Social Protection for People in the Informal Economy of Nepal

Series 3
Social Protection for People in the Informal Economy of Nepal

Series 3

International Labour Organization (ILO)
Kathmandu, Nepal
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<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ADB/N</td>
<td>Agriculture Development Bank - Nepal</td>
</tr>
<tr>
<td>BPKIHS</td>
<td>BP Koirala Institute for Health Sciences</td>
</tr>
<tr>
<td>CMF</td>
<td>Center for Micro Finance</td>
</tr>
<tr>
<td>CCODER</td>
<td>Centre for Community Development and Research</td>
</tr>
<tr>
<td>CPN-UML</td>
<td>Communist Party of Nepal - Unified Marxists Leninist</td>
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<tr>
<td>CUPPEC</td>
<td>Central Union of Painters Plumbers Electro &amp; Construction Workers</td>
</tr>
<tr>
<td>CVICT</td>
<td>Center for Victims of Tortures</td>
</tr>
<tr>
<td>CWIN</td>
<td>Child Workers in Nepal Concern Center</td>
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<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>DDC</td>
<td>District Development Committee</td>
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<td>DECONT</td>
<td>Democratic Confederation of Nepalese Trade Unions</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DiGC</td>
<td>Deposit Insurance &amp; Credit Guarantee Corporation</td>
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<tr>
<td>ESPS</td>
<td>Environment Sector Programme Support</td>
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<tr>
<td>FES</td>
<td>Frederick Ebert Stiftung</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEFONT</td>
<td>General Federation of Nepalese Trade Unions</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<td>HMG/N</td>
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<td>ILO</td>
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<td>ILO/STEP</td>
<td>ILO’s Strategies and Tools against Social Exclusion and Poverty Programme</td>
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<td>INGOs</td>
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<td>Kirtipur Health Cooperative</td>
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<tr>
<td>KMH</td>
<td>Kathmandu Model Hospital</td>
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<tr>
<td>MGBB</td>
<td>Madhayamanchal Grameen Bikas Bank Ltd.</td>
</tr>
<tr>
<td>MNCP</td>
<td>Municipalities</td>
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<tr>
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<td>Ministry of Health</td>
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<tr>
<td>MWCSW</td>
<td>Ministry of Women, Children &amp; Social Welfare</td>
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<td>Non-Governmental Organizations</td>
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<td>NLA</td>
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<tr>
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<td>National Living Standard Survey</td>
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<td>Nepal Safer Motherhood Project</td>
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<td>NTUC</td>
<td>Nepal Trade Union Congress</td>
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<td>OSHE</td>
<td>Occupational Safety &amp; Health and Environment</td>
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<tr>
<td>PCRW</td>
<td>Production Credit for Rural Women</td>
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<tr>
<td>Phect-NEPAL</td>
<td>Public Health Concern Trust in Nepal</td>
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<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Papers</td>
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<tr>
<td>RRN</td>
<td>Rural Reconstruction Nepal</td>
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<tr>
<td>SFCL</td>
<td>Small Farmers Cooperatives Limited</td>
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<tr>
<td>SFDP</td>
<td>Small Farmers Development Programme</td>
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<tr>
<td>TUC-GEP</td>
<td>Trade Union Committee for Gender Equality and Promotion</td>
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<td>UNITRAV</td>
<td>Union of Trekking Travel &amp; Rafting Workers</td>
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<tr>
<td>UMN</td>
<td>United Missions to Nepal</td>
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<tr>
<td>VDC</td>
<td>Village Development Committee</td>
</tr>
<tr>
<td>WLR</td>
<td>World Labour Report</td>
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</table>
We are thankful to ILO/SAAT, Delhi, ILO/STEP and the ILO Office in Nepal for entrusting this study to the National Labour Academy-Nepal. This study is the first in its kind, in giving a comprehensive overview of social protection for workers in the informal economy of Nepal. Social protection in the country, characterised by a large informal economy, is key for the decent work environment; and this report has reviewed the sectors and group of people needing such protection. The report has also reviewed the existing organised and unorganised social protection endeavours in Nepal. The report has outlined various measures to gradually extend social protection to vulnerable groups of the population and the labour force engaged in the informal sectors. The authors would like to put on record the constructive comments and suggestions received from Ismène Stalpers, Ginette Forgues, John Woodall and Ramesh Gautam. Thanks go especially to Ismène Stalpers who was always available for discussion and critical comments during the study. We sincerely thank all for their support. The present quality of the report was attained after due incorporation of those comments and suggestions. We, however, are only responsible for the lapses and errors remaining in the report.

Shiva Sharma
Umesh Upadhyaya
National Labour Academy-Nepal
As the informal economy becomes ever more predominant in Nepal, formal schemes of social security reach fewer than 5 per cent of the working population, and the need to develop complementary forms of social protection becomes crucial. At the same time, Nepal’s economy is being profoundly changed through the process of liberalization and globalisation, and poverty reduction is recognized to be the foremost priority on the development agenda. The public expenditure system should be shaped by a far-sighted vision that includes coherent strategies for the development of not only social protection mechanisms, covering health, income security in times of sickness, accident, old-age, maternity and so on, but the broader social needs for livelihoods, employment, job creation, housing and others, failing which the existing inequalities between rich and poor populations may widen further.

Thus, a broader perspective on social protection, one that aims at extending social security mechanisms to include the entire working population, including the informal economy, is seen with increasing clarity to be essential. Any social protection intervention that is restricted to the formal sector workforce can have only limited coverage, and limited success in covering the very real risks facing Nepal’s most vulnerable groups.

This study has attempted to provide an analysis of the scope of existing social protection schemes at different levels, which address the needs of excluded groups of people in Nepal. The study portrays the diversity and character of social protection mechanisms in the country implemented by remarkably broad range of actors, including government, employers’ organizations, trade unions, community groups and women’s cooperatives, as well as families, caste-based and occupation-based groups and communities.

At the “grassroots” level, these social protection systems are represented by non-formal, indigenous, community-based social systems that manage mutual aid, share risks and provide assistance to vulnerable families. They include traditional mutual support to meet socio-economic needs, caste-based and occupation-based systems, mechanisms for the exchange of labour at peak harvest times, community food stores, contributions to the construction of public facilities, and membership based welfare funds. Social and cultural institutions, such as the family and religious groups, also play a key role in the protection of individuals in society. Some contemporary examples clearly demonstrate how communities, to meet the specific needs of their members, create social protection mechanisms.

This study provides recommendations for the development of more effective social protection mechanisms with a specific focus on poorly protected workers in the informal economy. It also provides recommendations on how to strengthen or implement new social protection initiatives that address a targeted response to the urgent needs of vulnerable, socially and economically excluded groups in the informal economy. ILO studies around the world indicate clearly that there is no single model of social protection, which is universally
appropriate, in every situation and in every country. The social and economic conditions of workers in the informal economy are extremely diverse, and social protection measures must be formulated accordingly. The study recommends a set of specific interventions through which the ILO, its tripartite social partners, and other national or non-national organizations, may work towards an enabling environment for the implementation of enhanced social protection systems in Nepal.

As part of a Global Campaign for the extension of social security coverage to all, the ILO Office in Nepal is launching a national campaign in Nepal. The main objective of the campaign is to promote the extension of social protection to all non-covered women and men, the securing of universal access to health care and of basic income security for all. A unique series of research papers on social protection initiatives in Nepal will be launched during the national campaign. The present study will form a core paper of the series of research papers on social protection.

I welcome this study conducted by the Director of the National Labour Academy, Dr. Shiva Sharma and his research team and Mr. Umesh Upadhyaya, Head of the Department of Foreign Affairs of the General Federation of Nepalese Trade Union. This study is wide-ranging in its attempt to give a conceptual overview of social protection systems in Nepal, within the framework of current debates in the international policy arena. I would like to express thanks to Ms. Ginette Forgues (Asia Regional Coordinator of STEP and Social Protection/Informal Economy Specialist of ILO/Sub-Regional Office in New Delhi), Mr. John Woodall (Senior Social Security Specialist of ILO/Sub-Regional Office in New Delhi), Ms. Ismène Stalpers (Social Protection Advisor of the ILO/STEP programme in Nepal) and Mr. Ramesh Guatam (National Project Coordinator of the Social Finance Programme in Nepal), who have provided extensive technical comments. I would also like to mention Mr. Jamie Cross who edited the final draft.

I hope this study will encourage the relevant actors in Nepal, as well as the international community, to promote the acceleration of social protection initiatives, particularly in relation to the needs of especially vulnerable groups.

Leyla Tegmo-Reddy
Director
ILO Office in Nepal
1. Nepal’s deteriorating economy, its political infrastructure, and the continued impact of neo-liberal economic policies, has left very few options for the provision of effective social and health security. The authors of this study are of the opinion that a broader perspective on social protection, one that aims at extending security mechanisms to include the entire working population, and particularly the informal economy, is fast becoming essential.

2. This study is intended to provide a) an analysis of the scope of various social protection schemes which address the needs of vulnerable and excluded groups of people; and b) recommendations for the development of more effective social protection mechanisms with a specific focus on unprotected workers in the informal economy.

3. The study locates an assessment of social protection mechanisms in the specific social, political and economic context of contemporary Nepal (Chapter 1). And it gives a conceptual overview of social security and social protection in relation to current debates in the international policy arena; and attempts an analysis of risk and vulnerability in Nepal’s informal economy (Chapter 2).

4. To this end, the authors identify 15 vulnerable, socially and economically excluded, groups that are considered to be in most urgent need of enhanced protection. They include landless agricultural workers; home based workers and women workers in the informal economy, migrant workers and people at high risk from HIV/AIDS, workers in the construction industry, the disabled, and child labourers. The study outlines the demographic and economic characteristics of each group, gives an indication of their basic needs, and the impact of existing social protection provisions.

5. Nepal’s existing social protection mechanisms are documented on three levels:

   • The social security and social protection provisions within Nepal’s legislative framework (Chapter 3);

   • The institutional initiatives run by the State, I/NGOs and civil society groups, micro finance institutions and trade unions, with a particular emphasis on micro-insurance schemes for health, life, and livestock (Chapter 4); and

   • The community initiatives covering non-formal, indigenous community based social systems that manage mutual aid, share risks and provide assistance to vulnerable families. These include mechanisms for the exchange of labour at peak harvest times, community food stores, contributions to the construction of public facilities, and membership based welfare funds (Chapter 5).
6. In their concluding comments (Chapter 6), the authors suggest specific roles for the ILO, its tripartite social partners, and other national or non-national organisations that can support an enabling environment for the implementation of social protection systems in Nepal? The authors then propose a set of specific initiatives:

- The urgent promotion and design of micro-insurance schemes and community based financing schemes, targeted at vulnerable groups of workers in the informal economy, as an immediate priority.

- The introduction of a registration system for workers,

- The introduction of sector based tripartite social protection funds;

- A comprehensive review of the existing National Welfare Fund; and

- ‘Action research’ into existing, community based assistance mechanisms.

7. The study does not claim to document all the needs of vulnerable workers in the informal economy and their families. Instead it begins to highlight some of the areas, issues, and existing protective practices that should be considered when designing further social protection mechanisms for the informal economy.
1.1 Overview of the Study

There is clearly identifiable need for studies that propose immediate social protection initiatives for Nepal’s informal economy. This study had a dual purpose: to provide an analysis of social protection interventions for people in the informal economy, and to offer recommendations for future actions.

As the process of liberalization and globalisation rapidly changes Nepal’s economy, poverty reduction continues to be the foremost priority on development agendas. Yet unless the public expenditure system is shaped by a far-sighted vision that includes coherent strategies for the development of social protection mechanisms – covering health, income security, livelihoods, employment, job creation, and housing – the existing inequalities between rich and poor populations will only widen further.

This study does not claim to document all the needs of vulnerable workers in the informal economy and their families. Instead it begins to highlight some of the areas, issues, and existing protective practices that should be considered when designing further social protection mechanisms for the informal economy. Further research, based on primary information and covering a wider range of Nepal’s population, must be undertaken to supplement this study.

The main objectives of the study were as follows:

- To identify the scope of social protection for workers and vulnerable groups in the informal economy both in terms of risks and needs;
- To analyse existing social protection schemes and initiatives in terms of coverage, redistributive effects, and poverty alleviation;
- To analyse coverage both in terms of the proportion of the relevant population covered and the level or quality of coverage; and
- To propose desirable and practical recommendations for social protection measures for workers in the informal economy, within an environment of present resource constraints.

The following points outline the basic methodology used in the study:

- A review of secondary information on social protection in Nepal;
- Quick interviews using checklists covering selected organizations;
• An exploration of existing social protection practices among various caste and ethnic communities through brief field visits.

There are also a number of limitations to this study, the first of its kind in Nepal. Firstly, available secondary data on the topic is limited and so the information gathered from the study population is rather new. Secondly, due to the difficult security situation at the time of field research data could not be collected from all of Nepal’s districts.

1.2 Introduction to the Human and Physical Geography of Nepal

Nepal is in a difficult geographical situation, land-locked from the east, west and south by India and from the north by China. The total area of land within the national boundary is 147,181 kms.

The population, according to the 2001 Census, is 23.15 million. Nepalese society is culturally, linguistically, and religiously diverse. There are 18.3 million Hindus in the population (81 percent) and 2.4 million Buddhists (11 percent). Feudal social and economic relations continue to dominate the structure of Nepalese society. Social prestige and economic security is heavily associated with land, which is till the major form of wealth. The rigidities of the caste system and the idea that some castes are ‘impure’ or untouchable’ has remained prevalent despite constitutional and legal reforms that make discrimination on the basis of caste illegal. In this largely patrimonial society discrimination against women is widespread, both in the family and the workplace.

1.3 The Political Context

In 1990 thirty years’ of underground struggle against the autocratic rule of an absolute monarch erupted, and a mass movement restored Nepal’s multiparty parliamentary system. Today, an unstable political environment continues to affect the country.

The Nepali Congress Party has ruled for nine of the past 13 years. In the mid-90s, a minority government formed by the Communist Party of Nepal - Unified Marxist Leninist (CPN-UML) lasted 9 months, and a range of unstable coalitions have governed the country for more than 2 years. Over this same period, a Mao-inspired revolutionary movement has mobilised and armed large swathes of the population in the nation’s rural districts. In late 2001, the situation escalated into widespread civil unrest and the declaration of a national State of Emergency and the army was mobilized to re-gain control of the countryside. The palace, the parliament, and international development community have been consistent in their characterisation of the Maoists as extremists from the far left wing of the political spectrum. Yet, the motivation of Maoist cadres who are drawn from all of Nepal’s castes, classes and cultural groups remain poorly understood.

