introduced.

The study has employed the following methods to assess the impact of social protection on labour market outcomes:

- (1) Review of existing studies, government policies, related acts and Human Development Reports of the UNDP
- (2) Comparative analyses of surveys' results
- (3) Interviews with stakeholders

1.6 Structure of the Report

The report is structured as follows. After the first introductory section, the existing social protection systems are reviewed in Section 2. Section 3 assesses the impact of the social protection system on labour market outcomes such as labour force participation, productivity and human capital and migration and gender equality. Section 4 presents the findings of the stakeholders' survey and Section 5 analyses the fiscal sustainability of social protection programmes. Finally, Section 6 concludes the report and shows the way forward by highlighting key issues and providing policy recommendations.

II. REVIEW OF EXISTING AND PROPOSED SOCIAL PROTECTION PROGRAMMES IN NEPAL

The history of social protection in Nepal is not long. Except for pensions for government staff,¹¹ there were no government programmes that provided social protection until 1994. People had to rely, and still do to some extent, on family and community based protection, mainly on the grounds of religion and humanitarianism.¹² With the restoration of the multiparty system in 1990, and the desire to become a welfare state, various social security schemes gained momentum in Nepal. The CPN-UML minority government introduced the Old Age Allowance Programme for the first time in December 1994.¹³ Since the 1990s, and particularly since the end of the conflict in 2006, the government has additionally initiated a number of social protection programmes in a fragmented way targeting various vulnerable groups.

Social protection has now been constitutionally provisioned. The 1990 Constitution of Nepal directed the state to pursue policies to ensure access to education, healthcare and social security for all and to enhance the welfare of orphans, women, the aged and disabled or incapacitated persons (Khanal, 2014). The Interim Constitution of 2007 made social security part of state policy, which has been further extended by the recently promulgated Constitution of 2015. Section 51 (10) of new Constitution deals with social justice and

¹¹ Sainik Drabya Kosh was established in 1934, which was later consolidated into the Employee Provident Fund (Khanal, 2014).

¹² Koehler (2011) notes that such systems of social protection are disintegrating with poverty, urbanisation and changes in the traditional family structure.

¹³ Nepal was one of the first low income countries worldwide to introduce a social pension (Koehler, 2014).

inclusiveness, and special provisions have been included to protect the interests of women, orphans, children, the elderly, the disabled and the marginalised and endangered.

Social protection has, hence, become an important component of Nepal's public policy in recent years. Most importantly, it has been integrated into the post-conflict development and reconstruction agenda (Holmes and Uphadya, 2009). It has become a multifaceted system with multiple objectives from increasing income and food security to overcoming social exclusion and assisting with the process of political healing (Upreti *et al.*, 2012). The government has explicitly recognised social exclusion and inequality as the root causes for the armed conflict (Upreti *et al.*, 2012), and hence, has initiated a host of social protection programmes over the years. According to Koehler (2014), Nepal has been an innovator in terms of social policy programmes. These initiatives can be grouped into three broad categories: social insurance, social assistance and labour market programmes.

2.1 Social Insurance

Social insurance comprises of programmes that “cover the risks associated with unemployment, sickness, maternity, disability, industrial injury and old age” (ADB, 2008, p. 9). Hence, it includes old age insurance, health insurance, unemployment insurance and programmes for workers with disabilities (ADB, 2011, p. 12). Four social insurance programmes are in practice in Nepal: (i) retirement benefits including pensions, gratuities, allowances and medical facilities; (ii) Employees' Provident Fund; (iii) Citizen Investment Trust; and (iv) Social Security Fund. In terms of government expenditure, social insurance is the largest category, accounting for 66 per cent of Nepal's annual social security expenditure in FY2013-14. The formal social insurance programmes are targeted at particular employment groups- usually employees in the public sector. Hence, these

programmes are not pro-poor as most of those working in the informal labour market are not covered.

i. Retirement Benefits

Those employed in the civil services, police, army and public sector teaching institutions are eligible to receive pensions from government after retirement. Some public enterprises also provide pensions (or gratuities) for their employees. The pensions (or gratuities) provided so far is non-contributory. "In order to qualify for these monthly pension payments, civil servants must have completed at least 20 years of service but the minimum of 16 years for members of the armed forces. Upon death of the beneficiary, the spouse receives 50 per cent of the pension for life" (ADB, 2012, p. 10). In 2014-15, the government paid NRs. 25 billion in pensions to approximately 211,667 employees¹⁴ in the public sector (MoF, 2015b). Pension payments in 2010 were about NRs 10 billion. Since pensions are non-contributory, pension liabilities have been increasing for the government with rising life expectancy.

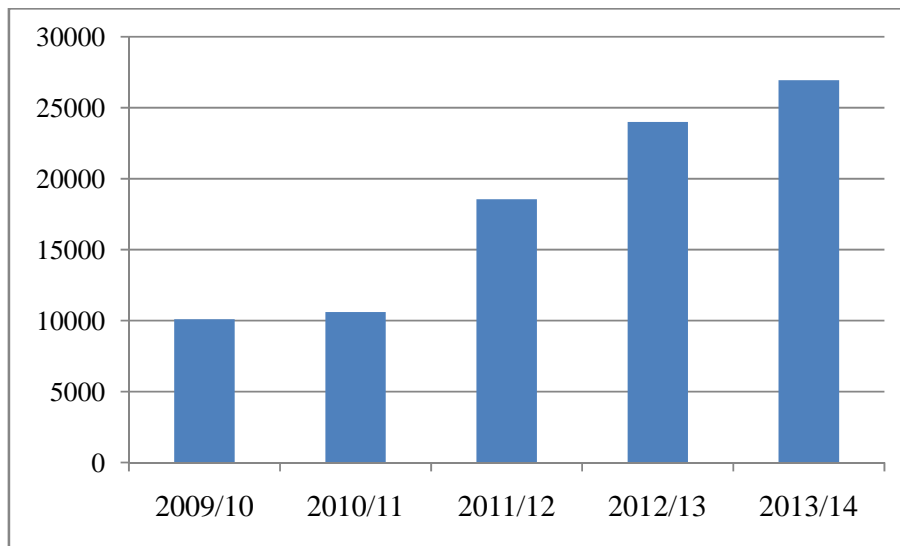
Civil servants who leave service before 20 years but after completing at least 5 years are eligible to get a lump sum as gratuity. "Civil servants are also covered for life insurance and disability benefits, for which a monthly premium of NRs 200 is deducted from the employee's salary and the government makes a matching contribution for a 20-year term life insurance in the amount of NRs 100,000" (ADB, 2012, p. 10). In 2013-14, the government spent NRs. 226.3 million on gratuities and NRs. 1,008 million on medical facilities.

¹⁴ <http://kantipur.ekantipur.com/printedition/news/2015-08-21/20150821073903.html>

As per the civil service bylaws (1993, 12th amendment), pregnant female employees are provided 98 days paid maternity leave, and the option of availing an additional six months of unpaid leave is also provided. Male employees are also provided 15 days of maternity care leave. Limited medical expenses are provided to all public sector employees in case treatment is necessary. “The armed forces on the other hand have set up special welfare funds through which all medical treatments of its employees are covered. Both the army and police operate their own hospitals, which provide medical treatment to its employees for free”(ADB, 2012, pp. 10-11).

The total expenditure on retirement benefits, of which more than 90 per cent was paid out as pensions, increased from NRs. 10 billion in 2009-10 to 26.9 billion in 2013-14, more than double in five years (Figure 1). Retirement benefits accounted for two-thirds of total social security expenses in 2013-14.

Figure 1 Expenses on Retirement Benefits (NRs. in Millions)



Source: Various years’ budget statement of Ministry of Finance

ii. Employees’ Provident Fund

As an autonomous organisation, the Employees' Provident Fund was established in 1962. It manages a provident fund on behalf of the Government of Nepal for government, public and private sector employees. The history of provident funds in Nepal can be traced back to 1934 to the establishment of the Sainik Drabya Kosh (Army Provident Fund), which was later brought under the Employees' Provident Fund after its establishment.¹⁵

It is compulsory for all public sector employees to contribute to the Employees' Provident Fund. However, registered organisations with ten or more workers can opt to participate in the fund. The fund currently has about 450,000 contributors from 32,735 organisations.¹⁶ A minimum of 10 per cent is deducted from the employee's salary, the employer contributes an equal amount, and the sum is deposited in the fund. "Lump sum amount with interest are paid upon retirement, early termination of employment, and survivors in case of death of the member" (ADB, 2012, p. 11). In addition, the fund has created a special reserves fund from its profit to provide additional social security to its contributors. Accordingly, the fund provides a lump sum payment of NRs. 125,000 in case of death or permanent disability, and NRs. 10,000 to NRs. 25,000 in case of partial disability, to the employee or their legal heir or nominee.¹⁷ In addition, a lump sum of NRs 30,000 is provided as a funeral grant in the event of a member's death and insurance up to NRs 150,000 and medical assistance up to NRs. 50,000 are also provided to contributors. In addition, "members who have contributed into the Fund for at least two years are also eligible to borrow up to 90 per cent of their equity at low interest rates" (ADB, 2012, 11). A Medical

¹⁵See the Nepal EPF website for further details. <http://web.epfnepal.com.np/information/3>

¹⁶See the Nepal EPF website for further details. <http://web.epfnepal.com.np/information/3>

¹⁷See the Nepal EPF website for further details. <http://web.epfnepal.com.np/information/10>

Assistance Programme was introduced in 2013, where Rs. 15,000 is reimbursed in the case of normal medical treatment and Rs. 35,000 for severe illnesses (ILO, 2015, p. 8).

The Employees' Provident Fund covers less than 5 percent of the economically active population (ILO, 2015, 9). The private sector is not obligated to participate, and can contribute on a voluntary basis. The fund offers social protection through savings, similar to banking institutions, and it is rather simple to operate (ILO, 2015).

iii. Citizen Investment Trust

“The Citizen Investment Trust (CIT) was officially established in 1991 under the Citizen Investment Trust Act 1990 to expand investment opportunities by encouraging the public to save capital and foster the development of the capital market in the country” (ADB, 2012, p. 11). Any employee can voluntarily participate by contributing a certain per cent of their salary. Such a contribution is exempted from income tax. The trust has been managing different types of retirement schemes such as the Employees' Saving Growth Retirement Scheme, Pension and Gratuity Fund Scheme and Civil Employees' Insurance Fund Programme. In addition, the trust is also involved in capital market development through its Citizen Unit Scheme in which anyone can invest their money. The CIT mobilised NRs. 62.4 billion through the fund as of mid-March 2015 (MoF, 2015).

iv. Social Security Fund

The 2010-11 budget (MoF, 2010) announced a new Social Security Fund that would be funded by levying a one per cent tax on the salaries of government and non-government employees. This was followed by the formulation of a Social Security Fund Management and Operation Regulation in 2011, on the basis of which the Office of the Social Security

Fund was established as a government department under the Ministry of Labour and Employment for managing the money collected through the social security tax and to implement different types of social insurance. The Social Security Fund provides insurance coverage in case of unemployment, workplace accidents, sickness, pregnancy and childbirth, disability or old age or hospitalisation of the person or their families in line with ILO's conventions. Despite of the accumulation of billions of rupees in the Social Security Fund, the scheme is yet to be put into operation. "The Social Security Fund has till date not handled any claims or made any payments to beneficiaries as the law is not clear on the types of benefits that are being provided by the 1 per cent tax" (ILO, 2015, p. 10).

The Social Security Fund is run by a board of trustees consisting of 11 members representing the three main partners - the government, employers and trade unions - which is entrusted with making decisions on social protection schemes (ILO, 2015). "The Social Security Fund is presently only recording data received from the agencies that pay the 1 per cent tax imposed from 2010. The total records that have been entered into the Social Security Fund data base as at 14 June 2015 is 1,461 employers (government, non-government and private sector) with a total of 1,049,446 individual worker records" (ILO, 2015, 10). Being a government department, the Social Security Fund has been facing frequent changes in staff, resulting in weak organisational capabilities to administer and implement social security schemes (ILO, 2015).

2.2 Social Assistance

Social assistance includes support schemes for the elderly, health assistance, child protection programmes, disaster relief and other forms of assistance for the poor and vulnerable. They are usually targeted towards uplifting the entire needy population

(Upretiet *al.*, 2012). The social assistance programmes in Nepal include the Senior Citizens Allowance, Single Women Allowance, Disability Allowance, Endangered Indigenous Peoples Allowance, Child Grant, scholarships, Food for Education Project, Aamaor Mother Programme and transportation subsidies on essential foods. All of them are non-contributory and are directly covered by the government's annual budget. Pensioners, and those who receive other benefits from the government, as well as those from the formal corporate sector, are not eligible to benefit from these social assistance schemes. In addition, if an individual falls into different target categories, then that person can apply for schemes only under the category which provides the higher allowance.

i. Senior Citizens Allowance

The Senior Citizens Allowance scheme was the first cash transfer programme in Nepal. It was started in 1995 and was implemented through local agencies with the Ministry of Federal Affairs and Local Development (MFALD). Initially it was implemented in five districts. In the beginning, the eligibility age was 75 years, and the benefit amount was a monthly allowance of NRs 100. In the following year, the programme was expanded nationwide with the same eligibility criteria and benefit amount. The benefit amount was gradually increased to NRs 150 per month and then to NRs 200 per month until 2008 (ADB, 2012). In 2009, the government reduced the age limit to 60 years for Dalits and for the elderly in the Karnali zone and to 70 years elsewhere; it also increased the monthly allowance to NRs 500. The government spent approximately NRs 5.2 billion on 864,144 beneficiaries in 2013 (Table 1). The government started providing Rs. 500 per month for old age treatment since FY 2015-16 on top of the regular monthly allowance.

