SOCIAL SECURITY PROTECTION IN NEPAL:

INSTITUTIONAL AND CAPACITY DEVELOPMENT:

FINAL REPORT 2015:

Executive Summary:

The mission to develop capacity to administer social security protection in Nepal was undertaken beginning on 1st April 2015. The earthquake that devastated Nepal on 25th April 2015 and its aftershocks halted the project for 6 weeks. The mission then continued on 14th June and was completed on 31th October 2015.

Concept notes on training requirements, Institutional Planning and Development, Human Resource Development, Operational Guidelines for implementation, unofficial translation of the Social Security Act 2072 and an article on social protection provisions in the constitution have been prepared. Training on social security protection principles to officers of the Social Security Fund, Employee Provident Fund, Employer Association members, Union members, members of various civil societies and other government officials has been successfully provided.

The Social Security Act 2072 bill has been prepared to be tabled in Parliament. The Act provides the framework for the coordination of social protection schemes as well as social insurance schemes for the workers in the formal private sectors. However, a number of Regulations and Orders need to be prepared and published in the gazette before final implementation of the schemes. There is a need to make the necessary arrangements to draft these Regulations.

The schemes that can be implemented in the first phase are the Employment Injury Scheme, Maternity Benefit Scheme and the Sickness Benefit scheme. The total cost estimated by the actuary requires a contribution rate of 2.4% of the contributable income of workers. This amount is available as there is an excess of 1.67% after deduction of 8.33% for gratuity from the 10% that employers have agreed to pay and with the inclusion of the 1% Tax currently being paid totals 2.67%. However, it is recommended that the costing for gratuity payments be carried out by an actuary to determine the cost estimates required to pay the gratuity.

The Medical Benefit scheme should be implemented later after the National Steering Committee makes a decision. The Employees Provident Fund should be requested to review the Medical benefit which began in 2013. The Unemployment Scheme shall be considered for implementation when the Labor Exchange offices and Skills Development Institutions are developed. In the meantime protection for retrenchment can be studied to cover workers who lose their jobs.

Provision of social security protection should be separated with the Employees Provident Fund as the institution providing Old Age Pension, Invalidity Pension and Survivors Pension while the Social Security Fund provides protection for the other schemes. This may require a study to convert the present protection lump sum savings system for old age by the Employees Provident Fund to a pension based system providing a wider range of benefits upon retirement.

Both organizations shall run parallel contribution collection system with each administering all matters relating to it separately.

The social security schemes shall be implemented in a phased manner with the pilot beginning in the Kathmandu Valley and extending over a period of 5 years to cover the whole country. All employers with 5 or more workers should compulsorily be covered. It is also recommended that the government cover all its employees except the army, police and armed police or alternatively provide a grant annually while financing the administration costs for the first three years of the implementation. The total amount collected through the 1% tax should be transferred to the Social Security Fund.

The Social Security Fund be established as an autonomous body with its own staff and organizational structure.

Contents:

Population and Workforce in Nepal:

The population of Nepal according to the latest Statistical Year Book 2013 was 26,494,504 in 2011. The number of females numbered 13,645,463 or 51.5% and exceeded the number of males which was 12,849,041 or 48.5% of the total. Another feature is 83% of the population lives in the rural areas and only 4,523,820 or 17% in the urban area, where males outnumber females. The population distribution by age is:

Age (in years)	Total	Male	Female
15 - 19	2,931,980	1,443,191	1,488,789
20 - 24	2,358,071	1,043,981	1,314,090
25 - 29	2,079,354	917,243	1,162,111
30 - 34	1,735,305	770,577	964,728
35 - 39	1,604,319	740,200	864,119
40 - 44	1,386,121	660, 290	725,831
45 - 49	1,172,959	575,101	597,858
50 - 54	1,005,476	505,864	499,612
55 - 59	818,263	412,892	405,371
60 - 64	756,827	368,451	388,376
65 - 69	554,449	277,782	276,667
70 - 74	395,153	199,610	195,543
75 - 79	235,135	117,358	117,777
80 - 84	128,777	62,787	65,990
85 - 89	52,526	25,810	26,716
90 - 94	20,335	8,940	11,395
95 - 98	11,208	4,201	7,007