In November 2002, King Gynendra dissolved Nepal’s parliament and installed a prime minister. Since then all local government bodies have been suspended. In June 2003, another prime minister was installed and the continuation of peaceful discussion about the future political structure of Nepal is uncertain. At present the King and a nominated cabinet lacking party representatives rule the country. A recent cease-fire agreement and preliminary negotiations between this government and the Maoists is tentative. Maoist leaders demand that their movement be considered in a broader context, beyond the immediacy of global political rhetoric, and claim their goal is to meet the unmet social, economic and political needs of most Nepalese.
1.4 Class Divisions and the Workers’ Movement

Before the unification of Nepal in the second half of the 18th Century there existed two distinct social and economic classes. The first comprised of kings, landlords, bureaucrats, military officers, mukhiyas, jimmawals, and priests (associated with Brahmins). The second class consisted of Kamaras (bonded workers and families), raitis (general people) and untouchable castes. The country consisted of several smaller states, and fights among the ruling classes were common before the historical unification in 1825. At the beginning of the 20th Century, Nepal’s middle classes began to emerge from upper caste Brahmins and Chhetris and from the upper income groups of other ethnic communities, particularly Newar, Sherpa, Gurung, Limbu, Rai and Thakali.

On the eve of the Second World War, and with the emergence of heavy industrial production in Nepal, there emerged a class of industrial workers. The worker’s movement was at the forefront of movements for democracy and social justice in Nepal before 1990. After the restoration of democracy, the workers’ movement has been focused on a broader range of workers’ issues.

The trade union movement has become more engaged with issues of social concern, and as a result has become willing to undertake activities in collaboration with governmental and non-governmental social organizations. Trade union interventions in the post-democracy period have been highly visible, and trade unions have participated in the legitimate governmental and non-governmental forums concerning policy and implementation matters. It is fair to say, however, that the Maoist movement has been more successful at organising the rural or agricultural workforce than any trade union.

1.5 An Overview of Social and Economic Realities

The level of absolute poverty in Nepal is among the highest in Asia. GNP is about $220 per capita and the country is ranked 142nd in the Human Development Report’s poverty index.

Some key development indicators are listed below:

- **Poverty**: The Asian Development Bank (ADB) estimates that more than 9 million people, accounting for about 40% of the population, are estimated to live below the national poverty line, which is set at about NRs4,400 ($77) per capita per annum and based on calorie intake, housing, and various non-food standards.1

- **Inequality**: The poorest 20 percent of the population get 12 percent of the national income whereas the richest 20 percent get 45 percent of the income.

- **Gender Equity**: The Gender Development Index ranks Nepal 121st out of 143. This extremely low ranking reflects the highly patriarchal nature of Nepalese society; Nepal is ranked lower than Bhutan (119), India (112), and Sri Lanka (76 but higher than Bangladesh (123).

- **Health services** are still beyond the reach of most rural women. It is reported that only 45 percent of households have access to basic health care.

- **Life expectancy** at birth is 56 years.

- **Infant mortality rates** in Nepal are among the highest in the World (between 75-100

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deaths for every 1,000 live births). Women face harsh conditions during pregnancy and childbirth, about seventy percent of women of reproductive age are anaemic and malnourished. Many are forced to undertake strenuous labour during pregnancy. Most women lack access to basic maternity care and only 27 percent of women seek antenatal care once during pregnancy.2

- **Literacy:** The adult literacy rate is about 41.8 percent of the population above 15 years of age.

Nepal operates a mixed economy. The country’s major export items are woollen carpets, readymade garments and Pashminas, vegetable ghee, hides and skin, handicrafts and herbs. The major import items include petroleum products, machinery and parts, transport vehicles, medicines, textiles, electrical and electronics and chemical fertilizer.

At present the export trade is declining sharply, while the industrial and service sectors are facing difficulties that result in rising unemployment. There is an urgent need for efficient emergency management that can cope with political instability, followed by a national economic policy with a far-sighted vision. Indeed, the major concern for Nepalese planners and policy makers in this troubled time in the country’s history rather than the enhanced growth of the economy.

The tourism industry has always played a crucial role in the functioning of the economy. This too has seen a dramatic down swing due to problems of insecurity over the past few years.

The remittance economy (i.e. money sent home by Nepalese working overseas) is highly significant. In the past this has played a vital role in the national economy and the balance of payment. A quick scan of foreign employment statistics from the official records indicates that in year 2000 only 27,000 Nepali workers went abroad for work; this figure increased to 55,000 in 2001 and to 105,000 within 9 months of 20023. Faced with a slack economy and difficult security situation at home, remittances from abroad have become a more reliable source for livelihoods.

### 1.6 Selected Labour and Employment Data

A combination of factors has conspired to make Nepal’s workforce less secure than ever. These include: political instability and insecurity; declining employment in all formal sectors; the fast growth of contracting and sub-contracting work (also described as the ‘informalization’ of the economy); and the promotion of liberalising policies that subordinate the state to the market. One consequence is the expansion of activities in the informal economy.

The size of Nepal’s labour force is 11.2 million, and has an annual growth rate of 2.4 percent. Nearly 80 percent of the total labour force is engaged in agricultural labour, 3 percent in manufacturing industries, and 17 percent in the service industry (see Table 1, overleaf).

Women workers account for 47 percent of the total labour force, and are concentrated in the agricultural sector, where they account for 62 percent of the working population. As a contrast, in the formal sector only about 4 percent of the total labour force is female. The female labour force participation rate has increased from 66 percent in 1996 to 71 percent in 1999.

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3 The figures given here have been obtained from the Department of Labour and Transport Management.
Underemployment is a serious problem in Nepal. According to Nepal’s National Labour Force Survey (NLFS 1996), the under-employment figure (as a percentage of the total labour force) is 32 per cent; 29 percent in urban and 33 percent in rural areas.¹

Nepal’s informal economy is large and growing. In terms of employment, of the country’s 11 million strong labour force less than 0.4 million (3.6%) are employed in the formal sector. The largest sector of the Nepalese economy – agriculture – is, to a large extent, informal. Throughout Asia between 50-80% of non-agricultural employment falls within an informal economy.

<p>| TABLE 1 NEPAL’S WORKING POPULATION OVER 15 YEARS OF AGE BY SECTOR (IN ’000s) |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|</p>
<table>
<thead>
<tr>
<th>Sector</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
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<td>Agri. Fishery and Forestry</td>
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<td>3174</td>
<td>4027</td>
<td>6809</td>
<td>3016</td>
<td>3793</td>
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<td>Mining and Quarrying</td>
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<td>6</td>
<td>1</td>
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<td>5</td>
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<tr>
<td>Manufacturing and Industry</td>
<td>552</td>
<td>366</td>
<td>186</td>
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<td>Electricity, Gas and Water</td>
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<td>51</td>
<td>43</td>
<td>8</td>
<td>23</td>
<td>19</td>
<td>4</td>
</tr>
<tr>
<td>Community and Social Services</td>
<td>623</td>
<td>354</td>
<td>269</td>
<td>487</td>
<td>272</td>
<td>215</td>
</tr>
<tr>
<td>Total</td>
<td>9463</td>
<td>4736</td>
<td>4727</td>
<td>8492</td>
<td>4176</td>
<td>4316</td>
</tr>
</tbody>
</table>

Source: NLFS 1998/99

1.7 The Informal Economy and Social Protection

Nepal’s middle-income groups and the mainly urban, formal economy workforce have been the main beneficiaries of existing worker oriented social security provisions. Yet changing patterns of employment mean that this small, privileged proportion of Nepal’s working population is now shrinking and the informal economy is rapidly expanding.

¹ It is necessary to read such statistics cautiously as the precise definition of work used by the NLFS is constantly changing.
The informal economy embraces a multitude of dispersed operational units and activities; it essentially differs from the formal economy in terms of technology, economies of scale, the use of labour intensive processes for producing goods and services, and a virtual absence of well-maintained accounts. The informal economy is informal in the sense that the government does not regulate it, and given this lack of state controls the probability of exploitation is much higher.

<table>
<thead>
<tr>
<th>TABLE 2</th>
<th>KEY DIFFERENCES BETWEEN THE FORMAL &amp; INFORMAL ECONOMY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>Informal</td>
</tr>
<tr>
<td>Formal Contract &amp; Letter of Appointment</td>
<td>Verbal Contract and no Appointment</td>
</tr>
<tr>
<td>Regularity of Employment</td>
<td>Irregular employment</td>
</tr>
<tr>
<td>Fixed wage rate</td>
<td>Uncertain wage rates – Low income</td>
</tr>
<tr>
<td>Fixed working Hours</td>
<td>Long &amp; uncertain Working hours</td>
</tr>
<tr>
<td>Legal Provisions of Protection</td>
<td>Non existence or poor level of legal Protection</td>
</tr>
</tbody>
</table>

A recent ILO study of the informal economy in Nepal (Koirala & Sharma 2003), make a number of points about social protection in the informal economy, and their comments have specific relevance for this new study.

1. There are virtually no social or work security mechanisms for workers in the informal economy. Security measures rest solely with the employers. Compensation laws are absent and compensation practices are sporadic. There are more enforcement gaps than legislation gaps. One reason behind these enforcement gaps is the practice of successive governments in legislating for protection without providing any commensurate support.

2. In many cases, the regulation and policing of the informal economy by municipal authorities in Nepal has actually restricted the activities and livelihood opportunities of the very poor.

3. Nepal will not see substantive economic development without the development of the informal economy. Poverty in Nepal cannot be reduced unless issues in the informal economy are mainstreamed.

A broader perspective on social protection, one that aims at extending security mechanisms to include the entire working population, including the informal economy, is fast becoming essential. Any social protection intervention that is limited to the formal sector workforce will have a limited coverage, and a limited success in covering the very real risks facing Nepal’s most vulnerable groups.

Chapter 2 of this study will define and clarify the concept of social protection in more detail, and identify those groups of workers in the informal economy who are in urgent need of more enhanced protective mechanisms.
1.8 Poverty Reduction Strategy Plans

Nepal's tenth 5 year plan, which takes the form of a Poverty Reduction Strategic Plan (PRSP) has been launched after intensive consultations and makes poverty reduction its clear priority.

The ILO's contribution to the PRSP process in Nepal emphasised the concept of Decent Work for Poverty Reduction. Two of the ten fundamental recommendations relate to social security and social protection. These components are areas in which the ILO identifies itself as being able to provide support to the government and social partners through technical advisory services, technical cooperation programmes and projects. The ILO’s contribution to the PRSP process is detailed in Chapter 4.
DEFINING SOCIAL SECURITY/
SOCIAL PROTECTION AND IDENTIFYING
VULNERABLE GROUPS

“Any kind of collective activity which is designed to ensure that members of society meet their basic
needs (such as adequate nutrition, shelter, health care and clean water supply), are protected from
contingencies (such as illness, disability, death, unemployment and old age), and maintain a standard
of living consistent with social norms can be considered a social security measure.”
- Getubig 1992

2.1 ILO Definitions, Priorities, Strategies and Tools

Many different interpretations and definitions of the term “social protection” exist. However,
the term social protection is usually used to describe the way arrangements are made for
those people and communities who encounter adverse contingencies. These arrangements
aim to provide some form of maintenance of income and services to these people to ensure
that they are catered for in times of need.

<table>
<thead>
<tr>
<th>BOX 1</th>
<th>KEY ILO DEFINITIONS OF SOCIAL SECURITY AND SOCIAL PROTECTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security:</td>
<td>“The protection which society provides for its members through a series of public measures.”</td>
</tr>
<tr>
<td></td>
<td>- To offset the absence or substantial reduction of income from work caused by the stoppage or</td>
</tr>
<tr>
<td></td>
<td>substantial reduction in earnings resulting from sickness, maternity, employment injury,</td>
</tr>
<tr>
<td></td>
<td>unemployment, invalidity, old age and death of the breadwinner);</td>
</tr>
<tr>
<td></td>
<td>- To provide people with health care; and</td>
</tr>
<tr>
<td></td>
<td>- To provide benefits for families and children.</td>
</tr>
<tr>
<td></td>
<td>This definition includes social insurance (i.e. contributory schemes) and social assistance (i.e. tax-financed</td>
</tr>
<tr>
<td></td>
<td>benefits that are provided without being means tested).</td>
</tr>
<tr>
<td>Social protection:</td>
<td>“Includes public social security schemes and also private or non-statutory scheme,</td>
</tr>
<tr>
<td></td>
<td>such as mutual benefit societies and occupational pension schemes. Included under the definition of social</td>
</tr>
<tr>
<td></td>
<td>protection are all sorts of non-statutory schemes, formal or informal, provided that the contributions to</td>
</tr>
<tr>
<td></td>
<td>them are not wholly determined by market forces. These schemes may feature, for example, an employer</td>
</tr>
<tr>
<td></td>
<td>subsidy, or perhaps a subsidy from the government.”</td>
</tr>
</tbody>
</table>

The arrangements are listed in the ILO Social Security (Minimum Standards) Convention, No. 102, accepted in 1952. The ILO Convention No. 102 sets out a framework of social security provision categorized under nine contingencies (or risks), which have been accepted as the core of advanced social security systems. Access to this formal social security was typically through tripartite arrangements between governments, employers and workers themselves. The nine contingencies the ILO Convention No. 102 cover are:

1. Unemployment
2. Health care
3. Maternity
4. Incapacity for work due to illness
5. Disability through work
6. Invalidity
7. Old age
8. Child maintenance
9. Death of the breadwinner

Since ILO Convention 102 on Social Security was adopted in 1952, the characteristics of State welfare systems and the contexts in which they are provided have changed. Today, the concept of social protection has been broadened to cover new concerns with food provision, housing, sanitation, and income/employment generation. It now implies a broad pro-poor approach with preventive, protective and promotional components.

Against this background, the tripartite constituents of the ILO revisited the issue of social security during the 89th session of the International Labour Conference (ILC) in 2001. Members of the ILC reaffirmed the role of the State, along with other social partners, in providing social protection to its constituents: “The State has a priority role in the facilitation, promotion and extension of coverage of social security” and “the social partners have a strong role to play in the management of social security”. Hence, social protection is considered “to be an indispensable part of government social policy and an important tool to prevent and alleviate poverty...” and “Of highest priority are policies and strategies which can bring social security to those who are not covered by existing systems”. The ILC also recommended that a global campaign aiming at the extension of social protection be launched. The first five-year phase of this campaign, entitled “Social Security and Coverage for All”, was launched by the Director General of the ILO in June 2003, and will soon be launched in Nepal.

The ILO considers social protection to be an indispensable part of government social policy and an important tool in the prevention and alleviation of poverty, and it places the highest priority on policies “that can bring social security to those who are not covered by existing systems”. Uniquely, the ILO stresses the interdependency of economic growth and social justice and assumes that work cannot be ‘decent’ without adequate social protection.