A recent study carried out by KC *et al.*(2014) examines how the Old Age Allowance programme influences people's views and attitudes of the state. A longitudinal survey was carried out in Rolpa district. The study found that although the elderly valued the support of the government, the allowance was too small to live on. The study report suggested some policy measures, including an increase in the value of the payout, equalising the eligibility threshold, improving the benefit delivery capacity of Village Development Committees, facilitating convenient and cost-free access to benefits, promoting effective information sharing and outreach and improving public service delivery (KC *et al.* 2014).

ii. Single Women Allowance

The Single Women Allowance programme was started in 1996, with a flat payout rate of NRs. 100 per month. All single women over the age of 60 who are (i) widowed, (ii) unmarried, or (iii) separated are eligible to receive the grant. The benefit was increased to NRs. 150 per month in 2007 and was further increased to NRs. 500 per month in 2009. Approximately 648,553 women received this benefit in 2014-15 (Table 1). Government expenditure on this scheme was about NRs 3.9 billion in 2014-15.

Table 1 Numbers of People benefited from Cash Transfer Programme

<i>Target Group</i>	<i>Monthly (Rs)</i>	<i>2008-09</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>	<i>2014-15</i>
Senior citizens	500	545,556	605,021	663,693	655,737	688,930
Senior citizens(dalits)	500	81,820	130,917	170,825	244,646	234,634
Senior citizens(Karnali)	500	16,065	14,056	29,626	28,797	27,855
Single women above 60 years	500	296,221	258,113	361,350	341,106	231,352
Widows below 60 yrs	500		536,312	219,933	313,613	417,201
Fully disabled persons	1,000		18,252	22,138	25,492	27,203
Partially disabled persons	300		6,875	6,774	6,863	6,375

Endangered indigenous/ethnic people	1,000	16,122	19,299	18,825	19,223	20,308
Children	200		458,135	551,916	537,118	506,718
Total			2,046,980	2,045,080	2,172,595	2,160,576

Source: MoF, Economic Survey 2008-09 and 2014-15

iii. Disability Allowance

The Disability Allowance programme was started in 1996 to provide NRs. 100 per month to the disabled, though the allowance was granted only to a fixed number of applicants roughly based on the population of the district (ADB, 2012, p. 7). In 2007, the allowance amount was increased to NRs. 150 per month, which was further increased to NRs. 1,000 per month for the fully disabled and NRs. 300 for persons with partial disabilities. All persons who are fully disabled are eligible for the allowance, but only a fixed number of persons with partial disabilities will be able to collect benefits under the scheme. The Women Development Office under the Ministry of Women, Children and Social Welfare provides identification and certification documents for persons with disabilities while the allowance is distributed through local bodies (ADB, 2012, p. 8). The government spent approximately NRs 349.4 million for about 33,578 persons with disabilities in 2014-15.

In addition to the disability allowance, there were other fringe benefits for people with disabilities. As per the Protection and Welfare of Disabled Persons Act 1982, no fees shall be charged to students with disabilities, and 5 per cent of positions in governmental organisations providing vocational training should be reserved for people with disabilities. Further, they are entitled to free medical examination, and all hospitals with more than 50 beds should allocate two beds for the use of the disabled. There should be free treatment for persons with disabilities over the age of 65 years. Discrimination on the basis of a candidate's disability in employment is prohibited. Individual businesses employing more

than 25 people should allot 5 per cent of posts to people with disabilities. There should be no duties on special equipment to be imported for the use of the disabled. Five per cent of jobs in the civil services should be allocated to them (NFDN, 2013, 9). Public transport tickets should be made half price for people with disabilities (NFDN, 2013).

The Ministry of Health and Population (MoHP) conducts health-related programmes for persons with disabilities. In 2012-13, the MoHP allocated NRs 167.1 million for providing assistance to the needy, including people with disabilities. In addition, the Ministry of Peace and Reconstruction (MoPR) prioritises the distribution of treatment and relief packages to those people with disabilities due to conflict rather than by birth. It provided financial relief to 3,097 people with disabilities in 2010-11 (NFDN, 2013).

Scholarships for children with disabilities, based on the intensity of the disability, are provided at the primary and secondary school level by the Ministry of Education. In 2010-11, 4,940 children were awarded scholarships, and in 2011-12, 6,838 such children were awarded scholarships (NFDN, 2013). In addition, the Ministry of Education oversees 11 schools for blind children and 7 for deaf children.

One of the primary challenges associated with this allowance is that record keeping is very poor. Because of the quota system, not all people with partial disabilities can get support from the government (NFDN, 2013). The lack of an effective monitoring system may have encouraged the misuse of funds (NFDN, 2013).

iv. Endangered Indigenous People Allowance

In 2009, the government also introduced a cash transfer programme for endangered indigenous people. Ten groups are eligible to receive a benefit amount of NRs. 500, and

members of the Raute community are eligible to receive NRs. 1,000 (ADB, 2012). The government is current supporting 20,308 endangered indigenous peoples as of 2014-15 (Table 1).

v. Child Grant

The Child Grant is likely to reduce poverty and have a positive impact on human development, notably health, education and nutrition according to Rabi *et al.* (2015). More than one-third of Nepal's children live below the national poverty line and about 41 per cent of children under the age of five years are said to suffer from malnutrition (UNICEF, New Era and NPC, 2010). In order to address the vulnerability of children, the government, for the first time, introduced a new cash transfer programme for all children under five years in five Karnali districts¹⁸ and for all poor Dalit children¹⁹ across the country in 2009. A maximum of two children per family are eligible to receive the monthly grant of NRs. 200 per child, resulting in NRs. 4,800 for a family with two children annually. At the central government level, MoFALD is responsible for the implementation of the programme, while at the field level, registration and delivery are handled by the village development committees (VDCs), under the supervision of the district development committees (DDCs). The government spent about NRs 1.2 billion on supporting about 506,718 children in 2014-15 (Table 1).

¹⁸ The highest rate of malnutrition was observed in the five Karnali districts: 42 per cent of the children in the Karnali districts studied suffered from malnutrition against the national average of 29 per cent; 60 per cent were said to suffer from stunting against the national average of 41 per cent; 13 per cent were said to be wasting against the national rate of 11 per cent) (Rabi *et al.* 2015).

¹⁹ Among Dalit families, 35 per cent of children were underweight against the national rate of 29 per cent, 47 per cent were stunted against the national rate of 41 per cent, and 18 per cent were wasting against the national rate of 11 per cent (Rabi *et al.*, 2015).

Adhikari *et al.* (2014) found that the Child Grant had had some positive impact on children's access to a diversified diet, but it had not had a similar impact on social inclusion in the Karnali region because the value of the payouts were too low to buy anything substantial. The amount represents only 3.46 per cent of the GDP per capita and only about 13 per cent of the requirement to be above the poverty line (Adhikari *et al.*, 2014). Evidence suggests that the Child Grant has been effective, with increased coverage up to 80 per cent and with a substantial increase in birth registration up to 90 per cent in Karnali compared to the national average of 42 per cent (Rabi *et al.* 2015).

The scheme serves only children from the Karnali region, which is the poorest region of Nepal, and low-income Dalit families in other regions (Rabi, *et al.* 2015). Identifying the right beneficiaries is a challenge, so the VDCs provide the Child Grant to all children from Dalit families, instead of selecting only the most appropriate candidates (Rabi *et al.*, 2015). Hence, universal coverage would be an optimal approach, also considering the large number of children affected by poverty and malnutrition.

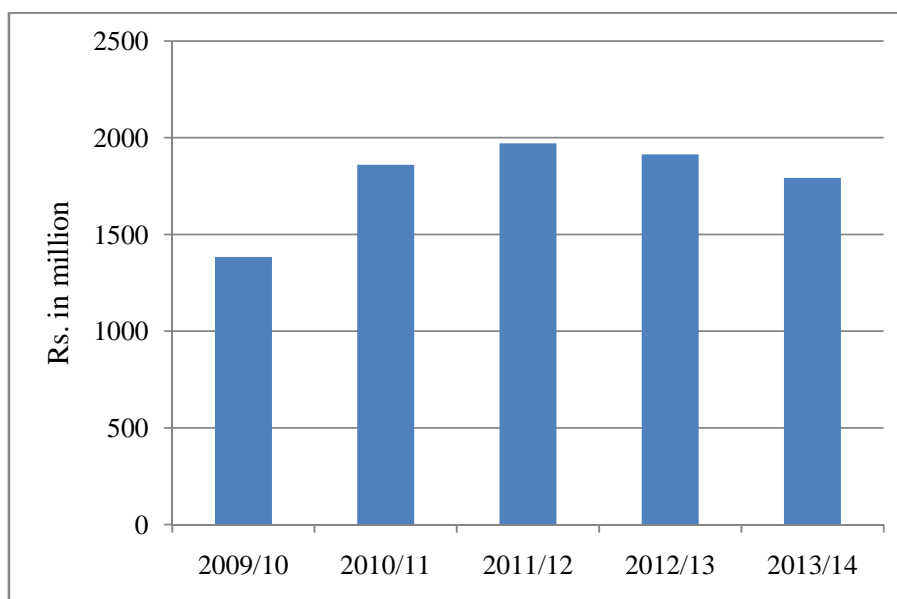
vi. Scholarship

With the aim of promoting "education for all", the government provides various types of scholarships in order to encourage girls and children from marginalised families to enrol in schools. Scholarships and incentives have been used as a major strategy to promote education of girls since the 1970s (Acharya and Luitel, 2006). Various types of scholarships are being provided as shown in Table 2. For instance, to incentivise primary education, the Dalits in the Karnali region (which is very remote and underdeveloped) receive NRs 1,000 per year while Dalits elsewhere receive NRs 400 per year. Furthermore, all female students since 2010 (50 per cent before) receive NRs. 400

per year and children of martyrs receive NRs 1,000 per year. “Secondary education scholarships include NRs 500 per year, NRs 1,500 per year for female students from Karnali, and NRs 1,700 for all other students in the poor, marginalised or female student category” (ADB, 2012, p. 8). Moreover, “special scholarships covering primary and secondary education are also available for student with disabilities (NRs 500 to NRs 15,000 per year depending on the disability), students from targeted groups such as highly marginalised groups (NRs 1,700 per year), and students from remote mountain districts such as feeder hostels (NRs 12,000 per year)” (ADB, 2012, pp. 8-9). These scholarship programmes help increase enrolment at schools, but are too low to have any impact on poverty. Scholarships for girls have contributed to reducing gender disparity and increasing the enrolment and number of girls in schools, making enrolment numbers for girls even higher than that of boys. (DoE, 2010, 9)

“From the total amount in scholarships for higher education, 45 per cent is reserved for students who received their school-leaving certificate from public schools, out of which 33 per cent is reserved for female students, 27 per cent for indigenous students, 25 per cent for economically and socially deprived students, 9 per cent for Dalit students, 2 per cent for students with disabilities, and 4 per cent for students from remote areas” (ADB, 2012, 9). In 2013, the government spent approximately NRs 1.8 billion on scholarships (Figure 2). Government expenditure on scholarships increased until 2011-12 and slightly declined thereafter.

Figure 2 Government Expenditure on Scholarships



Source: Various budget statements of the government, MoF.

Table 2 Scholarship Made Available to School Students (In Numbers)

Fiscal Year	2010-11	2011-12	2012-13	2013-14	2014-15*
Scholarship for all girl students studying in Grade 1-8 (including Karnali Package 1-10)	2,293,744	2,276,479	1,907,469	1,686,480	1,045,684
Handicapped students (1-8)	62,163	69,944	59,098	53,903	13,399
Handicapped students (9-10)	4,494	6,193	4,841	4,055	788
Specially targeted groups (22 Ethnic/1-8)	104,157	86,712	106,517	77,900	27,677
Dalit scholarship (1-8)	1,100,349	1,200,816	1,000,741	870,888	531,581
Dalit scholarship (9-10)	-	75,511	79,587	75,386	39,755
Scholarship for martyrs' children	37	62	89	99	12
Capacity development and scholarship for Kamlari	7,673	7,886	6,882	7,655	3,479
Scholarship for conflict victims	3,808	8,097	7,412	6,846	523
Remote scholarship for students of mountain hostels	413	407	437	480	428
Scholarship for students of feeder hostels	400	400	399	391	330
Scholarship for students of model hostels	148	222	382	307	356
Scholarship for mountain boarding school hostel students	220	140	160	180	128
Secondary education scholarships	58,836	59,023	58,412	55,826	37,270

Scholarshipsfor endangered ethnic people, extremely marginalised including children of free bonded labourers, tillers, cattle grazers and Badi (9-10)	13,595	32,703	9,252	8,552	1100
Scholarshipsfortarget groups for science students of higher secondary school level	80	76	68	39	-
Total	3,650,117	3,824,671	3,241,746	2,848,987	1,702,510

*first eight months

Source: Economic Survey, 2014-15, MoF (2015).

Table 2 shows the number of students who benefited from the various scholarship programmes provided by the government. The number of students receiving scholarships has been declining in recent years. In total, 3.6 million students received scholarships in 2010-11, which declined to 2.8 million in 2013-14 and 1.7 million in the first eight months of FY 2014-15. Among others, large numbers of girls and Dalit students have been provided scholarships. District educational offices and schools have found it difficult to cope with tasks of keeping track of the different types of scholarships, identifying the right children, delivering the stipulated scholarship rate at the right time and ensuring transparency (ADB, 2010). However, in a study conducted by Acharya and Luitel (2006) in three selected districts, they found that most of the respondents agreed that the available scholarships and incentives reached the needy population, but complained that they did not cover all needy children. Enrolment of girls in schools and school attendance have increased. There is, however, a lack of information about the various kinds of scholarships and incentives available and the government is sometimes unable to provide support to all of the targeted children as announced (Acharya and Luitel, 2006).

A recent study conducted by the Department of Education in eight sample districts found that the scholarship programmes were not functioning in an integrated way; that dropout rates were still high, particularly due to the early marriage of girls

students; and that many parents preferred to send their grown children to India for wage labour after primary education due to economic necessity (DoE, 2010). The scholarships provided to Dalit students at the primary level were found to be more successful than the scholarships provided at the secondary and lower secondary school levels. Most parents (75 per cent) consider the scholarship amount to be inadequate; however, teachers believe that the scholarship programme worked “as a motivation and encouragement factor to the poor, talented, Dalit, marginalised children, and girls to come to schools regularly and raise interest in the study” (DoE, 2010, p. 9). The dropout rate among Dalit students remains high and performance is not often satisfactory because parents do not feel obliged to send their children to school since many of them are illiterate and older children are expected to support their families (Sunam, Lamsal and Maharjan, n.d., p. 22).