The economically active population, which includes all persons above the age of 10 years, a definition different from the accepted 15 years to 65 normally used, is 20,495,515 of which 5,627,787 males and 4,263,311 females or 27% are usually employed while 121,024 males and 43,064 females or 8% are usually unemployed. A total of 315,323 males and 738,406 females are not usually active while 3,542,892 males and 5,632,753 are not economically active while 99,173 have not stated economic activity. Focusing on the urban sector the population 10 years and above is 3,655,381. The number of employed males in the urban areas is 1,003,416 and 499,521 females. The unemployed males number 27,562 and females 10,583 which means 1.04 % are unemployed, while 21,084 males and 62,046 females are not usually active. If taken together with the unemployed the rate of economically inactive reaches 3.32%.

The usually active population according to occupation and sex is as follows:

Occupation	Nepal (Total)	Male	Female	Urban	Male	Female

Total	9,929,562	5,656,027	4,273,535	1,506,811	1,006,099	500,712
Armed Forces	24,156	22,331	1,826	9,525	8,868	657
Managers	140,262	92,834	47,428	68,510	47,729	20,781
Professionals	396,582	262,589	133,992	133,432	85,215	48,218
Technical & Associate Professional	207,388	160,609	46,779	100,347	75,787	24,560
Office Assistants	126,523	89,266	37,257	53,449	33,903	19,546
Service & Sales workers	823,506	572,768	250,737	332,288	235,983	96,350
Agriculture, forestry & fishery workers	6,000,478	2,856,516	3,143,963	303,311	146,647	156,664
Craft & related trade workers	801,352	640,197	161,155	233,245	179,364	53,881
Plant & machine operators & assemblers	220,129	204,403	15,726	72,568	67,571	4,997
Elementary occupation	987,487	613,581	373,905	146,660	87,525	59,135
Not stated	201,699	140,933	60,766	53,476	37,509	15,967

The figures indicate that there is a need to cover the employed population with social security protection as almost 9.9 million are active and 1.5 million of them are in urban areas. These workers are employed in various sectors of the economy and are exposed to risks both related to employments and outside employment. There is a level of coverage provided in the Labor Law 1992, which emplaces the responsibility for protection on the employer. The Labor Law is presently being reviewed and a new law will be presented to Parliament. The largest employer in Nepal is the government, providing employment to civil servants, army, police and armed police as well as teachers who are covered by different laws providing social security protection. Most workers of the private sector, with the exception of those in large public limited companies, do not enjoy the coverage and privileges of public sector employees.

Private Sector Size & Employment:

The private sector provides employment to 194,989 through 4076 establishments. In the urban areas1060 enterprises employ 46,910 workers while 2470 enterprises in the rural areas employ 157,450 workers. Most enterprises, 66% are run by individual proprietors while the larger enterprises which are the private Ltd and public Ltd number 926 or 23% of the total. In terms of employment the enterprises with more than 50 employees employ 76.4% of all workers in the country. Details of employment by enterprises and their ownership are as follows:

	Number of Establishments	Number of Employees
Total	4076	194,989
Urban	1606	46,910
Rural	2470	157,450
Individual Proprietor	2693	84,292
Partnership	434	30,654
Private Ltd.	878	63,211
Public Ltd.	48	15,476
Co-operatives	10	118
Others	13	1,239
By Number of employees		
10 - 19	2355	23,754
20 - 49	793	22,076
50 - 99	406	27,859
100 - 199	320	44,507
➢ 200	202	76, 793

The figures above indicate that the size of the private sector employing 10 or more employees is smaller than the public sector. However, workers of this sector number close to 200,000 should be provided social security protection. If workers employed in enterprises with five (5) or more are taken into consideration the number could be larger as there is no data available it is a rationale assumption. A search of the Registrar of Companies reveals that between the period 1/1/2068 to 31/12/71 or 2011 to 2013 the number of companies that registered in this period was 1303 Public Ltd, 42,918 Private Ltd, 389 Non-profit and 65 foreign companies bringing the total to 44,675. These figures indicate that there may be a large number of employers in the private sector employing many workers who can be protected through social security schemes.