In partnership with other stakeholders, the ILO is looking for solutions to the double challenge of providing social protection for all and finding sustainable financing for such protection. ILO strategy for the development of social protection for all men and women is grouped around three main areas:

- Access to essential goods and services
- Proactive protection against social risks
- Promotion of opportunities or empowerment through family support, non-discrimination, education, training and health services.

---

“The ILO has identified four specific mechanisms for extending social protection”: 7

i) The extension of social insurance schemes;

ii) The encouragement of micro-insurance;

iii) The introduction of universal benefits or services financed by general state revenue; and

iv) The establishment or extension of means-tested benefits or services (social assistance), also financed by general tax revenues.

Micro-insurance schemes are central to the approach of ILO/STEP (Strategies and Tools against Social Exclusion and Poverty). ILO/STEP recognises that different groups have different needs and the most vulnerable groups have a very low contributory capacity. ILO/STEP acknowledges that the successful extension of social security requires that these differences be taken into account (ILO, 2001).

The ILO’s approach to social protection, then, is to recognise that an appropriate mix of different mechanisms, their respective roles and the linkages between them, will depend on national contexts and on national strategies.

2.2 DFID, ADB and World Bank Definitions of Social Protection

The working definitions of social protection, in Nepal and elsewhere are given different emphases by different technical and financial donor agencies.

DFID describes social protection as the public actions taken in response to levels of vulnerability, risk and deprivation, which are considered to be unacceptable. DFID recognizes that social protection consist of policies that assist people, their households and their communities, to protect themselves against shocks and risks. From this perspective, social protection enables people to take control of their own livelihoods and to achieve their human rights.

Similarly, ADB defines social protection as the net of policies and programmes designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people’s exposures to risk, and enhancing their capacity to protect themselves against hazards and the interruption/loss of income. The ADB approach to social protection consists of five major areas: labour markets, social insurance, social assistance and welfare programmes, micro and areas-based schemes and childhood protection.

The World Bank defines social protection in more technical terms. Social protection reduces the variance of a household’s utility over time. Policies promoting growth and increasing access to health and education services try to improve the average well being of the poor, while policies falling under the purview of social protection are designed to create opportunities for households to manage risks better and to reduce the impacts of shocks.

2.3 Social Protection Policies for the Informal Economy

Social protection policies should be designed with reference to the overall needs of the informal economy, and income security and work security are equally significant in this context. An ideal social protection system should include:

1) Security in terms of employment, income and assets with wide coverage and expandability.

2) A multiplicity of approaches that fit with the nature of the work, target groups, community, traditions and practices. (For example, in some places cooperative schemes may be effective while in other areas welfare funds may be more beneficial).

3) Thirdly, attention should be paid to the strengthening of currently existing systems, programmes and schemes.

A comprehensive strategy to meet the needs and aspirations of those working in the informal sector must, at the same time, seek to maximise their employment potential, and improve the coverage of provisions under social protection. This broad framework can be useful to highlight four specific objectives, which, while they seek to address the contingencies and hardships applying to all sections of the workforce, are of particular significance to those working in the informal economy:

• Improvement of the productive potential and of employment and income generating capacity of the informal sector
• Improvement in the welfare situation of the poorest groups of the society
• Establishing appropriate forms of social protection and regulation
• Organizing the informal sector producers and workers in the form of trade unions, micro-producers association and cooperatives

The social needs of those working in the informal economy - who represents the vast majority of working people worldwide - extend to a wide range of protective, preventive and promotional provisions. These include not only those risks to income security which may be met through government-mandated schemes of employers’ liability, social insurance and social assistance, together with initiatives outside the government machinery through, for example, NGOs and other micro-finance organizations or traditional social practices, but also such basic needs as adequate housing and nutrition.

2.4 Vulnerability and Risk: Assessing the Need for Social Protection in the Informal Economy

All social protection activities do, or should, address risk. Risk related activities take three main forms:

**Risk Reduction:** To reduce the probability of downside risk (ex-ante) through human right, market information, public health, free education, immediate relief etc.

**Risk Mitigation:** To decrease the impact of a future downside risk through micro finance, micro insurance, supporting local networks, livelihood diversification etc.

**Risk Coping:** To relieve the impact once a ‘shock’ has occurred (ex-post) through public works, food subsidies, cash transfers, child labour programmes and women empowering programmes.

A social risk management framework (see Box 2, overleaf) defines the various forms of risks that vulnerable groups in Nepal face at the micro, meso and macro-levels. The concept of social risk management asserts that individuals, households and communities are exposed
to multiple risks that are both natural (such as earthquakes, floods and illnesses) and manmade (such as unemployment, natural degradation and war).

Poor people are typically more exposed to risks and have fewer instruments to deal with risks than people with greater assets and endowments. Such vulnerability can make an individual risk averse, and unwilling or unable to engage in high-risk/return activities. The poorer are most vulnerable, and their recognition of vulnerability encourages risk-averse behaviour. A reduction in vulnerability is thus both an end and a means of development. Vulnerability reflects the probability of suffering from the negative consequences of risk.

Under these circumstances, poor people have developed elaborate mechanisms of social protection. These may include asset accumulation in good times, a diversification of income sources, and the creation of informal family or community “risk-pooling” arrangements. The available coping strategies that follow a ‘shock’ often reduce poor people’s human capital (for example, cutting back on meals or pulling children out of school to help generate income). This can give rise to the need for both public and private interventions.

### 2.5 Vulnerable Groups in Nepal’s Informal Economy

The following section provides an outline of the most vulnerable - socially and economically excluded - groups, in Nepal. These groups may be considered those in most urgent need of some form of social protection (see Diagram 1, overleaf).

A large proportion of Nepal’s workforce, whether self-employed or wage employed, is totally reliant on the informal economy for their subsistence. Workers in the informal economy face a much higher vulnerability and more intensive risks, and for the majority insecurity is a way of life. Insecurity and high risks are exacerbated by the social and economic exclusion confronting the most vulnerable groups in Nepalese society. Caste or ethnically based social exclusion is mainly visible in the case of ‘untouchables’ and Dalits. Conditional social exclusion and discrimination confronts many groups of disabled people, trafficked women and prostitutes, as well as persons victimised by leprosy and HIV/AIDS.

It is important to note that the risk of HIV/AIDS adds to the vulnerability of all these groups. HIV/AIDS can affect workers in the prime of their productive age. Mobile and migrant workers, female sex workers, IUD users and, increasingly, child labourers are high-risk groups. People living with HIV/AIDS are vulnerable to social and economic exclusion, and are often confronted by ignorance of their condition and negative attitudes. The ILO Code of Practice, ‘HIV/AIDS and the World of Work’, states that that governments, employers and

<table>
<thead>
<tr>
<th>Category</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural</td>
<td>Landslide, Flood, Famines, Earthquake</td>
</tr>
<tr>
<td>Social-Political</td>
<td>Discrimination, Domestic Violence, Civil war, Crimes, Terrorism, Riots</td>
</tr>
<tr>
<td>Economic</td>
<td>Unemployment, Economic Crises, Crop-damage, Fire</td>
</tr>
<tr>
<td>Health</td>
<td>Sickness, Accidents, Injuries, Maternity, Disability, Invalidity, Old age, Death, Epidemics</td>
</tr>
<tr>
<td>Life cycle risks</td>
<td>Maternity, Family break-ups, Old age, Death</td>
</tr>
<tr>
<td>Environmental</td>
<td>Pollution, Deforestation, Desertification</td>
</tr>
</tbody>
</table>
workers’ organisations should take all necessary steps to ensure that workers with HIV/AIDS and their families are not excluded from the full benefits and levels of protection offered by social security programmes, or other occupational schemes.

2.5.1 Workers in the agricultural sector are the most unprotected of Nepal’s workers. A huge proportion of the rural population who work in the agricultural sector are self-employed, these marginal farmers constitute between 4-6 million people. This population can be said to need social protection mechanisms to the maximum extent.

The insecurity and vulnerability of both categories of agricultural labour—wage dependent and self-employed—has increased as social, political and economic changes in rural Nepal have eroded informal protection mechanisms.

The present coverage of livestock and crop insurance schemes (see section 4.4 below) is little more than a drop of milk in a pond. Improved health protection as well as insurance schemes covering health, livestock and crops would definitely prove significant. Agricultural labourers require direct financial assistance from the State and can benefit from cooperative initiatives by trade unions and NGOs.

**Diagram 1: Who Needs Social Protection in Nepal?**

- **Who needs Social Protection?**
  - Self Employed Workers
    - Establishments with more than 10 workers
  - Workers in Waged Employment
    - Establishments with less than 10 workers
    - Micro-enterprises
    - Family based units
  - Unpaid Family Members
    - Agricultural workers
    - Former kamaiyas
    - Construction workers
    - Domestic servants
    - Street workers
    - Home-based workers
    - Bonded workers
    - Porters & Loaders
    - Socially excluded groups & Dalits

FORMAL ECONOMY

INFORMAL ECONOMY
2.5.2 Landless agricultural workers constitute around 24.4 per cent of the nation’s households or one million households (based on the population census 2001). The majority of landless households are rural and thus lack a basic asset that holds the key to their survival.

Nepal’s rapid urbanization has created a population of landless people, as the rural working poor join a semi-urbanized workforce and lose small pieces of land. While land remains the major form of asset and source of employment, working the land itself is an increasingly insufficient means of meeting livelihood needs. Poor people cannot rely purely on land for their subsistence and basic security without substantial reforms to the existing structure of land ownership.

2.5.3 Kamaiya’s or former bonded labourers are one of the few groups whose social and economic exclusion from society’s mainstream is slowly altering for the better. Kamaiya’s need social protection designed specifically for agricultural workers, particularly landless labourers. Land rights and alternative wage opportunities are a priority.

2.5.4 Haliyas are long-term contract tillers (and are also known as halis or haruwas). In Nepal’s western hill districts many live and work in conditions of debt bondage.

2.5.5 Dalits confront considerable social and economic exclusion. Although the Dalit population constitutes almost 1/6th of the total Nepali population they are the most deprived and inhumanely treated groups in Nepalese society. In the hierarchy of Hindu castes they are considered untouchable (pani nachalne Jaat). Despite legislation Dalits are still discriminated against. It is widely held that they should not enter any upper caste house, and many people refuse to eat food and water that has been touched by these people. They are forbidden from entering many temples.

Population data for Dalit castes is presented in Table 3, below. Using this data, the total Dalit population can be calculated at just over 2 million people. If we acknowledge the extreme vulnerabilities faced by at least three quarters of this population, we must recognise that social protection mechanisms must be extended to around 1.5 million Dalits.

<table>
<thead>
<tr>
<th>Category of Dalit Population</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kami</td>
<td>895954</td>
<td>432937</td>
<td>463017</td>
</tr>
<tr>
<td>Damai</td>
<td>390305</td>
<td>188329</td>
<td>201976</td>
</tr>
<tr>
<td>Sarki</td>
<td>318989</td>
<td>153681</td>
<td>165308</td>
</tr>
<tr>
<td>Chamar Harijan Ram</td>
<td>269661</td>
<td>138878</td>
<td>130783</td>
</tr>
<tr>
<td>Dom</td>
<td>8931</td>
<td>4631</td>
<td>4300</td>
</tr>
<tr>
<td>Unidentified dalit</td>
<td>173401</td>
<td>85063</td>
<td>88338</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,057,241</strong></td>
<td><strong>1,003,519</strong></td>
<td><strong>1,053,722</strong></td>
</tr>
</tbody>
</table>

Source: Population Census 2001
2.5.6 Migration away from Nepal’s rural areas can be explained by a wide range of push factors, including conflict, acute poverty, and landlessness. In the specific context of Nepal, the movement of people away from rural areas has escalated as a response to the violence of security forces and Maoist insurgents. Displacement and forced migration have aggravated already existing insecurities and increased the vulnerability of the poorest.

Many migrant workers who arrive in the country’s towns and urban areas remain deprived of access to basic facilities and face low or irregular income. Mobile populations, particularly seasonal and long-term migrant workers are particularly vulnerable to HIV/AIDS. The Nepal AIDS strategy for 2002-2005 recognises migrant workers, and in particular the 400,000 Nepalese who migrate to Mumbai, in India, for work as a specifically high-risk group.

2.5.7 The total number of construction workers is estimated by the National Labour Force Survey at 344,000. Out of this number, a total of 162,000; males 123,000 and females 39,000 including a negligible number of minor workers work within the informal sector. Considering the seasonal nature of agriculture, it may be assumed that a large number of casual agricultural workers are also engaged for some of the year in construction work. Thus the total number of construction workers in the informal sector may actually exceed one million people.

In the construction industry, sub-contractors (Naikes) are responsible for employing a large majority of workers. Many sub-contractors consider insurance and occupational health and safety provisions to be a cost. And, in order to increase the competitiveness of the tenders, most contractors reduce their costs by cutting back on items like insurance, safety equipment and protective gear. Their clients (often government engineers) do not check whether or not the necessary insurance and OHS provisions have been included in the tender. Indeed, most tenders do not contain separate items costing insurance and protective gear.

2.5.8 The majority of hill porters and loaders/un-loaders working in urban centres are completely without either formal or informal mechanisms of social protection. Many hill porters work for retailers based in district headquarters or traders in small and remote markets without motor-able road access. Neither their employers nor the government provide them with any form of social protection.

2.5.9 Street vendors can be categorised into two groups: own account workers and commission based/daily wage workers. With urbanization and the semi-urbanization of many rural market places, street vending has become a livelihood strategy in the face of unemployment and underemployment. Street vendors are among the most unprotected groups of workers in the informal economy.

In Kathmandu, Indian migrants and Nepalese who have migrated from the country’s rural districts can be seen vending side by side on the street. The nature of their work is diverse and their interests often conflicting. In the capital city there are vendors who stick to a particular locality and vendors who roam; the number of vendors is considerably less in other urban centres.

In the case of porters associated with the tourist industry and involved in trekking, mountaineering and expeditions the situation is quite different. These porters face substantial risks and uncertainties in their working life, and the efforts to protect them have been significant (See Chapter 4, Section 4.5.9).

2.5.10 The creation of home based or hidden informal workplaces by big enterprises that sub-contract their work have labour outside factory premises and have led to a new range of social and environmental hazards.
Home based workers fall into three main categories: domestic helpers, water fetchers and firewood collectors. It should be noted that the number of home workers aged under 15 years of age is considerable (see Table 4, below). Narrow estimates suggest that the proportion of home workers is 2.6 per cent of the total labour force. Looked at from a gender angle, this mean 3.9 per cent of the female workforce and 2.4 per cent of the male workforce.