Another study, which examined the effectiveness of the girls’ scholarship programme in seven districts, found that as a result of the scholarships, the enrolment of girls in school has substantially increased over the years, leading to Nepal’s improved performance on the gender parity index (GPI) - 1.00 for primary and 0.99 for basic education (grade 1-8) in 2009-10 (ERDCN, 2011). “In many schools, the girls’ scholarship was not provided as per the Ministry of Education’s norms rather it was divided equally for all the students” (ERDCN, 2011, 61). In this study, respondents suggest that scholarships should be provided to girls from poor families and which have low HDI. The study finds that girls receive between NRs 50 and NRs 500 as scholarships, which is considered insufficient by 90 per cent parents and 87 per cent of girl students (ERDCN, 2011). Around 84.5 per cent of girls and 78.6 per cent of parents believed that the scholarship programme enabled the continuation of their studies. More than half the parents and girls believe that the scholarships increased their motivation to learn, and 49.1 per cent

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of the girl students, and 34.3 per cent of the parents, believed that the scholarship increased confidence, dignity and self-respect. Attendance rates increased and dropout rates declined among girls receiving scholarships. The study identifies some weaknesses in the programme, such as uncertainties and delays in disbursement and the low amount of scholarship. More importantly, since the scholarship is available to all students, there appears to be a decline in competition.

vii. Food for Education

“The Government of Nepal and the United Nations World Food Programme (WFP) have been implementing primary school feeding programmes since 1996 and the Food for Education Project was initiated in 2002 with the objective of improving class attendance rates and learning capacity of students by relieving short-term hunger; increasing girl’s enrolment in school; reducing the prevalence of intestinal parasitic infections by de-worming; and enhancing parent’s awareness on gender issues” (ADB, 2012, 9). The Day Meal programme was introduced for primary level students in 21 districts in the fiscal year 2008-09. The programme is in operation in only 10 districts in the western part of Nepal in recent years. About 156,000 students benefited from this programme in 2014-15 (MoF, 2015a).

“Under the mid-day meal programme, students are provided with fortified blended food and de-worming tablets. Under the girl incentive programme, the mothers of female students with at least 80 per cent class attendance receive 2 litres of cooking oil per month. Similarly, under the mother and child health care programme, a monthly ration of 7kg of fortified blended food is provided to mothers with children aged 6-36 months or expecting

mothers” (ADB, 2012, p. 9). These types of incentives were reported to be the most effective in increasing girls’ enrolment and attendance (Acharya and Luitel, 2006).

viii. Aama (Mother) Programme and Other Health-Related Assistance

To encourage women to give birth at medical institutions, the government started an incentive scheme in 2005, which was named as the Aama Programme. It was expanded to all districts in 2009. This programme provides women who give birth at institutions cash incentives of NRs. 500 (in Terai districts) to NRs 1,500 (in mountain districts). In addition, “the programme also provides unit costs ranging from NRs. 1,000 (hospitals with less than 25 beds) to NRs. 1,500 (hospitals with more than 25 beds) per delivery to the institution in case of a normal delivery, NRs. 3,000 in case of complicated deliveries, and NRs. 7,000 in case of caesarean section delivery” (ADB, 2012, p. 9).

The proportion of women receiving antenatal care from a skilled provider has more than doubled in the past 15 years, from 24 percent in 1996 to 58 percent in 2011; additionally, the percentage of births taking place in health facilities has doubled in the past five years, from 18 percent in 2006 to 35 percent in 2011 (MoHP, 2007; MoHP, 2012), with the greatest improvement seen in the poorest quintile and marginalised ethnic groups (ADB, 2012). More importantly, delivery assistance by skilled birth attendants (SBA) in rural areas has more than doubled in the last five years, from 14 percent to 32 percent (MoHP, 2012). The findings show that 71 percent of mothers received payments to defray the cost of transportation to a healthcare facility. About 73 percent of rural women received transportation incentives, compared to 60 percent of urban women (MoHP, 2012).

ix. Food Transportation Subsidy

“The Nepal Food Corporation supplies subsidized essential foods (e.g., rice, lentils etc.) in 23 food insecure districts in Nepal” (ADB, 2012, p. 9). These are mostly remote mountainous districts where transporting food is very costly owing to the lack of roads resulting in high food prices. Moreover, normally poor harvests because of unpredictable weather conditions due to climate change create food deficits in these districts. In this situation, the subsidised food supplied by the government provides great relief to families in these remote districts (ADB, 2012, 10).

The government initiated the Nepal Food Crisis Response Programme in 2008-09 to rapidly address the impact of the global food crisis in 23 food insecure districts (MoF, 2015b). Under this programme, the government provides subsidies for the transportation of agricultural inputs and for agriculture research (MoF, 2015b).

About one-third of the population in the Karnali zone, which comprises five districts (Humla, Jumla, Mugu, Kalikot and Dolpa), is severely food insecure. Many argue that the government’s decadeslong rice subsidy programme has badly affected the production of local indigenous foods such as kaguno, barley, buckwheat, beans and finger millet. It is said that rice subsidies should be reduced and then stopped and replaced with incentives to cultivate local crops, because the subsidies have undermined the ability of local people to cope with shocks.²⁰

x. Disaster Relief Fund

The Ministry of Agriculture and Cooperatives (MOAC) provides compensation to farmers whose crops have been affected by natural disasters. Compensation is provided to livestock

²⁰ See also “Rethinking Food Security in Nepal’s Karnali Region”, IRIN News, <http://www.irinnews.org/report/97693/analysis-rethinking-food-insecurity-in-nepal-s-karnali-region>

producers in the event of major calamities resulting in the death of animals. The District Natural Calamities Rehabilitation Committee is responsible for assessing the damages resulting from a major event. There is also the Prime Minister Natural Disaster Relief Fund, which collects donations from different institutions to aid rehabilitation and rebuilding efforts. This is just an ad hoc arrangement in the event of a natural disaster. This component is becoming more important however, due to the increasing number and scale of natural disasters.

xi. Free Health Care Programme and Distribution of Essential Medicine

Between 2006 and 2009, the government introduced free health care programmes in phases for the poor and other groups in Nepal. The Government of Nepal made emergency and inpatient services free of charge at district hospitals and primary health care centres (PHCCs) for the ultra-poor, poor, destitute, elderly, the disabled and female community health volunteers (FCHVs) in December 2006. In 2007-08, outpatient services were also offered free of charge to the marginalised groups in low HDI districts. In October 2007, the government further declared that essential healthcare services will be made available free of charge to all users at all health posts and sub-health posts (SHPs). The universal free care policy (including free drugs) has been under implementation since mid-January 2008 (Prasai, 2013; DRC, 2012). In January 2009, the government decided that outpatient, inpatient, emergency services and all medicines would be provided free of charge for marginalised groups in hospitals with 25 or fewer beds. For non-targeted groups, 40 listed drugs were to be made available free of charge (Prasai, 2013).

The free healthcare programme intended to reduce the financial barriers to seeking care, to provide relief to poor families and to promote the use of essential healthcare services

(Prasai, 2013). The Primary Health Care Revitalisation Division (PHCRD), under the Department of Health Services (DoHS), is in charge for implementing the programme according to the DoHS's Free Health Service Programme Implementation Guidelines, which defines the free health services, lists free services and medicines and identifies target groups. Five groups are currently being targeted for free health services (DoHS, 2008) -poorer (has adequate food for less than six months a year), 'poor' (has adequate food for 6 to 12 months), destitute and disabled people, senior citizens (above 60 years of age) and female community health volunteers (FCHVs). To fulfil the objective of "free health services for all", 25 kinds of medicines have been distributed free of costs from sub-health posts, 35 from primary health centres and 42 from district hospitals (MoF, 2015b). In 2012-13, 8.5 million people, and in 2013-14, 12.7 million people, were provided free health services at hospitals (MoF, 2015b). The government's expenditure on the health sector has increased from Rs. 1.7 billion in 2010-11 to Rs. 3.3 billion in 2014-15, almost double in five years (MoF, 2015b).

Prasai (2013) provide a summary of all the findings of studies conducted up till 2012. Access to free healthcare is reported to have increased significantly since the launch of the programme. The proportion of clients receiving free care at public health facilities increased from 29 per cent in 2009 to 82 per cent in 2011. Dalits benefited the most from free outpatient services. The frequency and extent of out-of-pocket payments by patients is reported to have decreased - particularly for those with serious illnesses which tend to be expensive to treat. Over two-thirds of patients reported being satisfied with the free healthcare services. Care providers and patients reported that the volume and types of essential drugs available for free at healthcare facilities were insufficient to meet patient requirements. Fund flows from the Ministry of Health and Population to healthcare

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facilities were intermittent but have improved significantly since 2010. In mountain, hill and tera regions 80, 43 and 52 per cent of the health facilities respectively had at least one stock out of the free drug in the last fiscal year (DRC, 2012). Prasai (2013) suggests coordinating with the Ministry of Cooperatives and Poverty Alleviation (MoCPA) to identify the poor for targeted free care via a system of identity cards.

2.3 Labour Market Programme

Labour market programmes include programmes directed at the unemployed and underemployed such as food-for-work schemes. There are two major labour market programmes in Nepal: the Rural Community Infrastructure Works Programme and the Karnali Employment Programme.

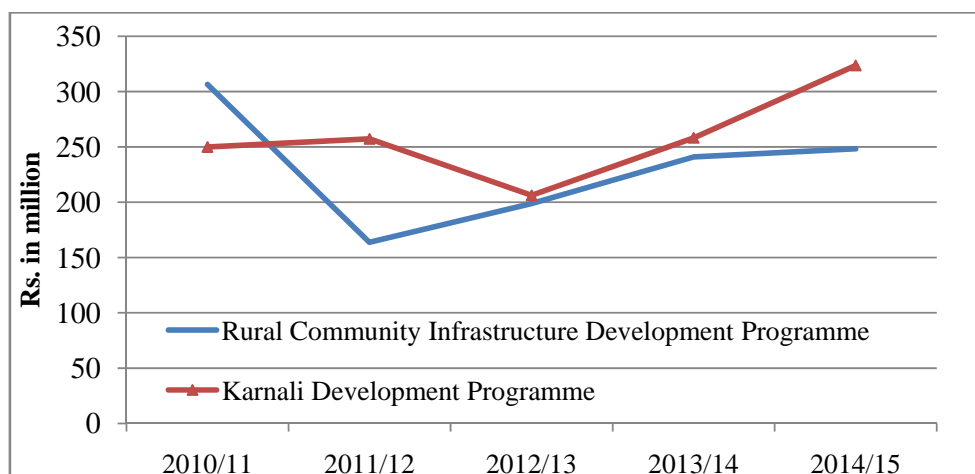
i. Rural Community Infrastructure Works Programme (RCIW)

The Rural Community Infrastructure Works Programme (RCIW) has been under implementation since 1995 under the joint funding of the government and the WFP. It is currently operational in 21 districts in Nepal and aims to develop and improve community infrastructure (MoF, 2015b). The programme includes rural road construction as well as other livelihood and income generation activities. The key objective is to assist poor households by providing minimum employment and building basic physical infrastructure such as rural roads, mule trails, and irrigation and soil conservation structures useful for other economic activities (ADB, 2012). Payments are made in food as well as cash. The government considers the RCIW Programme as one of its major poverty alleviation programmes as it caters to the most food insecure and deprived people of Nepal. In 2008, the World Bank (WB) became involved and provided further funding for the programme under the Social Safety Nets Project (SSNP). **The organisation provided NRs. 516.1**

million to support the Nepal Food Crisis Response Programme (NFCRP) which was implemented 23 mountainous and hilly districts, but this programme ended in 2014 (DoA, 2014).²¹ The Social Safety Net Project (within the NFCRP) provides vulnerable households in food insecure districts access to food and basic necessities and offers short term support through various public work programmes (PWP).

“The wage rate in food is 4 kg of rice and 0.5 kg of pulses per week. The wage rate in cash is between NRs 130 to NRs 140 per day. If a combination of cash and food is provided, beneficiaries are given NRs 50 to NRs 60 plus 2 kg of rice and 0.25 kg of pulses. The programme created 1.8 million days of work in 2009 and benefited 978,824 people” (ADB, 2012, p. 12). In 2013-14, a total of 129 km of rural roads were constructed, and 246 livelihood and income generation activities were conducted (MoF, 2015). The government spent Rs. 240.9 million in 2013-14 and Rs. 248.3 in 2014-15 (Figure 3).

Figure 3 Government Expenditure on RCIW and KEP



Source: Red Books of Government, various years

²¹ See http://iwrn.gov.np/files/download/Proceeding%20Report%202013-2014%20First%20Part_Proceeding_2IN1_1409120252_1436094208.pdf

In addition to the public works programme, the SSNP also provides farmers with essential inputs (seeds/fertilisers) to enhance agricultural productivity in 23 districts in Nepal. It also provides a subsidy for the transportation of seeds and fertilisers up to the agricultural service centre level, and supports for data collection and monitoring activities (DoA, 2014). Asset development includes small-scale irrigation and other water management projects and the construction of greenhouses, orchards, fish ponds, flood control measures and rural roads. In addition, agricultural and livelihood training is provided in some of the project areas. It is estimated that cereal production increased by more than 20 per cent, and was followed by a subsequent increase in food security, due to the synergistic effect of small-scale irrigation and the use of fertilisers and improved seeds. Due to increases in cereal crop production, food insecurity was reduced by three months in those districts (DoA, 2014).

ii. Karnali Employment Programme (KEP)

The Karnali zone of Nepal, which consists of five districts, is a remote and underdeveloped area. Even today, two of the districts lack road connectivity. All five districts have a small airport, but air traffic is not regular. Human settlements are scattered throughout the district with travel distances of several days walk from the airport or district headquarters (ADB, 2012, p. 12). The government, hence, introduced the Karnali Employment Programme (KEP) in 2006 with an initial budget of NRs. 180 million with the objective of providing 100 days of guaranteed wage employment in a fiscal year to at least one family member of every household (“one family, one employment”) who do not have any other source of employment or income (NPC, 2012b). The programme is financed by

the government and managed by the Karnali Region Development Unit (KRDU) under the supervision of the Ministry of Federal Affairs and Local Development (MoFALD). The total amount allocated to KEP between 2006-2007 and 2010-11 was NRs. 1,056 million (NPC, 2012b). The government's expenditure on this programme in the last five years are shown in Table 3 – the amount has been steadily increasing in recent years.