The Internal Revenue Department on its website Annual Report for 2070/2071 lists the tax payers as follows: Individual 63,703; Private Limited 9,023; Public Limited 34; Cooperative 3760; Partnership 2,149; Paropakari Form (Sole proprietor) 257; NGO 3,102; INGO 30; Educational 201; Hospital 18; Others 951 and Donors 1 to total 72,760 of which 9,057 are enterprises.

It can be concluded that there exists a formal sector that employs a large number of workers who need the social protection. As the enterprises are already complying with the available legislation, may be to a limited extent, the potential of introducing social security schemes within this structure is very encouraging. The challenge of reaching the enterprises and getting their cooperation to comply can be handled through proper planning, guidance and inclusive approaches.

Social Protection:

Social Protection in Nepal however is fragmented, administered by multiple agencies reporting to different ministries and complimented by a large number of non-government agencies that are financed by a number of countries (Table attached below). Despite such diversity in the protection of the population, some programs like old age support and the Employees Provident Fund have been in place for a long period of time. The provision of a flat rate pension to the elderly, widows and poor households of specific groups in designated geographical areas has been undertaken through public budget supported program. Some improvements in the amount have been announced in the budget for 2015/2016 and are generally for the old age pension and widow’s pension. The army, police and armed police, civil servants have separate schemes to protect them and in this case there is even double protection both pension and provident fund. These groups, including teachers, enjoy a higher level of protection and support compared to workers in the private sector. In addition to the better protection the wages or salaries are generally higher.

The Employee Provident Fund Nepal:

The oldest form of social security protection has been through the Employees Provident Fund which has just celebrated its 54 years of inauguration. The Provident Fund is an institution providing old age protection as well as loans, special, educational, revolving and housing and has extended beyond its principal objective of providing old age protection. In addition the Provident Fund provides Funeral Grant (1991) to contributor, who passes away while in service, Accidental Compensation (1995) in the event of total partial or permanent disablement or death of a contributor. Medical Assistance program introduced in 2013 which is a reimbursement scheme where Rs. 15,000/ is reimbursed for normal medical treatment and Rs. 35,000/ for severe illnesses. This program introduced in 2013 has provided total reimbursement of Rs. 736,530/ to 38 contributors for 2013/2014. The total amount of expenditure for all the social security programs was Rs. 34,380,000. There is a need to pay attention to these benefits as they tend to grow over the years and could pose a burden on the finances. These programs are being financed from the income of the Employees Provident Fund as no additional contribution is being charged. Hence, it reduces the amount available for distribution as dividends. This has been an indirect way of charging contributions for the coverage from both the employer and employee but at the expense of the employee’s retirement protection. Increases over time with awareness improvements could severely affect the viability.

The Employees Provident Fund's membership is 490,000 and the breakdown by sectors is as follows:-

Employees Provident Fund: (Annual Report 2013/2014): Number of Contributors:

	Number of Contributors	Percentage (%)
Civil Employees / Servants	91,000	18.57
Nepal Army	100,000	20.41
Nepal Police and Armed Police	101,000	20.64
Public Sector Undertakings & Corporate Sector Employees and Workers	108,000	22.04
Community and Private School Teachers & Employees	90,000	18.37
Total	490,000	100.00

Contributors of the Employees Provident Fund are mainly from the government sector and only 40.41% are from Public Sector Undertakings & Corporate Sector Employees and Workers Community and Private School Teachers & Employees. The total active population in the country is 9,929,562 and number of contributors is only 490,000 or 4.9% of the total. This is a rather low percentage of coverage given a 54 year history. The success of the Employee Provident Fund financially is due to the fact that it covers mainly the government sector. The position that the Fund holds does not require any enforcement activity as it has been dealing only with the government. The private sector does not have to compulsorily register and contribute it is voluntary and as such does not require enforcement.