<table>
<thead>
<tr>
<th>Types of Work</th>
<th>Both Gender</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and related helpers, and cleaners</td>
<td>28</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Water fetching</td>
<td>57</td>
<td>6</td>
<td>51</td>
</tr>
<tr>
<td>Collecting firewood</td>
<td>165</td>
<td>45</td>
<td>120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>250</strong></td>
<td><strong>66</strong></td>
<td><strong>184</strong></td>
</tr>
</tbody>
</table>

Source: NLFS, 1999

2.5.11 **Women workers in the informal economy** are most likely to work in low skilled, manual and repetitive jobs, at the bottom of the working hierarchy. A lack of education, training opportunities, employment biases and limited mobility due to social responsibility tie women to these lower echelons. Most women continue to be paid less than men for the same work and there is a near-absence of maternity protection for the majority of women working in the informal economy.

Although the Nepalese Labour Act stipulates that women are legally entitled to equal pay for similar jobs and to enjoy a series of gender-related privileges, such as maternity leave, social protection in health at the workplace is limited. Appropriate maternity protection is considered to be a necessary condition for equality and social protection for all. Health and particularly maternity protection should be made available to Nepal’s most vulnerable groups. Maternity protection services are not available for the majority of women in the reproductive age group.

2.5.12 **Poor, vulnerable and widowed women** are vulnerable to victimization by both men and women. Female headed households and widowed women need particular consideration taking into account to their high economic and social vulnerability.

2.5.13 **Elderly people** from the poorest classes need urgent protection from society. Old age homes operated by the government are insufficient and initiatives from the private sector are also necessary.

2.5.14 **Disabled people** from low income and poverty stricken groups do not have the capacity to meet their special needs. If we assume at least three quarters of Nepal’s disabled population require specific forms of social protection, then we are talking about 77,846 people. Many disabled people are currently taken care of by NGOs/INGOs, charitable organizations, religious institutions and the state. The present measures, however, are insufficient. Disabled people need better care and support structures need wider coverage.

2.5.15 **Child Labourers** are victimised by exploitative working conditions, and are at particular risk from a range of abuses. The involvement of children at work reflects the acuteness of their family’s poverty and their community’s lack of social protection systems.
The labour force participation rate is particularly high for children from rural areas, 36.8 per cent for boys and 45.1 per cent for girls. Data from recent Rapid Assessments on the Worst Forms of Child Labour in Nepal, undertaken by ILO-IPEC, suggest that 127,000 children are working in the seven worst forms of child labour in Nepal. This is 1.8 percent of the total child population, aged between 5 and 14 years old. These seven different types of work all appear in the informal economy. Of particular concern is the unknown number of children being trafficked.8

Among the 2 million employed children, around 90 percent work unpaid within their family workers or as attached labour for their working parents. According to NLFS statistics, only 3 percent of the economically active children are in waged job. Considering the nature and extent of the informal economy the number of working children may actually be much higher.

<table>
<thead>
<tr>
<th>TABLE 5</th>
<th>THE WORST FORMS OF CHILD LABOUR IN NEPAL, AND THEIR MAGNITUDE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Group</td>
<td>Number</td>
</tr>
<tr>
<td>Children in bonded labour</td>
<td>17,152</td>
</tr>
<tr>
<td>Child rag pickers</td>
<td>3,965</td>
</tr>
<tr>
<td>Child porters</td>
<td>46,029</td>
</tr>
<tr>
<td>Child domestic workers*</td>
<td>55,655</td>
</tr>
<tr>
<td>Children in mines</td>
<td>115</td>
</tr>
<tr>
<td>Children in the carpet sector</td>
<td>4,227</td>
</tr>
<tr>
<td>Child trafficking</td>
<td>**</td>
</tr>
<tr>
<td>Total</td>
<td>127,143</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 6</th>
<th>SECTORAL DISTRIBUTION OF WORKING CHILDREN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Male</td>
</tr>
<tr>
<td>Agriculture</td>
<td>804,000</td>
</tr>
<tr>
<td>Domestic service</td>
<td>58,000</td>
</tr>
<tr>
<td>Wholesale &amp; retail trade</td>
<td>17,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11,000</td>
</tr>
<tr>
<td>Hotel &amp; restaurant</td>
<td>9,000</td>
</tr>
<tr>
<td>Construction</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Source: NLFS 1998/99

NEPAL’S LEGISLATIVE FRAMEWORK FOR SOCIAL PROTECTION IN THE INFORMAL ECONOMY

3.1 State and Non-State Actors

The ILO analyses of the role to be played by state and non-state actors in the provision of social protection are important. 

"The state has a priority role in the facilitation, promotion and extension of social security, and the social partners have a strong role to play in the management of social security. Social protection has been given high emphasis and considered 'to be an indispensable part of government social policy and an important tool to prevent and alleviate poverty.' While prioritising, highest priority should be given to those 'policies and strategies, which can bring social security to those who, are not covered by existing systems." (Social security: A new Consensus ILO- 2001)

In a country like Nepal, no single actor can manage to provide protection mechanisms for their entire needy population. While the State can be expected to provide a broad and responsible role, coordinated efforts among all possible partners are necessary.

3.2 Review of Existing Social Security Provisions

The Constitution of the Kingdom of Nepal, 1990, includes no direct social security provisions or extending social protection for the excluded. In Nepal’s Civil Code, the Jyala Majoriko Mahal (chapter on wage and remuneration of Nepal) includes provisions aimed at securing justice for workers in case of the non-payment of due wages. The Labour Act, 1992, is applicable in the formal sector and covers workers in any enterprises where there are more than 10 employees. For this reason, much of the informal economy is excluded from protection under existing labour laws. However, trade unions are struggling to apply the provisions of labour legislation provisions outside their strict legislative limits.

The Labour Act outlines gratuities, provident funds, sick leave, medicare and compensation following accidents and injuries at work. Yet, even in the formal sector there is no integrated system to ensure, manage, or police these different forms of social security. Given the poor condition of social security mechanisms in Nepal’s formal sector it takes little imagination to see how far the country’s informal sector is from the provisions of a modern social security or social protection system.

There are some special rights for women workers incorporated within the Labour Act and accompanying labour regulations. Women are legally entitled to equal pay for similar jobs.

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9 Article 25(9), however, makes clear that it will be state policy to offer special protection to orphaned children, helpless women, elderly and disabled persons. In a similar vein, Article 25(6) states that interests and rights of workers should be protected.
and to enjoy a series of gender related privileges, such as maternity leave, feeding intervals during working hours and crèche facilities. In practice, women workers (most of whom are concentrated in the informal economy) do not enjoy such rights. Furthermore, the act covers only those women who are on a permanent pay roll, which is not the case for most women workers. The existing legislation has a similarly limited scope in relation to maternity protection. The Labour Act, 1993, is silent on issues related to pregnancies, cash benefits, dismissals and discrimination in employment relating to maternity protection. Such legislative lacunae could be addressed by the measures in ILO Convention 183 on Maternity Protection which has not been ratified by the HMG/N.

A glance at existing laws and selected social security institutions in Nepal throws up the following salient features.

### TABLE 7 EXISTING ACTS, REGULATIONS AND SOCIAL SECURITY INSTITUTIONS

<table>
<thead>
<tr>
<th>Acts and Regulations</th>
<th>Existing Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus Act, 1974</td>
<td>Employees Provident Fund Dept., 1959 Later Employees Provident Fund became autonomous</td>
</tr>
<tr>
<td>Labour Act, 1992</td>
<td>Citizen Investment Trust, 1990</td>
</tr>
<tr>
<td>Civil Service Act, 1993</td>
<td>Rastriya Beema Sansthan, 1967</td>
</tr>
<tr>
<td>Social Welfare Council Act, 1993</td>
<td>Funds directed to Poverty alleviation and Micro Finance Institutions</td>
</tr>
<tr>
<td>Civil Service Regulations, 1994</td>
<td></td>
</tr>
<tr>
<td>Labour Regulations, 1994</td>
<td></td>
</tr>
<tr>
<td>Labour Regulations for Tea Estates 1994</td>
<td></td>
</tr>
<tr>
<td>Service Regulations for Various Public Enterprises and Tribhuvan University (different years)</td>
<td></td>
</tr>
<tr>
<td>Regulations Related to Health, Education etc. after 1990</td>
<td></td>
</tr>
<tr>
<td>Health Service Act, 1997</td>
<td></td>
</tr>
</tbody>
</table>

Source: Khatiwada in: ILO study, 2001

### 3.3 Schemes for Public Sector Enterprises

His Majesty’s Government of Nepal has made different social security provisions for wage earners in the public sector, some of which are listed below. Most commonly, provident funds are used to offer some protection for old age. Yet, provident funds operate on an individual rather than a collective basis and cannot be said to represent true social security.
Contingencies

<table>
<thead>
<tr>
<th>Contingencies</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maternity</td>
<td>60 days paid leave, 2 times during service tenure</td>
</tr>
<tr>
<td>Work Injury</td>
<td>If overseas treatment is needed, Medicare (mentioned in the last row) + amount decided by a committee formed under regulation based on recommendation of Medical Board + paid leave</td>
</tr>
<tr>
<td>Work Accident</td>
<td>Full medical expenses + medical facility mentioned below + paid leaves If job is terminated due to invalidity, payment of Rs 10000 + 20 percent of monthly salary as invalidity pension + normal pension</td>
</tr>
<tr>
<td>Death by Work Accident or Life Long Invalidity</td>
<td>Pension + 50 percent of the pension + salary of 3 months <strong>Survivors benefit and family benefits</strong> Pension for 7 years to the spouse as survivors benefit Education allowance of maximum Rs 2400 per year for 2 children up to the age of 18 + maximum 15 percent of basic salary Rs 1800 in case of non-gazetted employees</td>
</tr>
<tr>
<td>Voluntary Retirement</td>
<td><strong>Gratuity based on service years</strong> For 5 - 10 years of service – ½ month’s salary per year For 10 - 15 years of service – 1 month’s salary per year For 15 - 20 years of service – 1½ month’s salary per year</td>
</tr>
<tr>
<td>Old Age</td>
<td><strong>Provident fund</strong> 10 percent contribution from employee’s monthly salary + matching contribution by the employer (HMGN) is deposited to PF account and paid in lump-sum along with compound interest to the respective employee/heir on his retirement/death <strong>Pension</strong> Monthly pension = salary at retirement X service years/50</td>
</tr>
<tr>
<td>Death During Job Tenure</td>
<td>Administered through EPF from welfare fund ranging from Rs. 40 to 75 thousand Employees in health service Rs. 150,000 For Maoist Victim Police Families Rs. 700,000</td>
</tr>
<tr>
<td>Sickness</td>
<td>12 days paid leave per annum</td>
</tr>
<tr>
<td>Medicare</td>
<td>Officers = 12 month’s salary in the entire service years Non-gazetted I = 18 month’s salary Non-gazetted others = 21 month’s salary In case of fatal disease, assistance up to Rs. 100,000 in recommendation of Medical Board</td>
</tr>
</tbody>
</table>

### 3.4 Schemes for Private Sector Enterprises

The Labour Act, 1992, makes a number of social security provisions for wage earners in formal private sector enterprises that employ more than 10 people. A listing of these schemes is provided below.
### TABLE 9  SCHEMES FOR PRIVATE SECTOR EMPLOYEES

<table>
<thead>
<tr>
<th>Contingencies</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maternity</td>
<td>A paid leave of 52 days two times during service period 45 days in tea estates</td>
</tr>
<tr>
<td>Work Injury</td>
<td>Full medical expenses under certification of Doctor + paid leaves in case of hospitalisation, but half-paid leaves if not hospitalised</td>
</tr>
<tr>
<td>Work Accident</td>
<td>Maximum 5 years’ salary depending on the quantum of disability Maximum 4 years’ salary in tea estates A detail of the quantum of disability and compensation is provisioned in Regulation under Workmen’s Compensation</td>
</tr>
<tr>
<td>Death by Work Accident or Life Long Invalidity</td>
<td>Salary of 3 years to the nearest family member + priority in employment to one of the family member</td>
</tr>
</tbody>
</table>
| Voluntary Retirement           | **Gratuity based on service years for tea estates**  
For 4 - 10 yrs – 10 days salary per year  
For 10 - 15 yrs – 15 days salary per year  
For 15+ years – 20 days salary per year  
**Retrenchment benefit**  
For 3 - 7 years – ½ month’s salary per year  
For 7 - 15 years – 20 days salary per year  
15+ years- 1 month’s salary per year  
Retrenchment benefit is alternative to gratuity |
| Old Age                        | **Provident fund**  
10 percent contribution from employee’s monthly salary + Equal contribution by the employer to be deposited to PF account  
Total amount with compound interest pay back to the respective employee/heir on his/her retirement/death  
5 percent of monthly salary contribution in the case of tea estates |
| Death During Job Tenure         | Payment depends on practice of the enterprise and strength of the union |
| Sickness                       | Half paid leave for 15 days per annum |
| Medicare                       | First aid to all  
Compensation to all from National & local welfare fund created through bonus fund under Bonus Act 1974 (70 percent of fund remaining after bonus distribution goes in Local Welfare Fund and 30% in National Welfare Fund) Immediate relief from welfare fund to family member also in case of accident or sickness |

3.5  Nepal’s Commitment to and Ratification of the ILO Conventions

HMG/Nepal is, in principal, committed to the ILO Conventions that it has ratified. A list of the ILO Conventions ratified by Nepal is provided below.

- Convention No. 14 - Weekly Rest
- Convention No. 29 - Forced Labour
- Convention No. 98 - Right to organize & Collective Bargaining
Convention No. 100 - Equal Remuneration  
Convention No. 111 - Discrimination in Employment & Occupation  
Convention No. 131 - Minimum Wage fixation  
Convention No. 138 - Minimum Age for Employment  
Convention No. 144 - Tripartite Consultation  
Convention No. 182 - Worst Forms of Child labour

Yet the pace of subsequent amendments to national legislation has been slow and the effective implementation of conventions is, accordingly, very poor.

Of particular interest to this study is the fact that the ILO Convention 102 on Social Security and the ILO Convention 183 on Maternity Protection have not been ratified by HMG/N. As a consequence, the entitlements outlined in these conventions continue to be absent from the country’s Labour Law.

3.6 Social Protection in the PRSP

Social Welfare provisions have been given only limited importance in Nepal’s periodic strategic plans. Provisions for Social Security and Social Protection are technically included in the 9th Plan, which was the first plan to put the alleviation of poverty as its prime objective.

The 10th and the latest economic plan is also known as the Poverty Reduction Strategic Plan. In accordance with the inputs from civil society representatives, the ILO’s contribution to the PRSP has made social protection for workers in the informal economy a high priority.

- The ILO Policy Recommendation on Social Security is to: “Bring the draft of the updated Social Security Bill before Parliament, following full consultations with the social partners and a full-scale technical assessment and design exercise, and strengthen support to the most vulnerable members of society through an increase in allocation to the existing national social assistance scheme”.

- The ILO Policy Recommendation on Social Protection is to: “Develop a national strategy for extending social protection to the poor and excluded. Priority could be given to identify ways to provide access to better healthcare, including HIV/AIDS, health insurance, life insurance, maternity protection and livestock insurance”.