Of the 68,902 households in the districts, members of about 61,058 households are unemployed (MoF, 2015). The MoFALD operates this programme in 134 VDCs in all five districts in the Karnali zone. However, though it has been increased, the budget is still inadequate, resulting in the creation of far less jobs than envisaged. By the end of FY 2013/14, a total of 245 various projects (construction of motorable roads and school buildings, maintenance of micro-hydroelectricity projects, creation of trails and mule tracks and fruits and herbal farming, etc.) were completed through this programme. Such projects have created additional employment equivalent to 12-15 days per year per beneficiary or equivalent to 817,218 employment days in the Karnali zone (MoF, 2015).

Against the target of 100 days, the KEP has been generating less than 15 days of employment per beneficiary. The KEP has been funding labour costs for projects including toilet construction, road expansion, micro-hydroelectricity plants, farming and small irrigation projects among others (Ghimire, 2014). However, the total number of households benefited has started declining after increasing in the first few years despite increasing the total budget of the project. Poor management is a major problem. Though the project was initially designed to help families who do not have access to food for at least three months of the year, or have one disabled member or conflict victim or Dalit, in practice, every kind of household, irrespective of their financial status, has used this

scheme to obtain employment, and in recent years, many people have submitted false documents to obtain jobs for more than one family member (Ghimire, 2014). Responsibility to identify needy families and relevant projects for employment falls to local VDCs.. The performance of the programme has been mixed to date, with limited achievements in terms of employment creation, quality of works and level and regularity of payments for participants (Ghimire, 2014). In light of the disappointing results, Ghimire (2014) suggests that needs assessments should be conducted to identify beneficiary families and issue ID cards to them with strict enforcement.

Table 3 Performance of Karnali Employment Programmes

<i>Fiscal year</i>	<i>Total budget (BRs. millions)</i>	<i>Total number of households benefited</i>	<i>Total projects accomplished</i>	<i>Average days of employment per annum</i>
2007-08	163.12	60,539	995	13.0
2008-09	161.20	67,999	969	14.0
2009-10	214.34	71,005	587	13.0
2010-11	220.97	75,304	550	10.2
2011-12	247.65	73,838	1,222	11.0
2012-13	259.17	73,913	541	10.5

Source: Ghimire (2014)

NPC (2012b) conducted a detailed assessment of the Karnali Employment Programme and found that, on average, around 85 per cent of the released budget has been spent. The total number of projects, large and small, completed till 2009-10 were 3,252. On average, KEP offers 13 days of employment per year with an average wage of NRs. 201 per day, which is lower than the market as well as the statutory minimum wage rate. Payment of wages is not timely and is also not made all at once. The average annual income of a household amounts to NRs. 56,629. The consumption pattern of households has not changed much since 2005-06. The expenditure on education has increased from 18.1 per cent in 2006-07

to 22.5 per cent in 2010-11. Of the total child population less than 18 years (school going age), 81.2 per cent are attending school, of which girls constitute 47 per cent and boys 53 per cent. About 81 per cent of respondents said that they were satisfied with the performance of KEP. About 78 per cent of the total expenditure on the project goes to the poor in the form of wages (NPC, 2012b, p. viii).

The main problems identified are the lack of clear programme vision, poor implementation capacity at the local level and very limited monitoring of implementation (OPM, 2014). DFID has been providing technical support to enhance the performance of this programme. In the first half of 2014, a revised model was implemented in the form of four Centre of Excellence Projects (CEPs) in the Jumla and Kalikot districts. The revised model included a community based approach for selecting the poor, job cards for participants, regular fortnightly payments, a management information system and an emphasis on workers' welfare and gender balance (OPM, 2014). A total of 811 households participated in the CEPs in Jumla and Kalikot and worked for an average of 53 days. The community infrastructure created with this work consisted of two roads and two irrigation canals (OPM, 2014).

2.4 Other Labour Market Policies

Alongside the establishment of the Social Security Fund, the government is also in the process of revising the Labour Act (1992). "An understanding is being reached between the labour unions and the employer's organisations to establish minimum social security measures for employees in exchange for more flexible hiring and firing provisions.

Another part of the reforms is the revision of the minimum wage in 2008” (ADB, 2012, p. 1).²² The government also revised the minimum wage effective from 1 February 2016.²³

The government has made some attempts to reach out to informal sector workers. “Currently, the Vehicle and Transport Management Act makes it compulsory for vehicle owners to provide accidental insurance coverage to drivers. Similarly, trade unions have succeeded in enforcing insurance coverage for employees engaged in the trekking and mountaineering industry and the construction industry, and a 10 per cent service charge is being enforced by the hospitality industry” (ADB, 2012, p. 13).

“The ongoing efforts in the protection of workers abroad are also noteworthy. The Foreign Employment Act (2007) requires licensed agencies sending workers for foreign employment to insure their workers for at least NRs 500,000 to cover accidental death and disability compensation. Similarly, as per the act, a Foreign Employment Welfare Fund has been established which is funded by contributions from workers, license fees, and interest earned on the account, including additional donations from employees and employers. The Welfare Fund is currently being used to provide skills training to aspirant employees seeking foreign employment and cover emergency evacuation costs of workers” (ADB, 2012, p. 13).

2.5 ConflictRelated Social Protection Initiatives

²² Nepal's current minimum wage is NRs. 4,600 a month for unskilled labour (i.e., NRs. 3,050 as a basic salary and NRs. 1,550 rupees as an allowance); NRs 4,650 per month for semi-skilled labour; NRs 4,760 per month for skilled labour; and NRs 4,950 per month for highly skilled labour (ADB, 2012, 13).

²³<http://pioneerlaw.com/news/minimum-wage-salary-2016-2072>

A number of Nepal's social protection initiatives are designed to aid the victims of the internal conflict which lasted between 1996 and 2006. Particularly, the Ministry of Peace and Reconstruction introduced a number of programmes and interventions designed to build social cohesion, restore peace and reduce vulnerability among those affected by the armed conflict. Nepal's conflict related social protection interventions are listed as below (Upreti, 2012).

- Scholarship for children whose parents are deceased or have disappeared. The Ministry of Education is responsible for executing the programme.
- One time cash grant of NRs. 25,000 to widows and families of missing persons.
- Waiver of treatment costs for injuries incurred in conflict.
- One time cash grant of NRs. 200,000 for disabled persons (depending on the classification of the disability).
- Skills training for victims' families.
- Quota seats for victims' families in foreign employment.
- Cash support of NRs. 100,000 for the poor who suffer from cancer, heart disease, Alzheimer's, Parkinson's or kidney problems.
- Various levels of compensation to cover damage to vehicles due to civil riots or general strikes.
- Compensation to cover damage to fixed property or house.

In addition to the above social protection, there are also meso forms of social protection such as the Poverty Alleviation Fund, micro-insurance such as crop and livestock insurance (Koehler, 2014) and employment schemes, microfinance and various kinds of subsidies.

2.6 Recent Initiatives

In the budget statement for 2014-15, the government increased the monthly allowance allocated for the injured and martyrs' family members to NRs. 7,000 and started providing a monthly allowance of Rs. 300 to people with extremely disabilities. In addition, the

government provisioned for Rs. 2000 to be paid to senior citizens above 70 years of age as an annual additional medical allowance on top of existing allowances. Moreover, the health insurance programme, which aimed to provide coverage in case of 39 different diseases in 2013-14, was extended to 15 districts covering at least 3 districts in each development region in 2014-15. Poor households were identified in 25 districts in 2014-15. Moreover, 2,360 income generating programmes and 850 infrastructure development programmes were planned for implementation through the Poverty Alleviation Fund in 2014-15. Employment programmes are being conducted for the girls and women of liberated Kamalari, the oppressed group Badi and the Chepang, Raute and Gandharva communities (MoF, 2014).

The budget statement for the fiscal year 2015-16 further strengthened the prevailing social security programmes and added some new programmes. For example, the government set up a Ramnarayan Mishra special scholarship for girls of grade 11 and 12 from backward Dalit and marginalised communities of the Terai region. It is expected that 80,000 girls will benefit from this special scholarship programme (MoF, 2015a). Moreover, scholarships have been provisioned so that a thousand candidates from the Haliya (ploughmen), Kamalari (female servants), Chepang, poor Muslim and Madhesi Dalit communities and 10 backward districts of the far west and regions can obtain technical diplomas.

The budget statement for the fiscal year 2015-16 stated that the Social Security Bill would be presented in the parliament in 2015-16 with a view to integrate the existing scattered social security programmes. Accordingly, the Social Security Bill was tabled in parliament in 2015 (ILO, 2015). To make sure that the social security programme benefits the most needy, the government has decided to distribute identity cards to poor families in 25

districts. Another survey is planned for the remaining 50 districts to identify poor households (MoF, 2015a). Further, the government plans to revise the existing social security schemes available for civil servants to make it contributory to ease some of the ever increasing pressure on the state treasury caused by such facilities (MoF, 2015a).

2.7 Weakness of Existing Social Protection Programmes

Despite the allocation of a large share of the annual budget towards social security compared to many other developing countries, Nepal's programmes have not had effective results due to scattered implementation through different agencies (MoF, 2014).²⁴ As mentioned above, there are diverse social security protection programmes without effective implementation; hence, the results have been mixed. Because of the lack of detailed data on different social protection schemes, it is difficult to assess the effects of each programme separately.

The present system, where the Ministry of Federal Affairs and Local Development manages cash transfers that are distributed through the VDCs, has raised a number of issues relating to the efficient delivery of services and mismanagement and misappropriation of funds (NPC, 2012a). While some receive the benefit twice, others are left out of the programme entirely because of the lack of proper record management. There is no designated body for coordination, regulation and monitoring (Khanal, 2014). The cash transfers are allotted according to various indicators (age, single status, ability, caste and region) other than poverty and deficiency, so the lives of the poor and weaker groups have not been improved visibly.

²⁴“These programmes are complimented by a large number of non-government agencies that are financed by a number of countries” (ILO, 2015, p. 8).

Koehler (2014) states that the benefits usually come up to Rs. 200-500 per month, which is not enough to meet the poverty gap. In addition, the Child Grant as well as the scholarship schemes are thought to be inadequate, as found out by many studies (DoE, 2010; ERDCN, 2011). A NPC(2012) survey found that about 80 per cent of those surveyed felt that the allowance was insufficient to meet their personal and household expenditure. The survey results indicate that the poor, women and Dalits are in need of more allowances. KC *et al.*(2014) also arrive at similar conclusions. Furthermore, implementation constraints, such as low institutional capacity and funding bottlenecks, have led to the irregular and unpredictable delivery of cash transfers, frequent exclusion errors and lower benefit levels (Holmes and Uphadya, 2009). This applies to the implementation of all kinds of social protection schemes. Thus, social protection programmes have not been effective in lifting people out of poverty now preventing them from falling into poverty in case of unexpected natural disasters. There is no effective mechanism nor the adequate resources to help people in case of natural disasters although the Disaster Relief Fund is in operation.

A study by the DoE (2010) found that the scholarship amount was often misused due to various reasons including the lack of a fixed and transparent distribution policy, no effective mechanism for identifying the target group in schools and political interference in the distribution of the scholarship. ERDCN (2011) identifies weaknesses such as uncertainties and time lag/delays in the disbursement of the scholarships. Acharya and Luitel (2006) point out that there is a lack of awareness about these various scholarships/incentives, and often, the government is unable to provide support to all of the targeted children.

There is a serious lack in coordination and monitoring of the implementation of social protection programmes in Nepal (OPM, 2014). As a result, the implementation of many social protection programmes has remained weak with lower than expected results. Particularly, public works programmes have proven to be very dismal in generating employment. Public works programmes not only provide minimum employment to the needy, but they also contribute poorly to the economy by generating public assets, necessary for enhancing productivity in the economy.

Though Nepal has a few good social protection programmes, the benefits do not reach all workers operating in the informal economy, which accounts for more than 96 per cent of the total labour force. (CBS, 2008). The new Social Security Bill 2015, recently tabled in the parliament, proposes to cover only firms that employ five or more workers (ILO, 2015). It is notable that the share of the informal sector has not declined over time, posing a challenge to social security arrangements in Nepal (Khanal, 2012). On the other hand, government employees are covered under both pension and provident fund schemes (ILO, 2015).

III. ASSESSMENT OF IMPACT OF SOCIAL PROTECTION ON LABOUR MARKET

There is not enough data to assess the impact of social protection on labour market outcomes using econometric techniques. The Labour Force Surveys and Census surveys conducted so far have not recorded any information relating to social protection. Hence, there is no concrete data on social security protection to examine its relationship with labour market outcomes. However, based on various indicators, we can draw some inferences on the impact of social protection on labour market outcomes over time.