The Employees Provident Fund as an established institution has the organizational structure that has functioned well. In addition the number of permanent staff with many years of experience provides the organization with the capacity to provide and deliver the services. There is vast experience in financial management, personnel management, service provision using the computerized services and the organization has a favorable position in the public view. These are based on administrating the saving principle of social protection which is rather simple. The process is similar to that of the bank where savings are deposited and loans taken based on savings and collateral and the total amount and the accumulated interest can be withdrawn. Management of social security protection based on social insurance payments is more complex as eligibility for benefits is based on a number of factors and in this area there is little knowledge or capacity within the institution.

The Social Security Fund Nepal:

The passing of Social Security Fund / (Management and Operation) Regulation 2067 led to the establishment of the Social Security Fund as a government department in 2010. As a government department under the Ministry of Labour and Employment the government appoints civil servants as officers within the organization. The total staff strength is 32 with 10 permanent staff from the Civil Service and 22 contract staff. However, there have been frequent transfers of the senior permanent staff, an issue that needs to be resolved. The main objective of the Fund is to record all the contributions into a computer system. The Social Security Fund has till date not handled any claims or made any payments to beneficiaries as the law is not clear on the types of benefits that are being provided by the 1% tax.

Under the provisions of Social Security Regulation 5, a Board of Trustees of the Social Security Fund consisting of 11 members has been established. It is a Tripartite Committee of 11 members representing the three main partners Government, Employers and Trade Unions. This Board has made decisions on the schemes that should be implemented and established a committee to write procedures for four schemes namely Maternity, Sickness, Employment injury and Medical schemes.

The Fund through the 1% tax on payroll has collected Rs. 8.080 billion, which is presently held by the Ministry of Finance. A total of Rs. 550 million or 6.8% was allocated for the initial setting up of the Social Security Fund. Subsequently administration has been financed by the government from its budget. The Social Security Fund is presently only recording data received from the agencies that pay the 1% Tax imposed from 2010. The Tax is mainly received from the government sector and a small proportion of the formal sector employers. Issues of payment compliance as well as submission of data have not been addressed. The total records that have been entered into the Social Security Fund data base as at 14 June 2015 is 1461 employers (government, non-government and private sector) with a total of 1,049,446 individual worker records. The number of employees from the private sector is 37,183 while the government accounts for 74,942 and non -government only 316. The term non-government used to classify employers refers to NGO's and other charitable organizations. Details of the contributions received and records are as follows:-

Year of Payments (Nepal Calendar)	Amount Collected Rs. (million)
2009-2010	540
2010 - 2011	740
14 April 2011- 2012	1550
14 April 2012- 2013	1480.
14 April 2013- 2014	2250.66
14 April 2014- 2015	1520.16
Total	8080.82

Data Entry Record						
Organization Type	**No of Contribution Record**	**Contribution Record (%)**	**No of Contributors**	**No of Contributors (%)**	**Firms**	**Firm's**
Government	872784	83.17	74942	66.65	1314	89.94
Private	170568	16.25	37183	33.069	136	9.31
Non Government	6094	0.58	316	0.281	11	0.75
Grand Total	1049446		112441		1461	

The Social Security Fund as a government department has witnessed a constant change of officers and as a result does not have the organizational capabilities to administer and implement the social security schemes. Despite months of lectures to build the understanding of social security and its administration, the effort cannot bear fruits as all the officers who attended the training have been transferred. Only with the passing of the Social Security Act 2072 by Parliament will there be renewed commitment to establish a stable organization with committed and permanent officers to provide social security protection.