It is anticipated that the government’s sectoral policies in relation to social protection will become clearer as it forges ahead with the implementation of the PRSP. With regard to social protection in health, the Ministry of Health has recently prioritised community and social health insurance in its 18-policy programme. The Ministry of Health, with key technical support from the ILO and DFID is highly committed to the implementation of this programme.
SOCIAL PROTECTION
IN THE INFORMAL ECONOMY
A Review of Existing Formal Initiatives in Nepal

4.1 Government Initiatives

Nepal’s currently deteriorating economy, combined with the impact of neoliberal economic policies and the process of globalisation have left very few options for the state provision of effective social and health security in Nepal.

4.1.1 Allowances for ‘Senior Citizens, Helpless and Widowed women’ have been made in the national annual budget since 1995. In the beginning, only Senior citizens above the age of 75 years were covered but from the following year vulnerable women above 65 years of age were also covered. A monthly payment of Rs. 100 is made to 195,000 elderly persons aged above 75 years; and 230,000 helpless and widowed women by the Ministry of Local Development through VDCs and Municipalities. It is a universal scheme based on age and not on income or socio-economic condition.

Some Bridhasram (old age homes) are based on religious principals rather than the more modern concepts of social protection. However, one state run example is located in the premises of Pashupatinath temple in Kathmandu (see box 3, below).

**BOX 3  A STATE RUN SOCIAL WELFARE CENTRE - THE OLD AGE HOME**

This old age home is managed by the Ministry of Women, Children & Social Welfare (MWCSW), in the premise of Pashupatinath temple in Kathmandu. Altogether 119 females and 86 males reside here. Elderly persons can submit an application to the Ministry for admission to the home. Persons above 65 years of age, with recommendation letters from their municipality or VDC, are eligible for admission and care. Persons admitted here receive food and shelter, and are given clothing twice annually.

At present, 22 government employees run the home and take care of residents. Doctors visit every alternate day, and among the staff are two health workers. All medical expenditure is borne by the government. Following the death of a resident, the home covers all funeral expenditures.

Source: Radio Nepal broadcast, August 2002

4.1.2 Under the present regulatory framework, the local government in the form of District Development Committees (DDC), Municipalities (MNCP) and Village Development Committees (VDC) has no special programmes of their own for the social protection of the working community. However, initiatives by these local units differ from place to place. Some municipalities and VDCs have made significant contributions to the development of educational facilities and have provided schooling and care for
students from poor families. The reach and extent of such programmes differs from place to place. Social assistance to needy persons in the case of high medical expenses or calamities like floods, landslides, or epidemics have always been extended by DDCs, MNCPs and VDCs.

4.1.3 All district headquarters have one **Baal Mandir**. They offer day care facilities and nursery classes with one mid-day meal, and are run for children between 3-7 years of age on a daily excluding public holidays and Saturdays. These schemes have been run for the past four decades, but in a very static manner and without being particularly effective. Only a few urban poor and lower middle class families send their children to a **Baal Mandir**, poor rural families do not benefit, If the scheme could be more effectively operated and extended to cover selected poor villages in selected districts it may prove to be a significant welfare measure for needy families.

4.1.4 **Programmes for blind, disabled, handicapped or mentally retarded children and adults** are based on modern models of social welfare. However government policies, plans and programmes that offer support to disabled persons or their families are ineffective. The major form taken by state programmes (which come under the jurisdiction of the Ministry of Women, Children and Social Welfare) is to provide schooling for disabled children and provide a range of vocational and skill training to adults. Organizations working for disabled, blind, deaf, dumb or handicapped children and adults are generally funded by financial donations from national or international sources. The government’s budgetary contributions are insufficient.

4.1.5 The Government has worked on the on the issue of **land resettlement**, or **Sukumbasi**, for nearly four decades. However, effective land reforms are yet to be implemented. In the wake of the Maoist insurgency and the activities of security forces, the resettlement of people displaced by conflict has become an urgent need in Nepal’s Mid and Far-western districts. Though the Home Ministry has been able to provide some interim relief, its coverage and contents need immediate expansion.

4.1.6 The government offers **stipends to poor and talented students** from families in both rural and urban areas. Through the Ministry of Education, a facility for free education in state-owned and community schools, (covering up to 12% of the number of students) has been in place from the very beginning of Nepal’s modern education system; specific stipends for Dalit students is an important recent development. Although secondary education is theoretically free in all state-owned schools students face a range of other payments and new charges. The distribution of books in state-owned primary schools is free up to class five. A special stipend scheme, the **Nepal Chhatrabritti**, operating for students of untouchable castes is presently providing stipends to 2000 students annually.

4.1.7 **Government run hospitals** at zonal and district levels, and their accompanying local health posts are a central element of Nepal’s health infrastructure. However, there are serious questions to be asked about the effectiveness of the services provided and the state of their resources. Despite some notable urban exceptions, like Bir Hospital and the Kanti Children’s Hospital in Kathmandu, the quality of most government health services is in decline.

As social expenditure is curtailed, subsidies are being reduced and social welfare expenditures have proportionally decreased. The inadequate quality and the high cost of many public health care services in the private sector have made the self-financing of health care for poor families extremely difficult. The government is currently searching for more viable and cost-effective health protection schemes. And
community-based measures, such as health micro-insurance schemes and other health care financing schemes, have emerged as a real necessity to increase the access of a majority to quality services at affordable prices.

4.2 NGOs/INGOs and Civil Society Initiatives

Since the mid-1950s non-governmental organisations have been providing social welfare services in Nepal. Some of these have taken the form of joint initiatives between the government and civil society while others were based purely on the collective spirit of social activists. The activities and the contributions of these organisations for welfare systems has been hugely important, as the formal social security system has been confined to a very small proportion of the population.

As the number of social organisations offering welfare services increased, the government established the Social Service National Coordination Council to regulate their activities. Today the Social Welfare Council has the responsibility of co-ordinating the activities of NGOs and civil society organisations.

With the re-establishment of multiparty democracy in 1990, there was an explosion in the number of NGOs operating at national and local levels. NGOs have tended to specialise in a particular area of concern (there are human rights NGOs, child labour NGOs, NGOs working on women’s issues, NGOs working on trafficking and prostitution issues, NGOs working on non-formal education, NGOs working on the extension of health services and NGOs working on environment issues) and we can find many elements of social protection in their activities. However, the majority of these efforts are scattered and have not been recorded in a coherent or consolidated manner.

4.2.1 Financial Cooperatives

The activities of financial cooperatives are concentrated in urban areas, and predominantly in the Kathmandu Valley. Most involve basic saving and credit activities, without any cooperative norms, and some have been accused of cheating innocent families in both urban and rural areas.

Many cooperatives related to health, handicrafts, dairy and vegetable products, and genuine self-employment activities have successfully assisted the income generation initiatives of members and their efforts have led to substantive improvements in living conditions.

4.2.2 Farmers’ Organisations

The majority of farmers’ and peasants’ organizations have been focused on political and social services rather than specifically protective mechanisms for their members. The main activity of these organizations is political lobbying, and the technical aspects of social welfare and social protection for rural farmers or peasants are rarely taken into consideration. There do exist, however, some small mutual aid groups and cooperatives that have been organised at the initiative of peasants’ & farmers’ organizations. These are focused primarily on services relating to cash crops and animal products.

4.2.3 Women’s Organisations

Mass based women’s organizations associated with political parties have recently begun to take initiatives directly related to the reproductive health and maternity protection of women workers. At their initiative, mothers’ groups/clubs exist in some rural areas.
However, specific social protection measures for women in general and working women in particular are still not a major issue on the agenda of Nepal’s women’s organizations. Most continue to concentrate on issues like domestic violence, divorce and property rights, reforms to the civil code, and national laws for gender equality.

This rights-based approach and increasing popular support for the women’s movement can play a significant role in the promotion of social protection mechanisms for women workers.

4.3 Micro-finance Institutions

The history of micro-finance in Nepal can be traced back to 1956 and the establishment of 13 cooperatives aimed at injecting credit into the rural agricultural economy. The Cooperative Act, 1959, formalized these institutions. In 1999 the number of cooperatives stood at 4,837, and had a total membership of 827,631 people. The loan disbursement reached as high as Rs. 591 million for commercial, productive and consumption purposes.

Micro-finance programmes have tried to protect the working poor and promote fruitful economic activities. A common focus has been the self-employed segment of the rural population, with some programmes focused specifically at rural women. These efforts and their achievements can be considered as social protection initiatives. All these initiatives, however, have been rather ad hoc and there coverage has been limited. None have introduced any coherent social protection systems for the unemployed or retired. Unfortunately, the majority of saving or credit cooperatives have been focused in urban areas and many have moved away from the founding principals of a socially responsible ‘cooperative’ movement to concentrate on the supply of services.

Rural Development Banks working separately across Nepal’s five development regions have been able to extend financial assistance to the poorest section of the population and benefited nearly 117,000 persons, including a considerably proportion of women. Although the impacts of these Rural Development Banks have been significant for many rural groups, the banks themselves are on the threshold of failure. The basic cause is mismanagement; the banks’ inspection, monitoring and advisory services are lax and loans are regularly miss-utilised.

With the implementation of the Tenth Plan, or the Poverty Reduction Strategy Paper, the role of such programmes should be revised from a clearly practical point of view.

4.3.1 The Cooperative Bank was established in 1963 with the objective of filling a demand for rural agricultural credit. It later became the Agricultural Development Bank of Nepal (ADB/N). The ADB/N’s Small Farmers Development Programme (SFDP) has benefited more than 152,000 small farmers across 75 districts.

4.3.2 In 1973, the Nepal Rastra Bank (NRB) introduced the concept of Priority Sector Credit and directed commercial banks to invest in the agricultural, industrial and service sectors. In addition, the NRB directed commercial banks to invest 0.5-3 percent of their total investment among deprived segments of the population.

4.3.3 The Production Credit for Rural Women (PCRW) programme, introduced in 1982, has also been significant. The Ministry of Local Development coordinates the programme in collaboration with the banking sector. Originally launched in five districts, it was later extended to cover all 75 districts and VDCs. Its objective is to improve the social and economic status of poor rural women through training, community development and the provision of credit. The programme has been
supported by various donor agencies and has provided financial assistance to more than 80,000 women. In 1993, the Ministry also launched a ‘micro credit project for women’ and reached more than 5,000 women.

4.3.4 Since 1991 a special programme of the Rastriya Banijya Bank has assisted 72 rural self-help groups, covering more than 6,000 borrowers living below poverty line. Other significant initiatives include the Women Empowerment Programme, the Rural Self-Reliance Fund, the Youth Self Employment Programme and the Poverty Alleviation Fund. However the actually implementation of these programmes has been left wanting.

4.4 Livestock and Life Micro-insurance Programmes

In Nepal, a number of I/NGOs, trade-unions and health providers have set up community-based micro-insurance schemes in health, life, livestock, assets, etc. As part of this study it is helpful to outline some currently existing micro-insurance schemes.

4.4.1 Livestock micro-insurance

In 1988, the Deposit Insurance & Credit Guarantee Corporation (DICGC) launched a livestock insurance programme under their Priority Sector Credit Programme. Initially it insured those livestock that had been purchased using bank loans, but from 1992 DICGC extended their policies to include self-financed livestock. This is an individual insurance scheme supported by a government subsidy. The premium rate is 6 percent, of which the government subsidizes 3 percent. Should an insured animal originally bought with a bank loan die, DICGC will pay 80 percent of the original bank loan. Following the death of self financed livestock, compensation is based on an evaluation of the loss. DICGC’s records show that between 1988 and 2000 more than 9,000 heads of livestock were insured (mostly cattle and buffaloes) and that nearly 8,000 farmers had participated in the program.

Insuring livestock through the DICGC is a long and bureaucratic process. There are cases of claimants waiting up to twelve months for a settlement. In view of this, some farmers have been reluctant to insure their livestock with this organization (ILO/STEP, 2001).

In 1998 the Agricultural Development Bank of Nepal decided in 1998 to implement its own livestock insurance scheme under the Small Farmers Development Programme (SFDP). The SFDP organized farmers into groups and provided loans on the basis of group liability. From these grassroots self-help groups emerged the Small Farmers Cooperative Limited (SFCL). By 2001, the livestock insurance service provided under the SFDP-SFCL programme to its members covered 629 households.

The cooperative provides extensive financial services (including saving, credit and insurance schemes) and has seen a steady annual increase in membership. An insurance management committee fixes the value of the livestock and the insurance premium is ten per cent of this value. Five per cent of the premium must be collected by the member while 5 per cent is paid by a government grant. The management committee provides health check up facilities for insured cattle, and in case of death a member is eligible for 80% of the insured amount (ILO/STEP, 2001).

There are other significant insurance schemes run by micro-finance institutions and designed for a self-employed rural population. The work of the Swabalamban Bikas Bank (Bank for Self-Reliance and Development); the Nirdhan Utthan Bank (Bank for the Up-Liftment of Poorest Groups) are worthy of mentioning.
4.4.2 Life micro-insurance

The Madhayamanchal Grameen Bikas Bank Ltd. (MGBB) is one of Nepal’s micro-finance institutions that has attempted to replicate the methodology of the Grameen Bank in Bangladesh. In 1999 the bank launched a life micro-insurance system under its Joint Relief Scheme. The MGBB has incorporated the Joint Relief Scheme into all its lending operations. The total number of members in the Joint Relief Scheme as of July 2000 was 18,745, they are exclusively wage earners or involved in agricultural activities for subsistence. Under its current policy, all family members of an MGBB member are eligible for compensation upon the death of the policy holder. Thus all family members of a policy holder are ultimately beneficiaries of the Joint Relief Scheme.

Similarly, the Centre for Micro Finance (CMF) has introduced life micro-insurance for its clients in three districts. The centre currently has 800 clients but is growing rapidly (see box 4).

**BOX 4 THE CENTRE FOR MICRO FINANCE (CMF)**

The CMF has been working since 2000 to study the major risks and vulnerabilities faced by Nepal’s poorest groups, especially women. It has concentrated on designing appropriate micro-insurance products and delivery mechanisms to fit particular socio-economic contexts.

The CMF’s studies have shown that major risks include illness, the death of an income earner, enterprise and life cycle risks. Their research has shown that individual self-insurance (by which is meant borrowing, the use of savings or the sale of household assets) is the most common method for dealing with shocks. Informal group based mechanisms -such as a community mobilization of labour, the collection of money or food from community members - are used in the event of deaths, marriages, or crop failures.

The CMF has been actively involved in providing training and technical support to micro-financial institutions. Their life insurance product has been pilot tested with two micro-finance institutions, the Nirdhan Utthan Bank Ltd. and Bindabasini Savings and Credit Cooperative Limited.