3.1 Labour Force Participation

According to the Labour Force Surveys of 1998-99 and 2008-09, the labour force participation rate (LFPR) (the proportion of the population aged 15 years and above who are currently economically active) decreased marginally from 85.8 per cent in 1998-99 to 83.4 per cent in 2008. The LFPR in urban areas declined substantially from 73.3 per cent to 67.3 per cent, compared to the rural LFPR which remained stable at 87.7 per cent in 1998-99 and 86.8 per cent in 2008 (CBS, 2009)). The LFPR in the hill belt decreased from 87.9 per cent in 1998-99 to 83.4 per cent in 2008. The decline was largely due to a sharp drop in the proportion of children engaged in economic activity. For example, the proportion of children aged 5 to 14 years who were economically active dropped from 40.9 per cent in 1998-99 to 33.9 per cent in 2008 (CBS, 2009)). The child LFPR in urban areas decreased from 43.3 per cent to 36.7 per cent, and in rural areas, from 19.0 per cent to 14.4 per cent. The government's emphasis on education for all through different schemes such as scholarships and food for education programmes helped lower the labour force participation of children. As a result of the decline in labour force participation, the

employment-to-population ratio declined from 84.3 per cent in 1998-99 to 81.7 per cent in 2008(NLFS, 2008).

Similarly, Census results also show that there has been some decline in the LFPR between 2001 and 2011 for the population aged 10 years and above (Table 4). The labour force participation of both men and women increased during the period between 1991 and 2001, but it declined thereafter. One of the main reasons for the decline in the LFPR was the increase in enrolment rates in schools and higher education institutions in Nepal. Obviously, various programmes helped increase school enrolment and reduce child labour. Another explanation for the decrease is the increasing outflow of working age Nepalese men and women to foreign countries as migrant workers (Suwal and Dahal, 2014). The education and child labour policies of the government have also had an impact on the LFPR. The government has made secondary level education (education up to 10th grade) compulsory up to a particular minimum age and has placed restrictions on child labour.

Table 4 Labour Force Participation Rate

<i>Census year</i>	<i>Labour force participation rate</i>		
	<i>Both</i>	<i>Male</i>	<i>Female</i>
1991	56.56	68.16	45.2
2001	63.43	71.68	55.29
2011	54.2	62.48	46.76

Source: Suwal and Dahal (2014).

Table 5 shows age specific LFPRs in Nepal between 1991 and 2011. The LFPR of the 10-14 years age group has declined quite substantially. The LFPR of the 15-19 years and 20-24 years age groups also decreased between 2001 and 2011, in contrast to some increases between 1991 and 2001. Other age groups below 60 years also observed a marginal decline in labour force participation. Increased enrolment in schools and in universities

and the increasing outflow of Nepalese as migrant workers are possible explanations for the decline in the LFPR. In contrast, the LFPR of the 60 years and above population has been increasing, except for women in the 60-64 years age group. This indicates that the Old Age Allowance has not reduced the LFPR of the elderly. A decline in the labour force participation of youth below 24 years can be seen positively, since it will increase the productivity of young people. However, there was also a significant drop in the LFPR of the 25-29 years and 30-34 years age groups, which seems to be due to the higher unemployment rate. According to NLFS 2008, the unemployment rate among the 25-29 years age group stood at 3.8 per cent compared to the national average of 2.1 per cent (CBS, 2009).

Table 5 Age Specific Labour Force Participation Rate

Age Group	1991			2001			2011		
	Both	Male	Female	Both	Male	Female	Both	Male	Female
10-14	23.28	18.44	28.54	28.83	27.34	30.42	8.14	8.44	7.84
15-19	49.43	49.57	49.29	48.92	49.70	36.61	26.80	28.83	24.84
20-24	66.35	80.52	54.31	68.75	76.90	54.14	56.00	62.81	50.80
25-29	72.34	92.77	54.13	78.17	91.94	72.80	72.78	87.02	62.27
30-34	73.92	95.61	54.03	81.84	96.60	77.80	78.04	93.99	65.69
35-39	75.63	96.33	54.73	83.27	97.36	78.51	81.20	95.95	68.75
40-44	74.55	95.93	54.30	83.39	97.12	83.42	82.59	96.23	70.27
45-49	74.13	95.12	52.31	83.29	96.75	84.39	82.47	95.98	69.52
50-54	70.73	92.07	48.17	80.82	94.65	93.72	81.08	94.22	67.79
55-59	66.85	88.56	41.69	77.89	91.56	69.29	77.26	91.29	62.97
60-64	45.96	66.47	25.50	67.23	81.91	77.77	67.34	82.60	52.87
65+	26.92	40.27	12.92	47.12	59.71	34.30	58.74	74.51	42.91

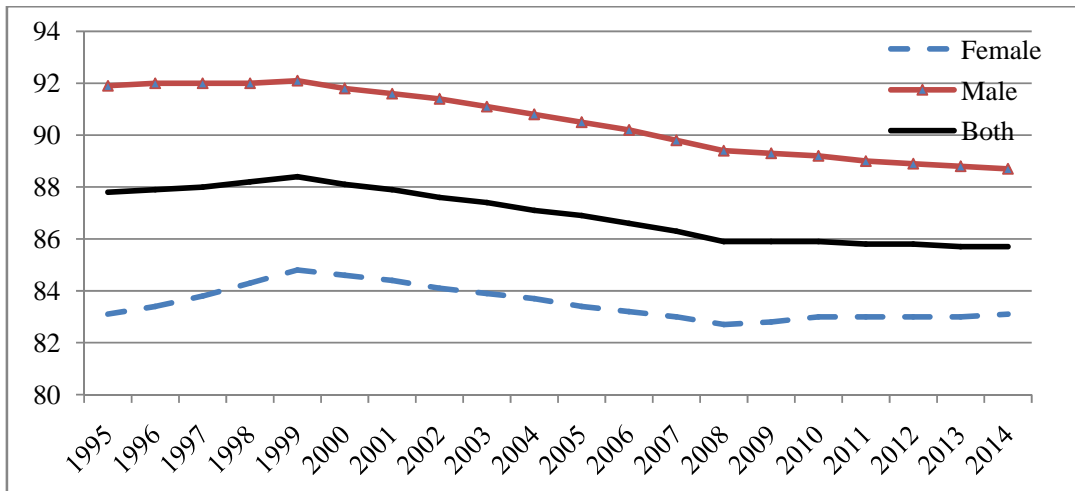
Source: Suwal and Dahal (2014).

The World Bank's data on the labour force participation of the 15-64 years age group also shows a decline in labour force participation for both men and women in Nepal until 2008 as seen in Figure 4. However, the LFPR has remained more or less stable in recent years after

2008. Figure 5 further shows that the female to male LFPR increased substantially until 2005, reflecting an influx of women into the labour force, and then increased gradually.

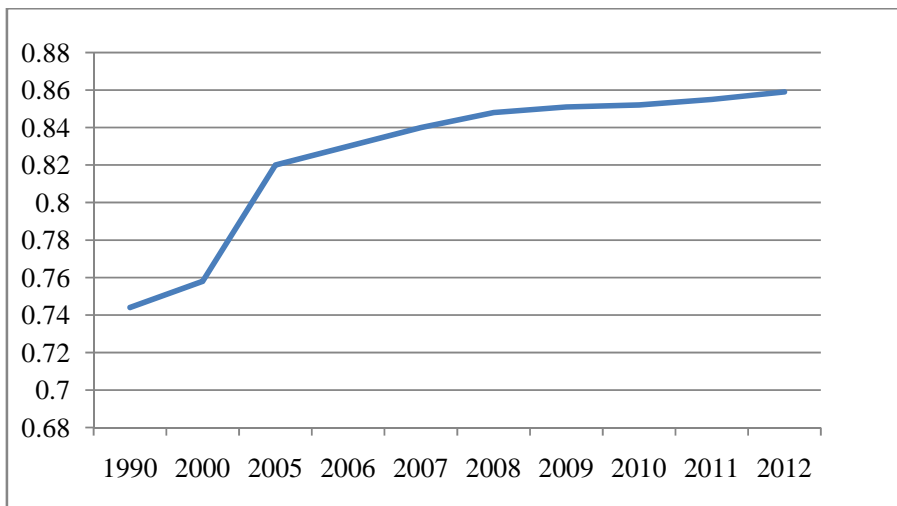
Figure 4 Labour Force Participation Rate Over Time

(% of total population aged 15-64 years)



Source: World Bank's World Development Indicator, 2016

Figure 5 Ratio of Female--Male Labour Force Participation Rate



Source: UNDP data on labour force participation in Nepal

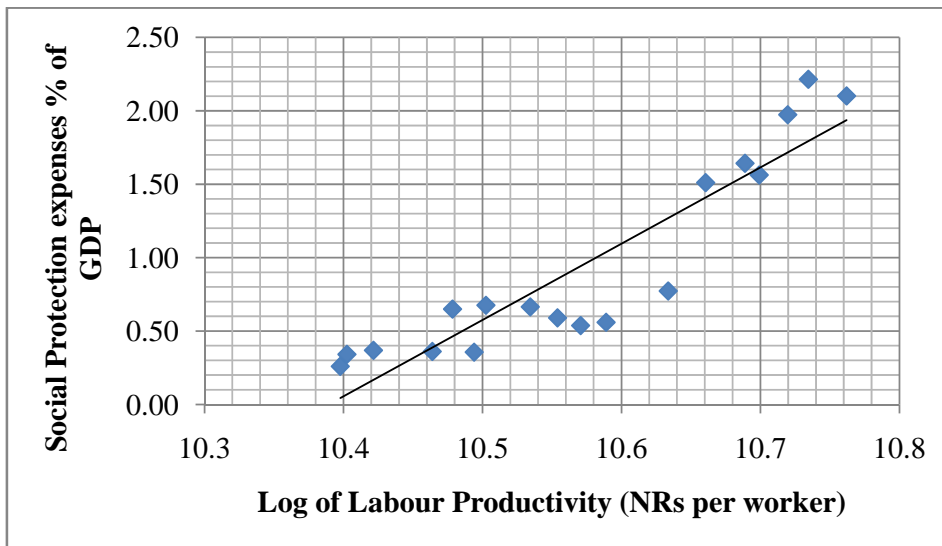
3.2 Productivity

Some scholars consider social protection to be the mere redistribution of income from the productive to unproductive classes, e.g., from working to retired people (Alesina and Perotti, 1997) or from successful to unsuccessful individuals (Hassler *et al.*, 2003). However, on the other hand, others believe that social protection represents not only consumption or redistribution among individuals, but also insurance not efficiently provided by private markets and redistribution over the life cycle (Barr, 2001,p1)). According to the concepts of capabilities and functioning, social protection provides individuals with wider access to choices and more opportunities to participate in economics, politics and social life (Sen, 1992; 1999).

Each social protection programme is likely to have simultaneous effects along several channels on productivity; hence, estimating the productivity effect empirically is difficult (Alderman and Yemtsov, 2012). One of the most important objectives of social protection is building human capacity (ESCAP, 2011, p. 19) in order to enhance productivity. If the poor do not need the meagre income generated by child labour, they are more likely to send their children, regardless of sex, to school regularly. If they have ready access to free or inexpensive medical care, they can take better care of family health. Child support grants, for example, have discouraged child labour, and grants in support of the elderly have enabled them to stay at home to look after children, enabling mothers to go out to work (ESCAP, 2011). Increasing vulnerable groups' access to health and education through various social assistance programmes increases productivity in the long run. Moreover, public works programmes that are clear linked to infrastructure development increase the productivity of labour (Alderman and Yemtsov, 2012). ESCAP (2015) finds that there is a positive relationship between expenditure on social protection and labour productivity in 17 countries of Asia and Pacific region.

There is paucity of data to empirically link the effects of social protection programmes with the increase in productivity in Nepal. However, when a simple correlation is drawn between the total social protection expenses as percentage of GDP and labour productivity²⁵ as shown in Figure 6, a positive relationship can be observed between these two as found in the cross-countries data by ESCAP (2015).

Figure 6 Social Protection Expenses and Labour Productivity in Nepal



Source: Author's calculation

In addition, some interferences can be drawn on the basis of the increase in school attendance and enrolment rates as well as the improvement in overall health, which can help increase labour productivity in future. As seen in Section 3.1, the declining labour force participation of young people up to the age of 24 years indicates an increase in school attendance in recent years, which may lead to an increase in the productive capacity of young people. Both, the net attendance ratio (NAR) and gross attendance ratio (GAR) of

²⁵ Labour productivity has been computed by dividing real GDP by labour force (data taken from World Bank's World Development Indicator (2016)).

boys and girls in primary and secondary level educational institutions, have increased as shown in Table 6 and 7.

Table 6 Attendance Rate in Primary School

	<i>Net attendance rate</i>			<i>Gross attendance rate</i>		
	<i>2001</i>	<i>2006</i>	<i>2011</i>	<i>2001</i>	<i>2006</i>	<i>2011</i>
Male	79.3	88.8	92.2	127.5	134.5	140.1
Female	66.5	84.2	86.3	105.9	131.4	129.9
Both	73.0	86.6	89.3	116.9	133.0	135.1

Source: Nepal Demographic and Health Survey 2001, 2006 and 2011.

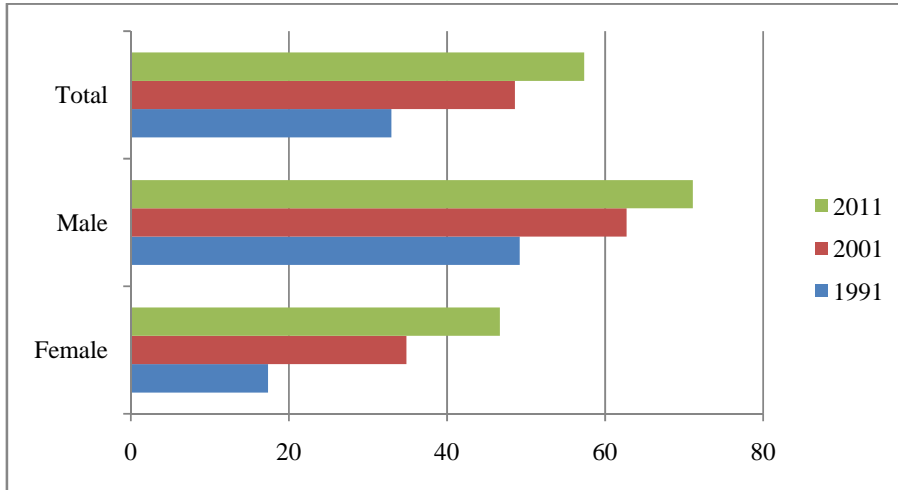
Table 7 Net Attendance Rate in Secondary School

	<i>Net attendance rate</i>			<i>Gross attendance rate</i>		
	<i>2001</i>	<i>2006</i>	<i>2011</i>	<i>2001</i>	<i>2006</i>	<i>2011</i>
Male	35.0	50.4	59.2	58.0	76.4	85.6
Female	26.5	43.1	57.8	43.0	66.8	86.9
Both	30.8	46.7	58.5	50.6	71.5	86.3

Source: Nepal Demographic and Health Survey 2001, 2006 and 2011.