The Ministry of Labour and Employment has to take the lead in advocating for the passing of the Social Security Act 2072 as soon as Parliament convenes. Concurrently the Ministry has to approach the Public Service Commission to accept the recommended organizational structure in principle. This acceptance can then lead to identifying officers, who have knowledge and skills to be appointed permanently to the Social Security Fund, a few months before the enforcement of the Act. The program to build the capacity of the officers and the human development plan can then be initiated during this period. Alongside the development of the human resources IT systems have also to be developed to support the processes and work flows to deliver the intended protection.

Strategies for the implementation of the social security plans:

Social Security schemes that will be implemented have to be decided by the government, after consultations with the social partners. In this area in general there has been an acceptance by all parties that employment injury scheme, maternity benefit scheme, medical benefit scheme, sickness scheme and unemployment benefit scheme be implemented. This decision has been based on recommendations by a Committee established by the Ministry. The legal advisor of the Ministry was a member of the tripartite committee where representatives of employers and employees were members. The order of their implementation needs to be discussed as the process has an effect on the general public acceptance of the protection provided by the Social Security Fund.

Employment Injury Scheme:

It is recommended that three schemes covering employment injury, sickness and maternity be implemented in the first phase. The employment injury scheme addresses the immediate needs of the workers who risk meeting with accidents daily. The three aspects to be covered by the scheme are commuting accidents, work accidents and occupational diseases. Work accidents form the core of the scheme and must be implemented. Occupational diseases can be classified into those that occur immediately due to exposure and others that take a longer period of exposure. As some diseases occur immediately upon exposure they are equivalent to accidents and need to be covered.

Coverage for commuting accidents can be considered to be delayed for a period of time. The reason for this consideration is that the actual experience of commuting accidents has not been established. The number of accidents reported to the police in the year 2071/ 72 was 4999 of which 133 were fatalities, 233 serious injuries and 3643 normal accidents (table below). Reports from news papers point towards a very high rate of accidents amongst the general population. However, the number of accidents involving workers is not specified and the number that would be classified as commuting accidents cannot be easily determined. References to the news report are as follows "The KATHMANDU, 27 July 2012 (IRIN) - Some 130 major accidents and thousands of minor ones are reported every day in Kathmandu, the capital of Nepal, says the country's Traffic Directorate. A UN Economic and Social Commission for Asia and the Pacific (UNESCAP) report in 2011 estimated that road traffic accidents in Nepal had increased fourfold in the last decade, leading to 1,734 fatalities nationwide in 2009-10." The situation requires a cautious approach to the coverage of commuting accidents as it could affect the long term viability of the scheme.

The cost estimates for the scheme is 1.72% of the wages of the workers and includes all three aspects of the coverage including safety and health as well as accident prevention. This contribution is solely paid by the employer who may find it rather high and argue that it needs to be reduced. A lower rate may be considered by initially withholding commuting coverage and introducing it later with work injury experience, providing the basis for improving coverage. Another option would be to introduce limited coverage for commuting accident coverage where only the direct route of travel from home to work and back will be covered. Travel during authorized meal breaks will not be covered. This restricted coverage may later be widened based on the experience.

Medical benefit under this scheme does not have a limit as the injured worker must receive the best medical attention after the accident and if required follow up treatment. In some cases where the treatment is not available in Nepal the injured worker can be sent overseas for the treatment to ensure full recovery. The provision of rehabilitation and prosthetic devices and their replacement completes the basket of benefits under the scheme.

Introduction of the employment injury scheme is important as it provides immediate benefits to employees without requiring a waiting period. This makes the social security protection acceptable to the employers and employees and improves goodwill for the organization. In addition the scheme gets the involvement of the medical, rehabilitation and prosthetics sectors promoting economic activity and improved services. The employer is also relieved of the responsibility and hassle from other parties in the event of an accident. An Employment Injury scheme provides the foundation on which other schemes can be built especially the sickness scheme. The relationship of medical providers with the social security institution improves the processes which are then used to administer the sickness and medical schemes. Historically, the employment injury scheme has been the forerunner of other schemes and hence should be implemented in the first phase. Despite some reservation and views that the employment injury scheme is difficult to administer it has been the scheme that has been widely implemented in many countries.