Currently the CMF is pilot testing a micro-life insurance product. In their ‘partner-agent’ model of implementation, the major roles of designing, selling and servicing insurance are divided between project partners. The National Life and General Insurance Company was the insurer selected to manage the risks involved.

So far about 800 MFI clients, their spouses and their parents are insured under the scheme. The main features are as follows:

- **Group Term Life (for 1 year) – Fully voluntary**
- **MFI Clients, Spouse and Parents (Age 16 - 64)**
- Covers both natural and accidental death
- **Excludes suicidal death up to two years from the date of first policy issued and death caused by breach of civil or military code**
- **Sum Assured : Choice of Rs 40,000; 20,000 and 10,000 (for Client and Spouse)**
- **Sum Assured : Choice of 20,000 and 10,000 (for Parents)**
- **Sum Assured 40,000 includes: Funeral Cost (Rs 15,000), Outstanding Loan (Rs 6,000), Transitional Cost (Rs 19,000)**
- **Premiums: Rs 280 for Rs 40,000 ; Rs 140 for Rs 20,000 and Rs 70 for Rs 10,000 / Accidental Death = Double Benefit**

4.5 Health Micro-Insurance and Health Care Financing schemes

Given that more than 90 percent of Nepal’s population live outside the coverage of statutory social protection (Messell, 2002), the focus of health care financing schemes has been to
identify the best means of supporting a health system that can successfully reach out to excluded, poor and marginal groups.

A health micro-insurance scheme is defined as a voluntary, non-profit insurance system in which resources are pooled to meet unpredictable medical expenses. It functions on mutual aid, solidarity and collective pooling of health risks. The community usually owns the system and is involved in the management and functioning of the scheme. Health micro-insurance schemes comprise a range of risk-sharing arrangements with different policy, management, organizational and institutional characteristics and various strengths and weaknesses (ILO/STEP, 2002).

4.5.1 ILO/STEP in Nepal

The ILO/STEP programme’s main objective is the extension of social protection to the excluded, with a strong emphasis on health.

In Nepal, ILO/STEP has been providing technical and policy assistance to civil society groups in carrying out feasibility studies, setting-up health micro-insurance schemes, knowledge-base development, and training/advocacy. At the community level, ILO/STEP promotes the use of different tools with the aim of assisting communities in maintaining good health (which includes health promotion, prevention, as well as issues of good hygiene and micro-insurance). ’Community Empowerment’, for example, is a crucial tool that can enable communities to act upon their own needs, and simultaneously increasing their access to social services and social security. The ILO/STEP programme is currently supporting the Government, trade-unions, employers’ organizations, NGOs and health providers in establishing gender-sensitive health micro-insurance schemes in five districts of Nepal.

Communities within a nation differ, as do their needs, and their ways of functioning. In some places micro-insurance may be an appropriate tool while in others a different formula may be more useful. In this regard, alongside health micro-insurance schemes there exist a range of community-based health care financing schemes in Nepal. Most often these are emergency funds set up by financial cooperatives, farmers’ cooperatives and women’s groups. In the literature related to health support systems these schemes are commonly described as ‘alternate health care financing’. ‘Alternate health care financing’ is often defined as a system of generating and dispensing a flow of funds from various sources for the support of health care services. Alternate health care financing is particularly important in the context of a government’s limited investment capacity. The concept of alternate health care financing is also important in the context of insurance schemes, where beneficiaries themselves share the costs of risk in a collective way. In Nepal, such schemes are a definite move away from reliance on the Government’s charitable allocations, its subsidies for user fees and premiums, which has been the main way of supporting access to health services (ILO/STEP and DHSP/Dfid, 2003).

In recent years, Nepal has seen a number of important health micro-insurance initiatives.

4.5.2 Public Health Concern Trust (phec- NEPAL)

The Public Health Concern Trust (phec-NEPAL) dreams of a wide, intensive network of health cooperatives and health insurance schemes that can minimise the adverse effects of globalisation and poverty on public health in general and individual health in particular. Phect-NEPAL is an affiliate of the International Health Cooperatives Association and has a close friendly relationship with the Federation of Japanese Health Cooperatives.

Phect-NEPAL’s cooperative health insurance scheme is based on two fundamental principles:
a) The participation of people, and
b) The ownership of people

Phect-NEPAL was responsible for founding the Kathmandu Model Hospital (KMH) as a health provider and partner institution for small community based cooperatives. Cooperatives have developed their own pharmacies and clinics, and in the case of referrals KMH provides services at discounted rates. Phect-NEPAL has developed a number of such cooperatives and continues to extend broad technical assistance as they extend the nature of their services for members.

The Kirtipur Health Cooperative (KHC) is a good example of a scheme initiated with support from Phect-NEPAL. Whole families in the Kirtipur area can become members of the community’s health cooperative. KHC’s funds are derived from two sources: shares and savings. In addition to general services from a clinic and a pharmacy, KHC provides counselling and maternity protection facilities. Health Workers from KHC provide free home visits and check-up services regularly for pregnant women.

Similarly, GEFONT’s Health Cooperative was launched in partnership with Phect-NEPAL (the work of the cooperative is documented in more detail below, see 2.2.4).

4.5.3 BP Koirala Institute of Health Sciences and BP Memorial Hospital

The BP Koirala Institute of Health Sciences is a new Institute, founded by the BP Koirala Memorial Foundation with financial support from India. It has its well-equipped hospital and medical college, the size of the premises and the range of resources are incomparable with other existing facilities in Nepal.

BPKIHS began a social health insurance campaign in April 2000. The scheme is a unique initiative in Nepal. The scheme welcomes any organized group – from a VDC, to socio-cultural organizations, schools and colleges, companies and civil associations - into its enrolment process. To become a member, interested groups and organizations negotiate the specific provisions of a health care package, an annual premium, and member obligations with the BPKIHS. Communication between the BPKIHS and the beneficiaries is channelled through these intermediary organizations. The Insurance covers:

a) Free Health Check-up  
b) Free Medicines up to Rs. 2,500.  
c) Free Surgery up to Rs. 10,000.

In 2002, this insurance scheme covered 2,551 households and had a total of 8,076 members. Of this, around 72 percent were adults and 28 percent children. The male: female ratio of the members was 49:51. It is estimated that by mid-2004 the scheme will cover 18,000 members from 30 intermediary organizations (ILO/STEP and DHSP/Dfid, 2003).

<table>
<thead>
<tr>
<th>TABLE 10</th>
<th>MEMBERS COVERED – BPKIHS (2003)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Number</td>
</tr>
<tr>
<td>Adults</td>
<td>12,500</td>
</tr>
<tr>
<td>Children</td>
<td>5,500</td>
</tr>
<tr>
<td>Total</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Source: BPKIHS, 2003
Under this social health insurance scheme, people from rural areas can insure themselves by paying an annual fee of Rs. 180 (per adult) and Rs. 90.00 (per child). The insurance premiums can be paid on a monthly basis at the rate of Rs. 15 per adult or Rs. 7.50 per child. For the inhabitants of city municipalities, the rates are a little higher. For adults the annual fee is Rs. 600 and for children Rs. 300, on a monthly basis the fee is Rs. 50 for adults and Rs. 25 for children. For families with more than 6 premium paying members, the scheme provides a 5% discount on each of the charges levied in hospital.

Under the scheme a VDC itself can fully insure the poorest families, or those who can only partially pay a premium. The scheme is being popular and VDCs in the eastern districts of Sunsari, Morang and Dhankuta have begun to enrol. The scheme was originally launched in Sundarpur VDC, Morang. To date more than 50% (400) families from the VDC have been insured.

4.5.4 Lalitpur Medical Insurance Scheme

The Lalitpur Medical Insurance Scheme was launched in 1976, with support from the United Mission to Nepal and by the Community Development & Health Project. Today the scheme is no longer extending. In collaboration with District Public Health Offices and various health posts, the scheme covers five VDCs (Ashrang, Chaughare, Chapagaon, Bhattedanda and Gotikhel). The annual premium is between Rs. 75-100 per family. The actually amount is based on the size of a family. The scheme provides a range of medical and charitable services for non-members, the poorest of the poor. Members in the scheme are referred to the District Hospital for subsidised medical care.

A few similar initiatives, on a very small scale, can be found across Nepal. Some clinics have a membership card system, and cardholders receive medical check ups and medicines at discounted rates. The Nirdhan Health Insurance Scheme for example is associated with Nirdhan Utthan, an NGO developing micro-finance initiatives and income generation activities for the poor. This membership-based scheme is still at an initial stage.

There are also a number of private sector nursing homes and clinics that offer incentives and discounts to members, but these are business tactics and benefit those classes of society who can afford to pay very high rates for their health services.

4.5.5. GEFONT’s Health Co-operative Scheme

GEFONT has begun implementing micro-insurance programmes through the formation of workers’ cooperatives. In 2000 it initiated a health cooperative as the first step towards a broad based workers’ cooperative movement that can provide affordable health care for its members.

GEFONT’s Health Cooperative Scheme undertakes five major activities:

- The operation of a cooperative health clinic;
- The operation of a pharmacy;
- The settlement of referral cases through the Kathmandu Model Hospital, based on an agreement with Phect-NEPAL;
- The development of a nationwide campaign on OSH;
- The training of health workers within the trade union movement.
The scheme has more than 500 individual shares, worth NRs. 100 each. GEFONT provided NRs. 50,000 seed money to promote the initiative. Thus, the scheme’s original investment was NRs. 100,000.

All members pay NRs. 1 per day, and GEFONT provides 10 percent of the total to subsidise clinical care for non-shareholding GEFONT members. The cooperative charges NRs. 60 to cooperative members, Rs. 70 to GEFONT members, and Rs 75 to the general public for medical check ups. As a comparison, the market rate is in the range of Rs 100-150. Beneficiaries are entitled to a discount of between 6-15 per cent on medicines from the pharmacy. The cooperative also provides services for the dependents of members. One dependent per member is entitled to the same level of services at the same cost. A referral agreement with Phect-NEPAL Nepal and the Kathmandu Model Hospital (KMH) gives members and dependents a discount of between 20-50 per cent for further medical services.

In the period between October 2000 and December 31, 2001, 174 people were referred to KMH. The total cost incurred was NRs. 246,664. GEFONT’s Health Cooperative shared Rs. 61,666 of the cost, Phect-NEPAL Rs. 61,666, and members paid only 50 per cent of the expenses.

This scheme is being extended to several zones across the country, and GEFONT aims to provide a service for as many as 50,000 workers in the near future (Workers News 2002). Despite these ambitions, the scheme is expanding slowly.

4.5.6 Centre for Community Development and Research (CCODER)

Established in 1994, the Centre for Community Development and Research (CCODER) has been playing an active role in the organisation of self-help activities at the community level. CCODER emphasizes a concept of holistic development, in which health care is an important component. With 12 years experience of community work, the organization highlights awareness as a crucial aspect of any process of development. In CCODER’s words: “To make people prepared to avoid injuries they should be made aware of the possible risks”.

CCODER considers a grassroots approach to be the key factor in sustainable development: “Just like a tree cannot grow top down, development cannot just remain at the top without roots on the ground”. Their philosophy aims to make people aware of their potential, while helping them to analyse problems and identify solutions (Dhital, 2003:1). In this respect, CCODER’s approach is to guide people in a community towards the construction of strong, self-governing and participatory organizations.

Under CCODER’s scheme, each member pays a premium of Rs. 2 per month. CCODER allocates forty percent of profits made through its banking facilities to development activities, as decided by members. This has opened room to provide assistance to the most disadvantaged families. CCODER has occasionally organized health camps and invited doctors from Germany and United States to contribute their skills (ILO/STEP and DHSP/Dfid, 2003).

CCODER estimates that around 70 percent of health problems can be controlled through preventive measures while 28 percent can be solved at the primary health care level. The remaining 2 percent of health problems are more complex and necessarily require specialized services that can not be provided by primary health care centres. In view of this, CCODER’s health insurance scheme advocates preventive and then selective curative interventions. Cases are classified into different categories, and the majority of treatments
are provided by a primary health care centre. In selected cases a patient will be referred for specialized services and covered by the health insurance scheme. Primary Health Centres are encouraged to use Ayurvedic and herbal medicines, utilizing as far as possible plants that are grown in the community. A condition applied to patients proceeding to curative services is that they or their family members should have made some contribution to the community’s preventive infrastructure (for example through the construction of drinking water, sanitation or kitchen gardening facilities).

4.5.7 The Community Drug Programme (CDP)

Despite the interest of His Majesty’s Government to provide a continuous and adequate supply of quality drugs to health facilities the actual availability of essential drugs is a significant problem. In most places the annual supply of drugs is only sufficient for 3-5 months. As a consequence there is a tendency for health providers to manage their supplies shrewdly and dispense drugs in very small quantities, irrespective of a patient’s actual need (MoH, 2000:15). Recognizing the problem, in 2000 the Ministry of Health issued a policy document on ‘Drug Financing Schemes’ to facilitate community level management of drugs in line with the Local Self-governance Act.

The policy emphasizes that the sharing of central and district level resources can supplement resources mobilized locally by a community. Such a strategy demands alternative financing mechanisms such as health insurance schemes, user fees, the privatisation of public health services, and the contracting out of services. The major thrust of the policy is to ensure the availability of essential drugs in an acceptable quality and in accordance with the standards of the Department of Drug Administration (DDA). The policy also aims to ensure that drugs are prescribed rationally and not misused by the general population. To ensure this, the policy advocates the effective and efficient community management of drugs, the provision of drugs at reasonable cost, the maintenance of high standards, and forecasts based on current rates of consumption (MoH, 2000:15-18).

As a result of this change in policy, the government’s Community Drug Programme (CDP) has been implemented in 25 districts and aims to eventually cover all districts in the country. During the period covered by Nepal’s Tenth Five Year Plan, the programme has plans to expand into thirty-five new districts. The programme’s objectives are:

• To ensure the year round availability of essential drugs for primary health care facilities;
• To promote the participation of local communities in the management of health facilities, and increase the utilisation of facilities;
• To ensure the rational use of drugs reflecting standard treatment protocol;
• To improve the quality of healthcare services at Health Posts, Secondary Health Posts, and Primary Health Centres

Various international donors have provided assistance to the programme, including UNICEF, BNMT, CARE/Nepal, DHSP/DFID and CBDM/GTZ. A CDP Networking Committee has been formed under the Chairmanship of the Director of the Logistics Management Division. Members of the Committee are drawn from DDA, WHO, UNICEF, BNMT, CARE/Nepal, DHSP/DFID and CBDM/GTZ. The Chief of the CDP Section works as a Member Secretary to the Committee.
4.6 Trade Union Initiatives

Nepal’s national trade union bodies - the General Federation of Nepalese Trade Unions (GEFONT), the Nepal Trade Union Congress (NTUC) and the Democratic Confederation of Nepali Trade Unions (DECONT) – and their affiliated federations have been pro-active at addressing the whole spectrum of social protection issues.