According to the National Population Census 2011, the total literacy rate of the population aged above 6 years in Nepal has reached to 65.9 per cent. The literacy rate of the 15 years and above age group reached 57.4 in 2011 compared to 48.6 per cent in 2001 and 33 per cent in 1991 (Figure 7). Although the literacy of women is still low compared to men, it has been increasing, and has more than doubled between 1991 and 2011. Likewise, the net enrolment rate (NER) has increased in primary and secondary level educational institutions (see Table 8), which may help improve productivity.

Figure 7 Literacy Rate (Ages 15 and above)



Source: World Bank's WDI (2016)

Table 8 Net Enrolment Rate

Net Enrolment Rate (%)	2008	2009	2010	2011	2012	2013	2014
Primary Education	89.1	91.9	93.7	94.5	95.1	95.3	95.6
Basic Education	71.0	73.0	83.2	86.0	86.6	87.5	86.3
Secondary Education	20.0	21.0	23.9	27.1	30.6	32.4	33.2

Source: MoF (2014)

Data shows that both, the NER and the gross enrolment rate (GER), at all levels of education have been increasing, and that the gender gap in enrolment numbers have been narrowing over the years (Table 7). There has been a significant increase in the enrolment rate for girls compared to boys at all levels of education in the last 15 years. However, enrolment at higher levels of education was very low compared to enrolment at lower levels, reflecting a high dropout rate at higher levels of education (G.C. and Shrestha, 2014). At the tertiary level of education, the NER of boys is 13 per cent and of girls is 9 per cent (Table 9).

Table 9 GER and NER of Boys and Girls at Different Levels

	GER			NER		
	1995-96	2003-04	2010-11	1995-96	2003-04	2010-11
<i>Primary (1-5)</i>						
Boys	100	123	122	67	78	77
Girls	72	102	119	46	67	80
Total	86	112	121	57	72	78
<i>Lower Secondary (6-8)</i>						
Boys	46	74	85	23	31	43
Girls	31	67	90	14	26	41
Total	39	71	87	19	29	42
<i>Secondary (9-10)</i>						
Boys	16	62	81	13	17	30
Girls	6	46	67	6	13	26
Total	11	54	74	9	15	28
<i>Higher Secondary (11-12)</i>						
Boys	NA	26	77	NA	6	13
Girls	NA	20	75	NA	3	12
Total	NA	23	76	NA	5	13
<i>Tertiary</i>						
Boys	NA	8	23	NA	4	13
Girls	NA	2	13	NA	2	9
Total	NA	5	17	NA	3	10

Source: G.C. and Shrestha (2014)

For example, the literacy rate of the 10-14 years age group was around four and half times more than the literacy rate of the 65 years and above age group (92 per cent compared to 21%) (G.C. and Shrestha, 2014). The low literacy rate among the elderly is attributable to this population's lack of access to primary education in their youth. The widespread creation of primary education facilities during the last three decades has however helped increase the literacy of the 10-14 years and 15-19 years age groups. However, one of the main concerns in Nepal now is the widespread variation in the literacy levels of different caste/ethnic groups ranging from only 20 per cent in the Dom community to 87 per cent in the Kayastha community (G.C. and Shrestha, 2014).

On the health front, there have been some improvements which have helped increase productivity. Life expectancy at birth according to the Census of 2011 is 66.6 years as against 49.6 in 1981 (Census, 2011). Life expectancy at birth for females has increased from 48.1 years in 1981 to 67.9 years in 2011. The life expectancy estimates for urban and rural areas stand at 70.5 and 66.6 years respectively in 2011.

Nepal's infant mortality rate (IMR) decreased from 97 deaths per 1,000 live births in 1991 to 40.5 in 2011 (Joshi, 2014). The male IMR declined from 94 to 44.3, and female IMR declined from 101 to 38.9 during the same period. The IMR is higher for males than for females as of 2011 by 5.4 deaths per 1,000 live births. The IMR for urban and rural areas stand at 24.1 and 42.9 respectively (Joshi, 2014). The child mortality rate (deaths among children under 5 years per 1,000 one-year-old children) decreased to 12.9 in 2011 from 28.6 in 2001. The male child mortality rate decreased from 27.8 in 2001 to 11.0 in 2011, and the female child mortality rate decreased from 40.2 to 12.3. The percentage of the population that was undernourished has also declined from 22.8 per cent in 1991 to 7.7 per cent in 2014 (World Bank, 2016).

The maternal mortality rate has also declined drastically in Nepal, from 851 per 100,000 live births in 1991 to 275 in 2014 (World Bank, 2016). Further, the adult female mortality rate (per 1,000 female adults) declined from 296 in 1991 to 138.6 in 2014, and the adult male mortality rate (per 1,000 adult males) declined from 332.5 to 176.7 during the same period (World Bank, 2016). The percentage of births attended by skilled healthcare staff has increased from 9 in 1996 to 55.6 in 2014 (World Bank, 2016).

3.3 Migration

Migration - both internal and international - is a normal phenomenon in Nepalese society. Both kinds of migration have been increasing over the years in Nepal and have accelerated after 1991 (Suwal, 2014; Khatiwada, 2014). Both types of migration are guided by economic motives and the hope of achieving a better life. The decade long conflict between 1996 and 2006 encouraged both types of migration in Nepal.

i. International Migration

International migration in Nepal started with the recruitment of physically strong youth by the British Army after the Treaty of Sugauli (1816). With globalisation, Nepal began to promote foreign employment officially to address the unemployment problem caused by the rapid growth of the labour force amidst sluggish economic growth and the decade long internal conflict. In the past, most Nepalese migrants moved to India in search of economic opportunities, at least up to the mid-1980s. In the decades that followed, new destinations emerged with the intensification of globalisation and the boom in the oil industry that started in the Middle East in the 1970s (DOFE, 2015). Growing literacy, connectivity, communication and awareness have also encouraged people, especially youth, to seek foreign employment.

The government enacted the Foreign Employment Act in 1985 enabling the private sector to be involved in the facilitation of foreign employment. Migration rapidly accelerated after 1990 in Nepal following the restoration of democracy and economic liberalisation (DOFE, 2015). The government introduced the National Labour Policy in 1999, Foreign Employment Policy in 2012, and the Foreign Employment Act in 2007. This was followed by the setting up of a separate Department of Foreign Employment (DOFE) and Foreign Employment Promotion Board to facilitate the foreign employment of the Nepalese labour

force. Today, about five million Nepali workers are employed in foreign countries, of which around 40 per cent live in India, while the remaining 60 per cent reside overseas, primarily in the Gulf countries, Malaysia, Lebanon and the Republic of Korea. “Women account for around 9 per cent of overseas migrants” (Khatiwada, 2014, p. 212). The emigration rate for 2011 is estimated to be 10.77 per thousand of the population (Khatiwada, 2014).

Students are increasingly moving to more advanced countries for higher education because of the government’s liberal policy. Many of them prefer to find employment in their chosen country. Because of the decade long internal conflict, many people have also applied for refugee status in advanced countries. Nepalese people have also been migrating with diversity visas to the US and skilled visas to countries like Canada, UK, Australia, New Zealand and other European countries. This outward movement of the labour force has been easing pressure on employment in the domestic market and has also become a source of foreign currency.

As a result, the proportion of the absent population has rapidly increased over Census periods. Compared to the 762,181 persons (3.2 per cent of total population) going abroad in 2001, there were 1,921,494 persons (7.3 per cent of total population) abroad in 2011. The Census of 2011 revealed that one in every four households (25.42 per cent; 1.38 million households) reported that at least one member of their household was abroad (Khatiwada, 2014). However, the Nepal Living Standard Survey 2010-11 reports that 33 per cent of households have at least one absentee member abroad (CBS, 2011a). Emigration has now become an essential strategy for household sustenance and survival (Khatiwada, 2014).

After the launch of the Karnali Employment Programme, the rate of migration in search of employment declined from 61 persons per 100 households to 54.1 persons per 100 households in the Karnali zone (NPC, 2012b). This is the only available data on the relation between the social protection programme and migration.

In addition, the Foreign Employment Act (2007) has a number of provisions to protect the rights of workers employed abroad. The act has prohibited the migration of minors, fore-employment and gender discrimination. As per the act, “the Government of Nepal may provide special facility to the women, Dalit, indigenous nationalities, oppressed, victims of natural calamities and people of remote areas who go for foreign employment”. In line with the provisions of the act, the government has set up a Foreign Employment Welfare Fund to ensure the social security and welfare of Nepalese workers abroad and their families and those who have returned from foreign employment. The fund charges workers going abroad for foreign employment and collects a licence fee from recruiting agencies. The fund is used for (i) providing skill-oriented training; (ii) repatriating workers to Nepal in case of accident mutilation; (iii) bringing corpses back to Nepal in case of death and providing financial assistance to the family; and (iv) carrying out acts relating to foreign employment promotion.

ii. Internal Migration

In 2011, 3.8 million people (14.3 per cent of total population) were found to be inter-district migrants, compared to 13.2 per cent in 2001 and 9.6 per cent in 1991²⁶ (Suwal, 2014). The inter-district migration rate for the country is estimated to be 6 persons per

²⁶ There are 75 districts in Nepal, which is the smallest unit for collecting information on domestic migration (Suwal, 2014).

1,000 of the population. Out of 75 districts, 56 districts observed net out migration in 2011. It is observed that most inter-district migrants come from the districts in hills and mountains. The terai region and Kathmandu Valley, on the other hand, continue to be the preferred destinations for internal migrants. The 2011 Census shows that 61 per cent of inter-regional migrants move to the terai region, while 34 per cent travel to Kathmandu Valley in search of better employment²⁷ (Suwal, 2014). Migrants to the terai region mostly come from the contiguous hill regions. The terai region, which shares borders with India, is characterised by plains with fertile land and relatively good connectivity via roads.

Moreover, rural--urban migration has been increasing over time. The rate of rural--urban migration has increased from 25.5 per cent in 2001 to 33.5 per cent in 2011. Kathmandu Valley towns are the most common destinations for migration from both rural as well as urban areas. About 46 per cent of the total migration from rural areas and 58 per cent from urban areas was towards Kathmandu Valley towns (Suwal, 2014, 259). Male migration is mainly economic migration whereas women tend to migrate largely after marriage (Suwal, 2014).

Except for the social protection schemes tailored for the citizens of the Karnali zone, all the other social protection schemes are not affected by migration. Eligible people can make use of the facility wherever they live. Allowances for the elderly and others can be collected once the migration certificate is submitted.

3.4 Gender Equality

²⁷ Kathmandu Valley has a net gain of 20 persons per year per 1,000 of the population (Suwal, 2014).

The patriarchal system in Nepal still assigns women a subordinate status in society. However, the Interim Constitution of Nepal (2007) includes provisions that promote gender equality and social inclusion, which have been further extended in the recently promulgated new Constitution of Nepal 2015. It has a separate article to ensure women's fundamental rights (Article 20) and is more inclusive towards Janajatis, Dalits and Madhesis. The 2007 amendment to the Civil Service Act reserves 45 per cent of vacant posts for the following excluded groups: women (33 per cent), ethnic groups (27 per cent), Madhesis (22 per cent), Dalits (9 per cent), persons with disabilities (5 per cent) and candidates from backward regions (4 per cent) to increase the effectiveness and responsiveness of the civil service. In addition, social allowance will be paid to single women of any age.

Although there has been an increase in the number of economically active women, their earned income is about one-third that of men, and women continues to have limited access to property ownership, financial credit and political power (ADB, 2010). However, the MFALD now has a gender equality and social inclusion policy that guides all programmes and projects under the ministry (ADB, 2010).

An analysis of the beneficiaries of the Old Age Allowance scheme by wealth quintiles shows that a higher proportion of females and Dalits from the lower wealth quintiles benefit from the scheme in comparison to males and non-Dalits (NPC, 2012a). Although we cannot establish a direct relationship between social protection and gender equality owing to the lack of necessary data, significant progress has been made in ensuring gender equality in various aspects. For example, girls' scholarships have indeed helped increase girls' enrolment in schools and reduced the dropout rate. The GPI for

primary schools rose from 0.83 in 2003 to 0.98 in 2008 (ADB, 2010). The allowance provided to single women has obviously helped ensure the dignity and empowerment of all women. In addition, with better healthcare access and financial aid to incentivise childbirth at hospitals, women's life expectancy has increased to 69.6 years and is now slightly higher than the 67.6 years for men (Table 10). The IMR and the crude death rate have also decreased significantly, and gender disparities have decreased to the point that there is little difference in the mortality rates between male and female children (Table 10). Female literacy has remarkably increased in the past decades as indicated above.

Table 10 Gender Disparity in Life Expectancy at Birth, IMR and Crude Death Rate

	1991	2011
<i>Life Expectancy</i>		
Male	55.0	67.3
Female	53.5	69.6
<i>Infant Mortality Rate</i>		
Male	104.7	54
Female	91.0	52
<i>Crude Death Rate</i>		
Male	12.9	8.5
Female	13.6	5.9

Source: Shakya (2014)

Table 11 shows the gender inequality and development index in Nepal relative to some South Asian countries. Nepal is ranked 98th in the world (out of 187 countries) and third among the South Asian Association for Regional Cooperation (SAARC) countries on the gender inequality index in 2013 (UNDP, 2014). Nepal observed a significant decline in the gender inequality index between 2005 and 2010 as seen in Figure 8, which shows that Nepal has outperformed its South Asian neighbours.