Maternity Scheme:

In an economy where the female participation rate is improving the maternity scheme provides the required protection during the confinement period to the female workers. The scheme provides economic security to female workers in the event medical conditions results in leaving the work force a few months before the actual birth of the child. The scheme will be welcome by all female workers on the one hand and allow the employer with a large number of female workers to recruit workers to fill in for the gap ensuring continuing levels of production. These factors strongly support the introduction of the Maternity Scheme in Nepal together with the Employment Injury scheme.

The payment of Maternity Benefit is contingent to the fulfillment of a number of conditions. The contribution qualifying condition is that the total number of contributions in the period of 18 months immediately preceding the month of birth has to be 12 or more. The second condition is that the number of live children should be less than two (2). This condition is in line with the population growth strategies of the government. In addition the birth should be after 26 weeks of pregnancy.

The Committee established by the Ministry had also considered the payment of a fixed amount, a grant to female workers who had not completed the pregnancy period of 26 weeks where a natural abortion could have occurred. Death during the delivery as reported in Maternal mortality in 1990-2013 WHO, UNICEF, UNFPA, The World Bank, and United Nations Population Division Maternal Mortality Estimation Inter-Agency Group for Nepal was 1,100 in 2013 or 6.9 % of deaths of women in the reproductive age group. This indicates that in the event of death due to maternal causes the family will be burdened with financial difficulties. Although those with the entitlements mentioned above will have the maternity payments made to the family the family would incur extra cost due to the death. These extra costs relate to the funeral and final rites with religious ceremonies adding to the amount. The issue is compounded for cases that do not qualify for maternity payments. The birth of a child adds to the financial expenditure of the family before, during and after the birth. Medical costs incurred can be covered if the medical benefit scheme is in place. In the absence of such a scheme a grant could be considered to cover the contingency of medical and other birth related expenditure. The worker is only being reimbursed 70% of the salary and yet has to incur extra expenditure during this period.

Contribution towards the scheme is made on behalf of both male and female workers by the employers. Issues that will be encountered, is where both husband and wife are contributing but the female worker does not have sufficient contributions to qualify. However, where both contributions are combined the wife qualifies for the benefit. Should combination of the two contributions be allowed for qualification? If the answer is in the positive then the salary that can be used to calculate the benefit had to be determined. Another issue of the rights for some provision of coverage for the spouse of a male contributor also needs consideration. These matters have to be considered by the Steering Committee and based on the decision the appropriate Regulations on Maternity Benefit have to be written.

In addition the benefit is only limited to two children as recommended by the Committee. Issues surrounding this limitation relate to birth after the Act comes into force and the female worker already has two surviving children before.

Sickness Benefit Scheme:

In general workers receive protection for short spells of illness while employed through the Labour law which requires the employer to pay full wages for these spells. The law also limits the number of days and the new Labour Act 2071 has limited this to 12 days after one year of employment. The employer has to pay the full pay for the days specified. In the event the worker exceeds the number of days the employers is not obliged to pay for that number of days and the worker gets no remuneration. The limitation imposed in the Labour law is a balance between the needs of the worker and the requirements of the employer to maintain labor costs and productivity. Social security protection schemes cater for all the cases and extend the period of coverage for sickness while taking over the responsibility of the employer.

It is recommended that the Sickness benefit scheme be implemented in the first phase of the introduction of social protection in Nepal. The scheme provides a benefit rate of 60 per cent of contributable income for 13 weeks in a year. The rate recommended is in accordance with the ILO Convention and in accordance with the preliminary needs of protection. The rate also encourages the worker to return to work as soon as possible preventing abuse of the benefit which has been witnessed in countries with high replacement rates. The rate may be improved over a period of time when the actual experience under this scheme is actuarially analyzed after three years. The waiting period of three days ensures that administrative costs are kept to the minimum and that minor ailments will encourage the worker to return to work rather than seek benefits.