One of the most basic tasks undertaken by trade union organizations in Nepal as elsewhere is to try and ensure a minimum wage. However, unions provide a far greater range of services for their members. Nepal’s unions deal with working conditions and medi-care, they address the management of emergencies/contingencies and have specialised legal officers who can handle individual legal cases.

The Occupational Safety and Health (OSH) programmes run by Nepal’s trade unions, and supported by the ILO, stands out as an important initiative towards developing effective social protection mechanisms for workers in the formal and informal economy. The OSH programme touches upon different spheres of social protection, from safety measures in the workplace to health promotion and preventative care. Two important steps taken by trade unions as they work towards ensuring health protection for their workers has been the formation of workers in health cooperatives and the organisation of annual health camps (these initiatives will be more thoroughly discussed in chapter 2.2).

In addition, the non-formal and formal educational support provided by trade unions to the working community, in cooperation with international agencies like the ILO, Friedrich-Ebert-Stiftung (FES) or the Global Union Federations, can also be considered as indirect forms of social protection.

The Trade Union Committee for Gender Equality and Promotion (TUC-GEP), a coordinating body comprising representatives from of Nepal’s three trade union confederations, has played a vital role in addressing policy issues relating to social protection and gender equality at work. Through TUC-GEP, a study that looked at labour legislation through an explicit gender perspective identified ten common gender issues at the workplace. The first point identified maternity protection as a crucial means of safeguarding the health of workers (Nirmala Sharma in: ILO/STEP, 2002). Indeed, most of the ten points stress the need for gender sensitive social protection mechanisms in the workplace. The document calls primarily for the ratification of ILO Convention 183 on Maternity Protection and Convention 156 on Rights for Workers with Family Responsibilities. These conventions contain guidelines for maternity protection and maternity leave, The TUC-GEP study also recommended the formulation of laws against sexual harassment and violence; a separate law on occupational safety and health that would address both the formal and informal economy; and the development of a tripartite information and awareness programme (i.e. one involving trade unions, employers and the government) to deal with the emerging problem of HIV/AIDS.

Some specific trade union initiatives with social protection components are detailed below.

4.6.1 Social Security Act Proposed by NTUC

Through lobbying, NTUC has helped to get several acts and international conventions passed by parliament. The Social Security Act, drafted and proposed by NTUC, is currently awaiting consideration by the parliament. It has been designed as a general law to cover social protection.
NTUC has been actively campaigning to promote social welfare, social justice, human rights, gender equality and the elimination of child labour at the national level. NTUC is dedicated to the expansion of union activities into the unorganised, informal economy to provide tangible benefits to those in need. NTUC began its campaign for social security by conducting a series of training programs on safety nets for its leaders and general workers, as well as a number of interaction programs for Members of the Parliament.

4.6.2 Education and Health Protection Programme of NTUC

NTUC has been running primary schools for working children and children from workers’ families, concentrating particularly on those with links to the carpet industry and tea plantations.

NTUC also runs a health clinic for workers without good access to health care facilities, and occasionally organises mobile health camps. NTUC has developed a training manual and currently has 110 trainers who are able to provide training on issues related to occupational safety and health (NTUC, 2003).

4.6.3 DECONT’s Education and Health Protection Programme

DECONT has undertaken a range of awareness raising activities, covering issues of social security, OSH, and HIV/AIDS. In cooperation with various organizations, DECONT has organized mobile health camps in five districts. The health camp has been visited by around 5000 workers and received free medical check-up and medicines. DECONT has formed various women committees with responsibility for raising awareness about rights to maternity protection, maternity benefits, and maternity leave.

4.6.4 DECONT’s Small Cooperatives Programme

DECONT has established various small cooperatives, including two day care centres in Nawalparasi district. It has established a Construction Accidental Insurance scheme in Hetauda and a Transport Social Security Fund in Kathmandu, Jhapa & Hetauda. It is involved in planning for health insurance in Sunsari district, and is exploring other viable income sources for worker schemes at the local level.

4.6.5 GEFONT’s integrated social protection scheme

GEFONT has begun implementing specific social protection programmes. By supporting the formation of workers’ cooperatives, GEFONT has developed viable micro-insurance schemes for its members. GEFONT established a health cooperative in 2000, after recognising the inability of its members to access expensive health care services. Their efforts have included awareness raising activities and the promotion of a movement for public health care.

GEFONT runs an Occupational Safety & Health programme, supported by the ILO. Under this programme, GEFONT has trained 50 people to give orientation workshops to their affiliated federations on the importance of occupational safety and health. Maternal health protection is central to their OSH programmes (Nirmala Sharma in: ILO/STEP, 2002).

Another significant health protection move worth mentioning here is an ambulance service run by the enterprise level union at Bhrikuti Paper and Pulp, and affiliated to the Nepal Independent Chemical and Iron Workers Union.
4.6.6 GEFONT’s Emergency Fund Scheme

In 1994, GEFONT established an emergency fund to assist its members. The fund was started with Rs. 100,000 seed money. Under the scheme, members pay Rs. 5 every month and are eligible to receive emergency compensation should they suffer a job loss, or the loss of income due to strikes or lockouts. Members are also eligible for financial assistance with medical expenses if their employer does not cover such costs.

At first the fund was limited to the formal sector only, but for the past four years it has included construction sector workers (Workers News 2002).

4.6.7 Services Run by the Independent Transport Workers Association

The Independent Transport Workers Association of Nepal is affiliated to GEFONT. It collects dues from members and non-member transport workers in 109 places on Nepal’s roads. The sums collected around Rs. 26,420 per-day and Rs. 792,440 per-month. These collections enable a wide range of benefits, including:

- Police Custody allowance;
- Medical allowance in the case of accidents;
- Assistance to survivors in the case of death;
- Assistance with legal expenditures;
- Token assistance to dismissed workers;
- Hospital allowances in case of sickness;
- Passenger treatment cost if it is to be shouldered by transport workers;
- Additional assistance to seriously injured and disabled workers.

The rates and methods of payment differ in various zones according to the case in question (Workers News 2002).

4.6.8 Transport Workers Welfare Fund

In 1974, the Transport Workers Welfare Fund was established by labour activists in the transport sector. The fund’s main objective was to provide financial and other assistance to transport workers involved in road accidents. The Fund forged ahead with the slogan ‘No drivers will be in jail. No drivers will be in police custody. And no transport worker will become disabled or die due to the absence of treatment’. The fund grew rapidly. Today it has its own building and owns property worth millions of Rupees.

The management committee that heads the fund is elected every three years, and the role played by the Independent Transport Workers Association of Nepal is decisive. On the road, all automobiles in the private sector and individual drivers in the public sector contribute to the fund. Dues are based on the distance travelled. The fund has 14 local offices in different parts of the country and can handle accidents wherever they take place.

Alongside its major concern with accidents and casualties, the fund provides a variety of services to its members. It will provide a lifetime monthly payment of Rs. 1,000 to workers
who have become physically disabled after a road accident; And a scholarship of Rs. 3,000 for the son or daughter of those killed in road accidents.

The Fund also covers the medical expenses of passengers who are injured in road accidents. According to the fund’s statistics, there were 836 automobile accidents in the year 2000-2001. There were 537 deaths, serious injuries and minor injuries compensated by the Fund. Compensation from the fund was also paid to cover the cost of 43 cows, 39 buffaloes, 107 goats, 11 pigs and 63 rickshaw/bicycles also involved in road accidents. In total the fund paid out Rs. 14.93 million in compensation (Workers News 2002).

4.6.9 Accident Insurance for Trekking and Mountaineering Workers

There is a single union for porters in the tourism industry. The number of regular, fee paying members, does not exceed 20,000. However, estimates of the number of porters working in the industry are as high as 60,000.

Previously, the policy of trekking companies was to provide employees with life insurance policies worth between Rs. 25,000 and Rs. 100,000. A long series of negotiations between the government, employers’ and workers’ organizations has resulted in compulsory life insurance for porters formally employed in the tourist industry. In addition, employees will be offered a minimum of Rs. 25,000 and a maximum of Rs. 50,000 for medical expenses in the case of injuries.

In 2002, a special fund was launched by the Union of Trekking-Travel-Rafting Workers of Nepal (UNITRAV). Despite the poor current condition of the tourist industry, the Fund has collected Rs. 50,000 in its initial stage.

Under the programme, porters and other assisting workers pay a set amount to the fund (UNITRAV Magazine 2002):

- Workers in the group of 6 tourists = Rs. 75.00 per worker
- Workers in the group of 7-10 tourists = Rs. 100.00 per worker
- Workers in the group of 11 & above tourists = Rs. 150.00 per worker

The fund aims to provide: Invalidity compensation, Survivor’s benefit in the case of death, training to upgrade the skills and efficiency of workers, OSH awareness.

4.6.10 Central Union of Painters, Plumbers, Electro and Construction Workers Welfare Fund

Primarily due to trade union activity in the construction sector, workers and employers, contractors and labour officers are increasingly conscious of occupational safety and health issues at work. The Central Union of Painters, Plumbers, Electro and Construction Workers (CUPPEC-Nepal), affiliated to GEFONT, has played a particularly significant role. CUPPEC-Nepal has successfully fought a number of cases on behalf of their members, and won compensations claims for the victims of accidents at work. Examples of tough collective bargaining for accident compensation and other protective measures can be found at the Bhotekoshi Hydel Project, the Kali Gandaki A Project, and the Gokarna Resort Project. The Labour Protection Act and the Public Work Directives state that employers must insure their workers, but these provisions are hardly ever applied. The current system does require contractors to submit a copy of an insurance policy to their client before construction work begins. However, this is seldom done and engineers will rarely block the start of a project for...
this reason. Neither contractors nor client engineers make careful on-site assessments of the OSH situation. Instead, this task is considered to be the duty of a Labour Inspector from the Department of Labour, although it is common knowledge that the Labour Inspectorate lacks the manpower to carry out such a role.

The negotiations between trade unions in the construction sector and employers’ organization have prioritised social protection issues, as have the promotional/advocacy activities of NOSHA, ESPS-DANIDA & OSHE. In the main, the work of these organisations has been limited to claims for accident compensation and medical expenses. Recently, though, CUPPEC-Nepal has sought to develop small welfare funds, based on self-help activities among union committees at the grassroots.

4.6.11 Rickshaw Pullers’ Union Fund

According to the Nepal Rickshaw Pullers Union, more than 60,000 workers are engaged in rickshaw work. Of this total, only about 10,000 are unionised.

A rickshaw pullers fund is collects a daily payment of Rs. 1 from members. The fund is then used for a range of initiatives, and can be draw from in times of particular hardship. However, the fund has faced a series of management problems. Corruption, the non-repayment of loans from the funds, and the high turnover of members themselves has made the fund and the process of unionisation itself very unstable.

4.6.12 Nepal Street Workers Union

Street vendors have formed some small un-registered micro cooperatives, dhikuti groups, and retailer associations, and union activities are just beginning (See box 5, below). Indian vendors are not associated to any of these organizational initiatives.

<table>
<thead>
<tr>
<th>BOX 5</th>
<th>ORGANISING NEPALESE STREET VENDORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>The president of Nepal Sadak Vyapar Shramik Sangh (the Nepal Street Workers Union), Narayan Neupane, tells that street vendors’ organizational initiatives began after the restoration of multiparty democracy. Street vendors did not think of themselves as Majdoor, or workers in the class sense of the term, and formed the Small Retailers Association. Vendors in Kathmandu municipality began to organise, Neupane says, in order to protect themselves from the attacks of security guards. Guards were regularly chasing vendors, snatching or seizing their saleable items in the street.</td>
<td></td>
</tr>
<tr>
<td>Neupane and his wife are both vendors, and sell readymade clothes on the premises of Bhrikuti Mandap in Kathmandu. The clothes originate in Khasa-Tibet and are purchased from wholesalers.</td>
<td></td>
</tr>
<tr>
<td>Neupane has been working since 2001 to unionise street vendors and has organised several national gatherings of vendors. He acknowledges that, at present, people of Terrai and Indian origin are unwilling to join these organisations. The cause, he suggest, is that they are afraid of organising themselves as they feel it means becoming involved in politics.</td>
<td></td>
</tr>
</tbody>
</table>
SOCIAL PROTECTION IN THE INFORMAL ECONOMY
A Review of Community Initiatives in Nepal

For reasons of time, and due to the limitations described in Chapter 1, section 1, this study has been unable to systematically explore the effectiveness of these community-based schemes. More detailed and comprehensive research is necessary in order to:

a) Analyse cultural values/attitudes towards such community based schemes;
b) Analyse existing gaps in the coverage of such services; and
c) Identify issues, constraints and areas for improvement.

5.1 Sharing Risk at the Community Level

Informal social protection mechanisms denote the means used by a community to protect members against social, political or economic shocks. Many rural communities have a long tradition of providing social protection. Alongside the distinct forms of social and political organisation that can be found in different societies are a wide variety of social protection mechanisms.

Sharing risk is not a new idea in the Nepalese context. Mutual aid is a Nepalese tradition, rooted in family ties and community relations. There is a tradition of people organising groups to help meet their socio-economic needs. All of these institutions rely on self-generated resources and most are organised informally.

Most mutual aid institutions operate exclusively for the benefit of particular caste or ethnic communities. The most obvious examples are funds which operate for the benefit of a particular group of people. Some contemporary examples clearly demonstrate how social protection mechanisms are created by communities to meet the specific needs of their members (see, for example, the funds created by migrant workers in Jumla: box 7, below).

Social and cultural institutions, most obviously the family and religious groups, also play a key role in the protection of individuals in society. The function of such informal social institutions is to ensure the security and protection of members throughout the different stages of their lives.

**Kinship groups** play a vital role in protecting their members from crises. In rural areas with a virtual absence of formal socio-economic institutions, kin groups are crucial in absorbing economic hardships and extending social assistance. Such forms of assistance usually operate exclusively within a particular lineage and most commonly at a time of death, marriage, famine or some other unseen natural calamity.

Charity is the common basis of most **religious institutions** in Nepal. Believers are motivated to undertake charitable acts by the promises of the next life. Examples of religiously inspired charity include the provision of drinking water supply spouts, giving shelter to pilgrims and travellers, the construction of hospitals and hostels for the elderly or infirm.
A range of community-based and caste-based social protection provisions to be found in Nepal are enumerated in Box 6 below and are further outlined in the following sections of this chapter.10

![Box 6: Mutual and Community-Based Initiatives of Social Protection in Nepal](image)

5.2 Mechanisms for the exchange of agricultural labour and food assistance

**Parma** is an agricultural labour exchange system. Village based parma groups are established between families or households, and members work each other’s land without payment during peak farming seasons. A Parma like institution practiced in the Newar community is called **Manka Jya**; while members of the Gurung community organize farming activities through similar institutions called **Nogar** and **Lhoba**. Among Magar communities, help between families or neighbours with agricultural labour or food is known as **Saghau**.