Table 11 Gender Inequality and Development Index 2014

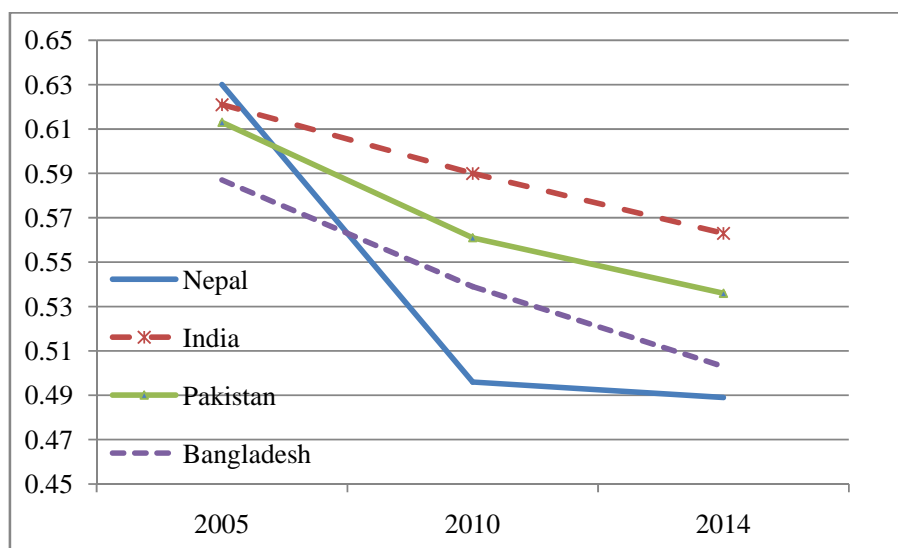
<i>Countries</i>	<i>Gender inequality</i>	<i>Gender inequality</i>	<i>Gender development</i>
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	<i>index 2014</i>	<i>index Rank 2014</i>	<i>index 2014#</i>
Afghanistan	0.693	152	0.600
Bangladesh	0.503	111	0.917
Bhutan	0.457	97	0.897
India	0.563	130	0.795
Maldives	0.243	49	0.937
Nepal	0.489	108	0.908
Pakistan	0.536	121	0.726
Sri Lanka	0.370	72	0.948

Source: UNDP(2015)

female to male ratio of HDI

Figure 8 Improvement in Gender Inequality Index (2005-2014)



Source: <http://hdr.undp.org/en/content/gender-inequality-index> and UNDP (2015)

Though government intervention through various measures of social protection has lowered gender disparity in various aspects, Nepal still has a long way to go. The necessity to effectively implement social protection programmes persists, in order to provide more opportunities to women to participate in economic activities.

IV. FINDINGS OF STAKEHOLDERS SURVEY

A perception survey was carried out among limited relevant stakeholders directly concerned about social security to obtain their views on the overall performance and effectiveness of social security related policies and programmes (Appendix 1). This survey was mainly confined to Kathmandu Valley given the time and resource constraints. During the survey, apart from acquiring perspectives on new initiatives, suggestions were also sought regarding ways of making the programmes more result-oriented and efficient. The major findings of the survey are presented below.

The concerned government agencies reported that the major programmes being implemented by the Government of Nepal are in the form of cash transfers. As indicated, the elderly, widows, persons with disabilities (full and partial), single women, endangered ethnic groups and children are the principle components of these schemes. In addition, the Kathmandu municipality distributes an additional NRs. 10,000 annually to every elderly person in the Kathmandu metropolitan city above the age of 88 years. It also additionally distributes NRs. 3,000 to fully disabled individuals residing in Kathmandu city.

There were different opinions among various stakeholders regarding problems in the cash transfers programmes in general and the distribution system in particular. Most respondents pointed out that the lack of a roster or a list of cash beneficiaries, and its timely maintenance, is the biggest problem. Some stakeholders also mentioned that the lack of sufficient manpower and financial resources was hindering timely data collection and lead to delays in updating the information of the intended beneficiaries. They pointed out that these had had a very adverse effect on the entire disbursement system and mechanism.

Respondents also reported that despite these new initiatives to distribute or transfer cash through the banking system, some new problems were emerging. Fewer bank branches in rural areas is a problem in this respect. In this context, some respondents mentioned that the elderly and disabled in remote areas would have the most trouble making use of this new scheme. It was suggested that a special provision is needed for such people. One of the suggestions made was that the payments due to these beneficiaries should be made to relatives or other authorised people since that may increase the likelihood of the beneficiaries receiving the payment. Another important problem indicated was that if any beneficiary is absent on the day cash transfers are to be made, then that person may not receive the money in the following months too. Some of the respondents also reported that bank are not always clear about when funds will be disbursed, which further adds to the problem. All the respondents agreed that delayed payments would be preferable to no payments.

It was also reported that in order to mitigate such problems, the Local Development Ministry is planning to implement a more effective management information system (MIS). Through this, the ministry will be able to update the roaster of beneficiaries regularly. Also, for similar purposes, a beneficiary personal record system is being introduced too. The ministry is also planning to increase the effectiveness of the bank delivery system by involving more than one bank in the cash transfer or disbursement programme. According to the report, the ministry plans to set up an e-payment system. As indicated, there are also plans to enhance transparency and collect the personal details of the beneficiaries in the banks through a computerised system. However, most of the respondents pointed out that all these plans will not be effective unless the institutional capacity of VDCs is enhanced through trained manpower and resources, and the problem

of inefficiency and lack of timely delivery will persist. One of the additional suggestions made was that there is a need to strengthen the capacity of the District Social Security Cash Transfer Coordinate Committee for timely dissemination of information and for effective monitoring and supervision.

The creation of the Social Security Fund was expected to boost coverage and strengthen the social security system in the country. To generate an income for the fund, a one per cent social security tax was imposed on salaried people. This has resulted in collections of more than NRs. 8 billion in the fund. According to official reports, nine schemes were being envisaged for implementation through the fund - unemployment benefits, work place accident coverage, sickness benefits, healthcare benefits, maternity care, dependents benefit, disability benefit, old age allowance and family care. However, from discussions with concerned stakeholders, it emerged that none of the programmes had actually been implemented. The Social Security Fund officials additionally mentioned that the fund money could not be utilised until the Social Security Act, which is now in parliament for approval, is passed. The enactment and implementation of the act may be further delayed, which further affect the intended beneficiaries. Because of this, many respondents are sceptical about the credibility of the programme. At the same time, there is a broad consensus among the major stakeholders that unless all the acts related to social security are integrated, problems relating to coordination, overlap, duplication and effectiveness will continue.

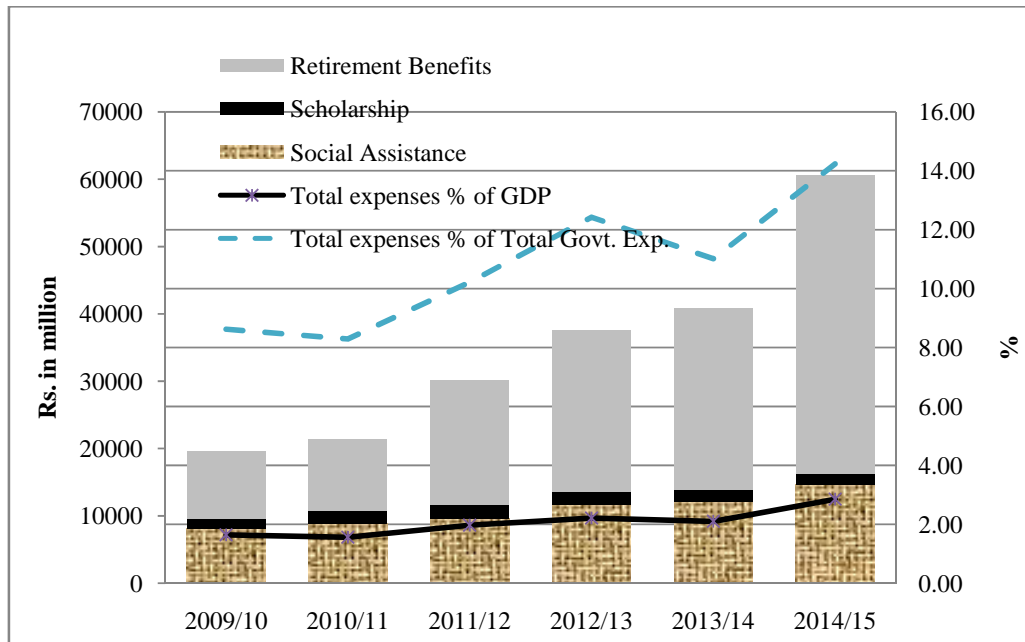
V. SOCIAL PROTECTION AND FISCAL SUSTAINABILITY

The above analysis clearly shows that the fiscal sustainability of these social protection programmes will be a challenge in the coming years. Fiscal sustainability can be analysed from different perspectives on the basis of a number of factors - government expenditure on social protection, revenue collection, expansion of economic activities, debt service obligation, aid flows and the expansion of the government's role in the economy.

A quick review of social security and protection expenses (retirement benefits, scholarship and social assistance) indicates that there has been a phenomenal increase in such expenses in recent years (Figure 9). Total expenditure on these programmes in 2014-15 stood at NRs. 60.6 billion,²⁸ a threefold increase compared to similar expenses in 2009-10. As a percentage of GDP, government expenditure on social security rose from 1.6 per cent in 2009-10 to 2.8 per cent in 2014-15 despite being far less than the OECD level of more than 10 per cent of GDP (DFID, 2006). Similarly, as a percentage of total government expenditure, spending on social security increasing from 8.6 per cent in 2009-10 to 14.2 per cent in 2014-15. Of the total expenditure on social protection, retirement benefits paid to civil servants constitute more than two-thirds, which increased by 64.6 per cent in 2014-15 alone. Expenses relating to social assistance have also increased by 21.1 per cent in 2014-15. In contrast, government expenditure on scholarships have been declining since 2012-13. The rapid increase in the payout of retirement benefits may pose a problem for sustainability in the long run. Retirement benefits may become a constraining factor for raising the level of social assistance in the future.

²⁸ This amount does not include expenses relating to public works programmes and health facilities.

Figure 9 Expenditure on Social Protection

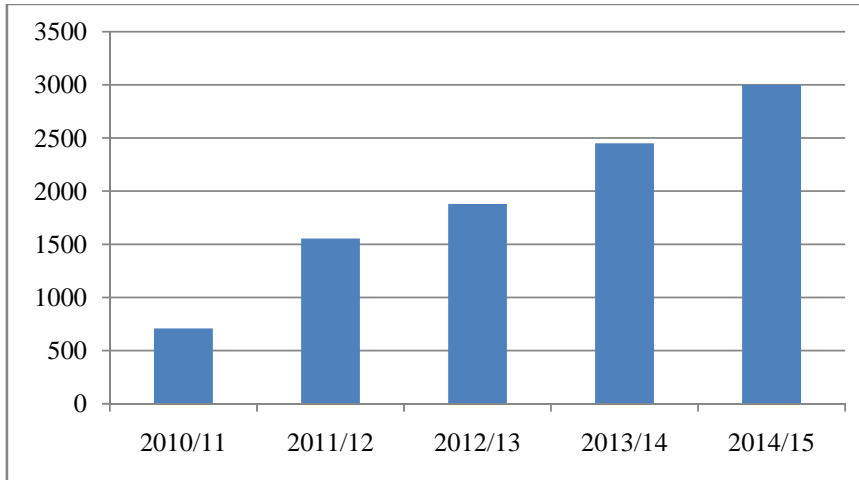


Source: Various budget statements and Economic Survey 2013-14.

Considering resource constraints, the government is exploring alternative revenue sources such as the social security tax of 2010. As shown in Figure 10, revenue collection the social security tax has been steadily increasing. However, the amount collected so far has not been enough to cover social protection expenses. Compared to the government's expenditure of NRs. 14.6 billion on social assistance in 2013-14, social security tax collection was about NRs. 3 billion only. More importantly, despite generating these funds, the government has not been able to come up with any proper schemes to utilise them. The number of agencies that contribute to the Social Security Fund has exceeded 10,000, while the number of individual contributors has gone up to more than 100,000 (MoF, 2015). Hence, the NRs. 8 billion accumulated so far in the Social Security Fund has remained idle. Although the government has declared that it would implement nine social

insurance schemes²⁹ in line with the ILO convention to utilise these funds, the inertia in implementation reveals the extent of inefficiency in the governance system.

Figure 10 Revenue Collected from Social Security Tax (NRs. in Millions)



Source: Economic Survey, MoF (2015)

From the overall budgetary point of view, there are apparently three positive trends in the Nepalese context that indicate some fiscal space for the sustainable growth of these social protection programmes. One is that there has been satisfactory growth in revenue collection in recent years. Second, Nepal has persistently tried to limit internal borrowing to a permissible level to maintain macroeconomic stability. Third, Nepal's overall debt outstanding is comparatively low and has indeed declined as a share of GDP in recent years. For instance, the revenue--GDP ratio was 11.6 per cent in 2003-04 and increased to 18.4 per cent in 2014-15, one of the highest in South Asia. Similarly, in recent years,

²⁹The nine insurance plans include: unemployment insurance plan, employee injury and accident insurance plan, sick insurance plan, pregnancy insurance plan, dependent insurance plan, disabled insurance plan, old aged insurance plan, medicine insurance plan and family insurance plan. However, the fund has prepared only three of the social insurance scheme namely health, pregnancy, and accident in the working places.

internal borrowing has been limited to 2.0 to 2.5 per cent of GDP. The outstanding debt to GDP ratio is now 24.5 per cent of GDP, which was 59.4 per cent in 2003-04.

But a deeper analysis indicates that there are some contradictory trends. First, the increase in government expenditure has been even faster than the growth in revenue. Total government expenditure was 16.7 per cent of GDP in 2003-04. This percentage increased to 23.3 per cent in 2014-15. The composition of the expenditure and growth pattern heads show that administrative expenses have increased at a faster rate than the growth in economic and social services. For instance, in 2014, the share of administrative expenses in GDP reached 6.2 per cent, compared to the 4.8 and 4.6 per cent shares of economic and social services. In addition, the share of capital expenditure in total expenditure reduced to 14.2 per cent in 2014. This means that the fiscal balance was largely maintained at the cost of capital expenditure, which is critical from the standpoint of raising the productive capacity of the economy, which is in turn essential for sustaining revenue growth. Because of higher expenditure, mostly on administrative expenses, compared to revenue, the overall budgetary deficit as a percentage of GDP increased to 4.8 per cent in 2014-15 from 2.9 in 2003-04. The government has been spending 2.0 to 2.5 per cent of Nepal's GDP on principal repayments. More importantly, there has been a decline in debt outstanding partly due to the reduction in capital expenditure and partly due to the increased share of foreign grants compared to loans in recent years. Thus, the expenditure pattern and long term revenue potentials indicate that the government has tight budgetary constraints for expanding social protection programmes.

On the one hand, the costs associated with the implementation of existing social security programmes is steadily rising, and on the other, there is growing pressure to expand social

protection to vulnerable populations and to workers in the informal sector. To balance these two pressures - of a lack of resources on one side and the necessity to expand social security on the other - some important steps are essential in the near future.

VI. THE WAY FORWARD

6.1 Key Issues

Nepal was ripped apart by internal conflict in the decade between 1996 and 2006. During this period, social exclusion on the basis of gender, caste and geography was the norm. The political shift of 2006 was followed by a long period of political transition where the country tried to formulate a new Constitution through its Constituent Assembly. The Constitution, besides embracing a federal system of governance, focusses on strengthening the newly formed inclusive and participatory democratic system. Hence, social security and inclusive development have become the major cornerstones of the new Constitution. However, there are several challenges ahead: deprivation, poverty, low and poor quality growth, unfavourable labour market conditions and resource constraints increase the need for social protection. The challenges may compound further, putting more pressure on the government to widen social protection policies and make existing programmes more comprehensive, effective, result-oriented and sustainable.

Starting from 1994, Nepal rapidly expanded its social protection programmes, in parallel with the burgeoning expectations of the people in general, and the deprived or excluded in particular in the aftermath of 2006. Amidst mounting pressures, many of the programmes were introduced in order to appease marginalised populations, but long term planning was not undertaken to understand how to balance costs and benefits, resource obligations and the required institutional arrangements for effective delivery and implementation. There were also many overlaps and duplications.

As a number of earlier studies and our own rigorous analysis show, programmes are very scattered and lack proper management and coordination. The rising costs have not been

accompanied by adequate provisions to meet long term obligations or requirements. Further, the effectiveness of the programmes have been further limited by scattered implementation through different agencies. For instance, the present system of management, which involves funds management by the Ministry of Federal Affairs and Local Development and distribution through VDCs, has been proven to be ineffective. The system has several issues including inefficiencies in delivery of services, mismanagement and misappropriation of funds and errors in distribution where some beneficiaries receive the payments twice and some never. Importantly, there is no designated body for coordinating, regulating and monitoring the programmes.

Similarly, the social security programmes are designed to target people on the basis of various indicators (age, single status, ability and caste) rather than indices such as poverty and deprivation. Also, the typical benefit level is set too low to raise the population above the poverty line. In addition, the criteria for deciding beneficiaries leaves out many poor households, women and Dalits; only 15 per cent of the population receives any form of social protection despite the rapid rollout of social insurance programmes in recent years. Thus, poor coverage that fails to identify the right recipients, implementation constraints such as low institutional capacity and funding bottlenecks and coordination problems have led to the irregular and unpredictable delivery of cash transfers, exclusion errors and lower benefit levels. Another critical issue is that workers in the informal sector, which employ more than 90 per cent of the total labour force, are deprived of direct social security benefits.

An important feature of the social protection programme is that, if designed properly and in a more comprehensive way, it may have a positive impact on the labour market through

its effect on LFPR, labour productivity and employment generation and gender equality, leading to more positive growth. Although a paucity of data and information prevented a more empirical analysis of the impact of social protection on labour market outcomes, various indicators show that there have been some positive developments in this area amidst the expansion of social protection programmes. For instance, the relatively high LFPR in both rural and urban areas has declined, accompanied by similar patterns in the male and female participation rates. This drop in LFPR was largely due to the sharp decline in the proportion of children engaged in economic activities following the rollout of different schemes such as scholarships and food for education programme. Enrolment rates in schools have risen sharply in recent years. Compulsory education up to the secondary level (tenth grade) and restrictions on employing children has particularly made this possible. Also, the decline in the activity rate can be attributed to the rapid increase in the outflow of working age population for foreign employment. Therefore, from the sustainable development point of view, such a trend is a cause for concern. In addition, there is a high dropout rate at the higher education level across the board. These problems pose serious concerns for inclusive growth.

A bigger problem is that despite some positive labour market outcomes, the overall productivity of labour is very low. A large portion of the labour force is unskilled and works in the informal labour market. Similarly, children from poor families not only have trouble accessing education, but the quality of education is also a problem. In addition, the poor, and those living in remote areas in particular, have limited access to healthcare. Restructuring social protection programmes in order to address such problems is also a major issue.

Gender equality and social inclusion is a policy priority for the government. In the civil services, 33 per cent of seats are reserved for women and another 12 per cent is set aside for excluded groups. Single women of any age can also avail a social allowance. Now, women's life expectancy is higher than that of men. The female literacy rate has also increased noticeably. However, the earned income of women is still about one-third that of men. Women continue to have limited access to property ownership, financial credit and political power. Still the proportion of women at higher levels of education is also very low.

Thus, due to the issues mentioned above, there is a need to overhaul social protection policies and programmes in Nepal and restructure them to make them more comprehensive. It is necessary to provide for fundamental rights in some critical areas and make additional commitments to social security for the most deprived and vulnerable socio-economic groups in the new Constitution. In terms of comprehensiveness, it is necessary to ensure that informal workers are also included in social protection policies and programmes. As the Social Security Fund offers coverage to only government employees and formal private sector workers, this policy will also have to be reviewed. Introducing a social protection floor (SPF) as per Nepal's commitment should also be prioritised.

6.2 Policy Recommendations

An integrated approach in terms of policies and programmes is required to make Nepal's social protection strategy comprehensive, efficient, effective and result-oriented. The integrated approach should not only work towards identifying beneficiaries on the basis of criteria such as deprivation and poverty, but should also include institutional reforms such

as better management and coordination. A bottom-up approach which strengthens grass-root level institutions is critical for ensuring the timely delivery of funds and services in an efficient manner. Effective implementation of the existing social protection programmes is essential to ensure that the intended benefits reach the people.

First, there is a need for a high level body that will be responsible for overall policy and programme coordination and which can also be entrusted with the responsibility of regulating and monitoring the programme. Second, a more transparent and accountable system to monitor the agencies involved in the implementation of social protection programmes, particularly the distribution of funds, will be required. Payments should be made via banking channels to make them regular without any misappropriation of funds. Third, as social protection programmes require long term resource obligations, it is necessary to take into account resource implications and sustainability issues while designing the programme. The fourth and equally important factor to keep in mind is that social protection policies and programmes should be linked with decent work and income generation programmes to minimise the threat of vulnerability for the poor, the marginalised and the working poor. Here, social protection policies and programmes can play an important role in improving the labour market. For better labour market outcomes with higher and inclusive economic growth, public works programmes should be extended and implemented effectively. The policy of providing at least “one job for one family” must be introduced with appropriate skill development training initiatives. Fifth, given the significant number of people engaged in the agricultural sector, pension schemes for farmers should be introduced for their dignity, respect and survival in old age.

The amount allotted for cash transfers across all kinds of allowances (old age, single women and people with disabilities), Child Grants and scholarships have been found to be too small to have the expected impact given inflation and the lack of revision of the amount. It would be preferable to refine the process by which beneficiaries are identified, provide them with identity cards to avoid misappropriation by richer households, and then to increase the base amount to maintain beneficiaries' minimum purchasing power.

Though there have been some positive labour market outcomes due to social protection policies and programmes particularly in terms of LFPR, labour productivity and gender equality, the many problems which still persist in this area need to be addressed. For example, sometimes, a more targeted scholarship programme is needed to raise the poor and deprived to a certain level before incorporating them into the universal social protection floor. Nepal should consider adopting the principle of "targeting within universalism". Similarly, special social protection programmes will be needed to reduce dropping out at higher levels of education, especially for girls and students from deprived families. To counter the massive outflow from the labour force, it is necessary to implement social protection programmes that are linked with skill enhancing technical, entrepreneurial, managerial and vocational education programmes for ensuring productive employment. Similarly, it is important to ensure that the poor in general, and people living in remote areas in particular, have access to healthcare facilities. The entire labour market policy should be geared towards enhancing labour productivity through integrated social protection policies and programmes.

Demographic patterns show that despite a steady decline in the population growth rate, the labour force is growing at a rate of around 2 per cent with more than 4 lakhs people

entering the labour market each year. Considering Nepal's low long term growth (around 4 per cent) and low employment elasticity rate (0.20), generating employment in general and productive employment in particular is a major challenge (Khanal, 2014). The problem of high underemployment, along with the high proportion of working poor, indicates that there is a need for a policy and programme focus on high growth together with reforms to make existing social protection policies and programmes more focused on productive employment. Social protection should not create work disincentives, and there should be some mutual obligations such as mandatory participation in training and skill development and sending children to school (ESCAP, 2015).

Further, there is also a need to enhance the employment status of women through productivity enhancement schemes in addition to incentives to shift them from subsistence agriculture to off-farm and other non-agricultural activities. Access to property ownership, financial services and employment through positive discrimination will be key to minimising the vulnerability of women and harnessing their potential to promote inclusive growth and sustainable development.

Since a large section of the population is dependent on agriculture, which is largely underdeveloped and subsistence-based, agriculture input subsidies and programmes promoting yield enhancing development need to be introduced as part of extending social security in this sector. Subsidised agriculture insurance would also be useful to protect farmers from unexpected crop failures or any other weather related adverse effects.

Nepal is prone to natural disasters of various kinds, which cause loss of life and property annually. The Disaster Relief Fund should be strengthened by increasing the funds available to it, and it should be managed professionally to provide the necessary support to

those affected by natural disasters. The government can impose a disaster relief tax of one per cent on income as well as imported goods.

To ensure that adequate resources are available to cover the expenses associated with the implementation of social protection programmes, there is a need to restructure government expenditure programmes at the inter- and intra-sector levels based on certain standard economic and social criteria. The performance budgetary system has to be strengthened with a focus on containing recurring expenses. Additionally, massive governance reforms are necessary to check the misuse of funds and prevent abuse of authority and corrupt practices. In addition, the present pension scheme needs to be reformed and made a contributory pension scheme by removing double benefits. Second, it may be possible to augment revenue flows by enforcing a progressive tax system, increasing the share of income tax and streamlining the tax administrative system. Therefore, tax reform has to get equal priority. Government needs to “demonstrate transparency and accountability in the utilisation of tax revenues in order to ensure public support for progressive taxation” (ESCAP, 2015, p. 118). Third, it is necessary to expand the social security tax net and utilise the funds thus collected appropriately. If social protection is proven to positively impact labour productivity and help increase economic growth, more resources can be collected to expand the social safety net. Fourth, with the government’s support, market-based social insurance schemes can be introduced targeting workers engaged in the informal sector. Fifth, the availability of low cost microfinance options coupled with micro enterprises development would also enhance the income security of the poor. In fact, Nepal should adopt the UN common framework for social protection by extending universal coverage to the entire population, offering a minimum level of social protection through non-contributory schemes and increased coverage through contributory schemes (ESCAP, 85

2015). This will considerably help the fiscal sustainability of social protection programmes.

The government needs to work towards utilising the already established Social Security Fund by enacting the Social Security Act and increasing capacity and resources. The Social Security Fund needs to be made an independent and professional institution, rather than a small department of the government. The proper mobilisation of the revenue collected from the one per cent social security tax is vital for implementing social insurance, which will gradually reduce the necessity for social assistance. Social protection schemes should be considered a long term investment for inclusive economic development rather than short term social transfers.

The design, expansion and implementation of social protection programmes should be made inclusive by ensuring “participation of representatives from the private sector, civil society and research institutes in all governmental processes related to social protection” (ESCAP, 2015, p. 15). Continuous research and learning based on the best practices of other countries is also necessary to generate innovative ideas for designing effective social protection programmes.

Finally, information and quality data relating to various types of social protection should be collected and disseminated for an in-depth analysis of the impact of social protection both from micro and macro perspectives. In addition, more and better disaggregated data on the basis of income and wealth across individuals and households, as well as sex, should be collected to identify vulnerable groups. There should also be an effective system for recording civil registrations and vital statistics as well as for collecting data on vulnerable groups including persons with disabilities and the elderly. The government should also

“establish and enhance national registry databases of beneficiaries and social protection management and monitoring systems” (ESCAP, 2015). Without adequate data, evidence-based research on the real impact of social protection programmes on the economy and society is hard to carry out. This data would be useful for policy formulation and for the revision of existing programmes.

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APPENDIX 1

Name of Respondents and Institutions

S. No.	Name	Designations	Name of Institutions
1	Salik Ram Rijal	Acting Director	Vital and Social Security Division, Federal and Local Development Ministry
2	Humnath Paudel	Officer	Social Security Fund, Labour and Employment Ministry
3	Ms Sarda K. C.	Officer	Vital and Social Security (cash transfer) Division, Lalitpur District Development
4	Dipak Kumar K. C.	Programme Officer	Program Division, Vital and Social Security Division, Kathmandu Metropolitan
5	Yadav Ghimire	Ward Secretary	Kathmandu Metropolitan Ward Number 14
6	Jayram Giri	Ward Secretary	Kirtipur Metropolitan Ward Number 1
7	Suman Bista	Ward secretary	Lalitpur Metropolitan Ward Number 2