In Gurung villages a **Dharam Bhakari** or grain bank for food resources can be found. A Dharma Bhakari is organised among like-minded neighbours in order to cope with future food shortages. Families deposit some quantity of paddy, millet and other food grains for assistance to the community in times of need. Occasionally, grains from a Dharma Bhakari are sold and placed in a **cash fund** which provides low interest loans to members of the community.

5.3 Mechanisms for assistance to the communities’ social and physical infrastructure

**Guthis** refers to a charitable trusts funded by a person, family or community and associated with religious institutions and temples. Such funds are put to use for communal welfare.

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10 It should be noted that the authors of this study state that they were unable to identify any indigenous social protection mechanisms that are particular to Dalit communities. Low caste groups are among the most deprived in development terms, however, this section of the report does set out to outline the specific social protection needs of the communities it mentions.
The Guthi system is the most important collective mechanism in the Newar community, and there are guthis for a range of different purposes. Si guthi or Murda guthi describe funds to be used specifically for funeral ceremonies. A Paniya guthi is used for the management of drinking and irrigation water. During festivals, funds are collected from the community on a household basis to meet local expenses.

Old Guthis are based on castes and sub-castes, but new Guthis are often based on locality. Traditionally, a Guthi was started by about eight families. As they grew, Guthis could be divided into two or three groups. Each member household was expected to make an equal contribution to the Guthi fund, and it was compulsory for at least one person from each member household to be actively involved in each Guthi organised activity. If any family did not send a member to participate the management committee had the right to demand they pay a fine in rupees.

Guthis is associated with a particular God or Goddess; for example, a very old Guthi in Patan is associated with Vishnu Devi Mandir. A similar example in Bhaktapur is the Mahakali Sudhar Samiti, which is associated with the Goddess Mahakali. This group undertakes new community projects, including sanitation management, the renovation of the Mahakali temple area, arrangements for the development of a picnic spot and the provision of material assistance for feasts and festivals.

In Bahun and Chhetri communities’ buildings known as Dharmasala and Pati-Pauwa are often constructed with Guthi funds, and by donations from rich individuals. They are built to provide free or low cost lodgings for travellers and pilgrims. Wealthy Bahun and Chhetri families or individuals are also known to cultivate fruit plants for public use, in a practice called Sadabarta.

A comprehensive arrangement for collectively undertaking construction or development projects can be found among Tharu communities. This system known as Badghar is widely practiced in the Mid- and Far-West Terrai districts of Nepal. Generally, the eldest and wisest person is elected as community leader and is given the authority to act as guardian of the community. Households in the community collect grains (usually rice) to meet the expenses of activities decided by the community. These may include the repair and maintenance of local irrigation systems, village roads, and public buildings. The mechanism also extends support to needy and poverty stricken households. All these activities are carried out under the leadership of the community guardian.

In Gurung, Nongur describes unwaged work for the community’s benefit while Dhongur describes the practice of collectively saving funds for help to the community.

A new form of community organisation in Gurung villages is the mothers’ group, or Aama Samuha. These organizations of mature women collect funds by providing cultural shows to tourists and guests, and often operate with assistance from NGOs. They operate a range of income generating activities, most often small craft industries. Some mothers' groups have also been involved in the construction of facilities, like water taps, for collective use. Mothers' groups have been instrumental in instigating micro-level social reforms, through campaigns against alcohol and gambling.

5.4 Mechanisms for assistance to families in need

Within the Gurung community, Gol groups are a collective means of assisting with natural disasters like floods or landslides, times of intensive cultivation or cropping, and the construction of homes. Gol groups are often involved in building public facilities for use by all members of a community. Needy families can make specific requests for financial assistance to Gol groups.
Within the Thakali community, a system known as **Dhikuti** gives full financial assistance to very poor families or families who have suddenly found themselves in a difficult financial situation. The assistance is offered in order to raise their living standards to a ‘normal’ position. Dhikutis operate at the local level, and usually cover all Thakali families residing in a particular village or locality.

A Dhikuti system is also used by other castes, but is usually limited to only a few families. This type of collective initiative is known as **Dhikur**, in which members of a group collect and contribute a mutually agreed amount for a collective fund. The group then provides credit facilities for each member on a rotational basis. Its financial discipline is based on the good faith of members.

**Guhar** is a mechanism based on community ties; and describes the extension of assistance and cooperation to neighbours at the time of an emergency. **Paincho** describes a short-term, non-cash loan that should be repaid in kind, and which is common among caste and ethnic communities across Nepal.

<table>
<thead>
<tr>
<th>BOX 7 COLLECTIVE HARDSHIP FUNDS FOR THE FAMILIES OF MIGRANT WORKERS IN JUMLA</th>
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<tbody>
<tr>
<td>As seasonal migration for employment in India has increased, migrant workers in Jumla have developed a collective system to save money for the community.</td>
</tr>
<tr>
<td>If many persons from the same village are going to India for work, they deposit money into a collective fund that is supervised by a respected and elderly member of their community. All agree to contribute an equal amount of their earnings on each return visit from India. The fund is used to give financial assistance to their families in the case of emergencies while they are away.</td>
</tr>
<tr>
<td>This practice is completely village based and illustrates the ingenuity of indigenous social protection mechanisms that are designed to meet the specific needs of a community.</td>
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</tbody>
</table>

### 5.5 Mechanisms for assistance in the case of death or illness, pregnancy and old age

In Sherpa, **Nekor** is a popular term which denotes the visit to a sick person by members of their family, caste or community. This is a widespread practice in the Sherpa community and visitors usually take something to assist the ill person in their recovery.

In Bahun and Chhetri communities, **Mana Chamal** describes the similar practice of giving assistance to a family over the 13 days of mourning which follow a death. Relatives and friends visit the bereaved to offer their condolences, and take edible gifts of rice, ghee, and fruits.

Among the Brahmin, Chhetri and Newari communities of the Kathmandu Valley, there is tradition of giving **Dahi-Chiura** (curd and flour) to pregnant women. This could be considered as a form of maternity protection. Pregnant women are given good nourishing food by their relatives and neighbours, and the practice may offer some protection against anaemia in pregnancy.

Some arrangements for orphaned children and elderly people can be found among the Sherpa communities, two examples are the **Yolma Foundation** and **Yolma Social Service Center**. Similar types of informal institutions can be found in the Gurung, Magar and Tamang communities, the majority of these organisations focus on giving support to families in the case of death although they sometimes assistance with medical expenses.
6.1 The Imperative for Social Protection in Nepal

There is no single model of social protection that can benefit everyone, in every situation, and in every country (as the ILO, and ILO-STEP in particular acknowledges). The social and economic conditions of workers in the informal sector are extremely diverse, and social protection measures have to be formulated accordingly.

The imperative for strategic social protection in Nepal, with regard to the characteristics of the labour force and the informal economy were presented in Chapter 1. To reiterate, the effective targeting of specific groups is essential if social protection initiatives are to cover the most needy and vulnerable in society.

Social protection activities should be specifically targeted at vulnerable groups of people at work in the informal economy. These should include: landless people, Dalits, migrant workers, women, and the disabled. Some issues – child health/nutrition, child education, and child labour in particular – as well as the broad concern with social and economic exclusion are cross cutting and are of relevance to all target groups.

Supply side social protection mechanisms should, as a priority:
- Ensure access to assets (land reform) and food security
- Develop Health protection schemes
- Provide skill training and the promotion of micro enterprise activities

Demand side social protection activities should prioritise:
- Community driven micro-saving and finance initiatives

6.2 New and Revised Roles for Old Actors

Nepal’s state machinery is absolutely insufficient to undertake such measures alone. Non-governmental and civil society actors, with particular areas of concern as well as specialised areas of expertise, must coordinate their efforts and the flows of information between them.

This penultimate section of the study suggests new and revised roles for state and non-state actors in supporting the development of social protection schemes that will reach out more effectively to workers in the informal economy.12

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11 Article 25(9), however, makes clear that it will be state policy to offer special protection to orphaned children, helpless women, elderly and disabled persons. In a similar vein, Article 25(6) states that interests and rights of workers should be protected.
The key question is what the ILO, the tripartite social partners, and other national or non-national organisations can do to support an enabling environment for the implementation of social protection systems in Nepal?

6.2.1 The ILO and its Tripartite Social Partners

- **Work towards ratification of the relevant ILO Conventions** concerning social protection, in particular ILO Convention 102 on Social Security and ILO Convention 183 on Maternity Protection;

- **Organise and facilitate a Tripartite Social Protection Committee** (TSPC) to coordinate between all national and non-national actors concerned with social protection;

- **Enhance the implementation of existing provisions** on social protection and the regulatory framework (policies laws, rules & regulations).

- **Encourage further research**, dissemination and awareness-raising on social protection issues with a particular emphasis on the existing, informal community level systems for assistance to vulnerable groups;

6.2.2 HMG/Nepal

- **Introduce of a coordination mechanism** for social protection initiatives amongst MoC, MoWC&SW, MoD, MoH, MoE and all concerned line-ministries;

- **Promote of social protection incentives** through legislation, decentralization and the direction of existing funds to protection-providers, with an emphasis on health protection.

- **Decentralise social protection systems**, including the micro-insurance schemes that form part of existing national strategies. Localised micro insurance schemes should be a central element of a national social protection strategy. Such a process would involve the design of health insurance schemes run through zonal/district hospitals and local health posts, and the provision of maternity care by VDCs and Municipalities, with assistance by the DDC and the Ministry of Health.

6.2.3 Employers’ Organisations

- **Promote social protection initiatives** among employers;

- **Encourage employer contributions** to social protection / social assistance funds in VDCs/Municipalities and encourage contributions from employers to national relief funds for use in emergencies

- **Promote insurance** at work to cover employees for health, as well as injuries and accidents to that occur in the workplace; and

- **Enhance mechanisms** to police employers’ minimum wage obligations.

6.2.4 Trade Unions

- **Lobby government and employers’ organisations** to undertaken new initiatives for social protection;

- **Establish workers cooperatives** and self help groups;

- **Undertake awareness raising activities** on social protection, at the enterprise level

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12 This section builds on recommendations made by the round table discussion, ‘ILO Convention 102 on Social Security and beyond’, held in Kathmandu on the 22nd November 2002.
6.2.5 National and International Social Welfare Organizations

- **Provision of capacity building** for local organizations undertaking social protection activities;
- **Promotion of existing and community based social protection type schemes/practices**, regardless of whether they are caste, ethnicity, or locality based.
- **Extension of support services** in education, health and income generation to specifically targeted vulnerable groups in the informal economy.

6.2.6 Micro-finance Institutions

- **Development of complimentary saving, credit and micro-insurance facilities** for those vulnerable groups also being targeted by the national level policies and welfare programmes of state and other non-state actors.

6.3 Proposed Initiatives

The final section of this report suggests specific social protection initiatives, these may be considered as a set of serious proposals for discussion as much as recommendations. The proposed initiatives are closely interlinked.

6.3.1 Micro-insurance schemes and community-based financing schemes

The promotion of micro-insurance schemes that cover health, life and livestock, and are designed to benefit vulnerable groups of workers in the informal economy should be prioritized by all actors.

- Health micro insurance components should be encouraged in the economic packages of existing micro-finance institutions, micro enterprises and trade unions;
- The government should endeavour to increase the coverage and decrease the premiums of community based schemes which it currently subsidises, particularly with regard to livestock insurance;
- The development of new micro insurance schemes should be accompanied by the encouragement of collective community efforts to provide social assistance to the most vulnerable.
- To assist in the foundation of professional, well managed and efficient micro insurance ventures all schemes – whether run by micro-finance institutions, micro-enterprise groups, health providers, trade-unions, cooperatives, CBOs, NGOs or local government – should have access to comprehensive technical and training support from experienced agencies.
- Micro-insurance schemes should remain true to their original aims of providing decent protection for the poor. Schemes must be designed to fit with the contributory capacity of poor or vulnerable groups and they should be promoted on the basis of their collective character – in the spirit of solidarity.

6.3.2 Registration of Workers

- The registration of workers in the informal sector – including agricultural workers, the unwaged, and the unemployed – at VDC/Municipality level would facilitate social protection
initiatives. Registration would offer an opportunity for the wide scale assessment of need, while generating the necessary membership information for collective micro-insurance initiatives on a wide scale.

- A comprehensive registration system for waged and self employed workers at the municipality and VDC level could also be used to organise **Special Social Protection Funds** specifically aimed at more vulnerable groups of workers in the informal sector. Registered workers could, for example, deposit 2 percent of their minimum wage into the fund each month. In their preliminary stages such funds could provide medi-care, up to a fixed maximum amount, and maternity protection services for more vulnerable groups.

### 6.3.3 Introduction of Taxes and Mandatory Contributions

- The introduction of tax-based and contributory funds to support social protection initiatives among targeted groups, could take place on a sectoral or geographical basis.

- Employers could be required to make monthly contributions based on their legal minimum wage-bills. Landowners, for example, could be required to make contributions equal to 2 percent of their total minimum wage bill, based on the number of workers employed to cultivate or crop their land. Such contributions could be paid alongside existing land taxes and channelled into initiatives for agricultural labourers.

- Similarly, compulsory contributions could be imposed on private sector health providers (i.e. private hospitals, medical collages, nursing homes, and clinics) and channelled towards health insurance schemes for vulnerable groups in their vicinity.

### 6.3.4 Introduction of Sector Based Tripartite Social Protection Funds

- Immediate development of contributory tripartite social protection funds, on a sectoral basis. The development of Tripartite Social Protection Funds should be directed towards vulnerable groups of workers in the informal economy.

- One example is a fund that provides cover to construction workers against injuries at work and medical treatment.

- Trade Unions should be encouraged and assisted to manage and run the funds.

### 6.3.5 Further Research Tasks

- **A comprehensive review of the existing National Welfare Fund**, with a view to redirecting its resources towards workers in the informal economy (the national welfare fund currently stands at Rs. 130 million).

- **An assessment of the existing Universal Senior Citizens Allowance**, with a view to revisions that selectively favour poor citizens. The coverage could then be limited to those senior citizens with no other supportive income.

- **An assessment of the social, political and bio-medical implications of national or non-national drug companies providing free medicine to** government hospitals and health posts for use by specifically targeted vulnerable groups.

- ‘**Action research**’ into existing, community based assistance mechanisms, like Guthi (see chapter 5), could also be used to implement new social protection initiatives. An anthropological exploration of existing and informal institutions that provide assistance or protection to vulnerable families can pave the way for innovative mechanisms that offer an enhanced degree of protection.


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