It must be noted that with the introduction of the scheme the provision of benefits under the Labour Law will not be applicable to the workers covered. This step is necessary and if both entitlements remain the employer will pay contributions for the worker and shoulder the financial burden to cover for the 12 days with full pay. This matter has to be resolved and there are two available options. The first is that for periods of sick leave exceeding 3 days payment of benefit be made for the whole period. This will leave the worker covered for the whole period. The second approach is to accumulate the number of days of sick leave for different spells falling within the waiting period and make payments at the end of the year if the total exceeds 3 days. These options need to be discussed and the Steering Committee can recommend them to be incorporated in the Regulations relating to the Sickness Scheme.

The medical cost component of the scheme to cover both the cost of services and pharmaceutical is missing. This was to be covered by the Medical Benefit scheme but in the absence of the scheme the worker only gets replacement of loss income.

Medical Benefit Scheme:

The Medical Benefit scheme reimburses medical costs incurred by the worker or immediate members of the family. The annual maximum amount that has been determined for actuarial purposes is Rs. 25,000/ with copayments of 20% by the family. The recommended rate of contribution is 3.5% of insured earnings.

Introduction of the Medical Benefit scheme will be able to cover the medical cost incurred by the worker during the short spells of illness. The Sickness and Maternity Schemes only provide for replacement of income lost due to the contingency. However, during both these contingencies the worker incurs the medical cost associated with the contingency. Large employers subsidize for medical benefits by providing a fixed allowance to workers. There is no data on this practice amongst employers and it is quite definitive that smaller enterprises do not provide such allowances.

The issue that emerges is that the Employees Provident Fund has introduced this benefit in 2013 for its members. There has not been any additional contribution charged for the benefit as it is financed from the earnings of the Fund. The National Steering Committee will have to decide on this matter to prevent duplication of benefits to employees. Employers may raise the issue regarding provision of the benefit by one institution without a rate of contribution while the other requires 3.5%. It is recommended that the issue be resolved at the national coordination level.

Unemployment Benefit Scheme:

This scheme has been strongly advocated by Unions for a number of years since the 1% tax was imposed after the Social Security Regulations were enacted in 2011. Opinions on the extent of its coverage differ amongst all parties involved in the negotiations. The Unions believe all workers with no employment will be entitled to a benefit till the worker is reemployed. Unemployment has also been confused with retrench benefits, where an employee may lose his job due to a number of factors. Thus each party in the dialogue had different views on the Unemployment Benefit Scheme.

The high level of unemployment and under employment in Nepal at present does not provide the economic base to develop an unemployment scheme. In addition an unemployment scheme cannot be administered as a stand-alone scheme. The scheme requires a well functioning Labour Exchange that registers workers who are actively seeking employment. The Exchange provides services to get unemployed workers matched to a suitable vacancy depending on their skills and qualifications. Another institution that becomes the third pillar of the management of the unemployment scheme is the Training and Skills Development institution. This institution assists in upgrading skills of workers or re-skilling them to improve their employability. An up-skilled or re-skilled worker is then reemployed through the employment exchange and taken off unemployment benefit. This mechanism ensures the viability of the unemployment scheme and efficient administration of the scheme. Nepal at present has some exchange officers appointed in districts and lacks the administrative structure to ensure efficiency. In such an environment it is difficult to recommend that the Unemployment Scheme be implemented. Having stated that, a study to ascertain the viability of a retrenchment benefit system should be considered.

Rate of contribution for social security schemes:

There is a gentleman agreement between the Nepal Employers Federation and the Trade Unions that the employers are willing to contribute a maximum of 20% of the salary for social protection of the workers. The workers have agreed to contribute 10% of the salary and this brings the total to 30%. However, there is no written formal agreement or even minutes of meeting where such an agreement took place. In addition the 1% tax would increase total contribution to 31%. The Employee Provident Fund will continue to receive 10% from the employer and employee respectively leaving 11% to finance the rest of the social security schemes.

The Employers Federation argues that they are required to pay gratuity to workers when they retire. This provision is in the new Labour Law with the proviso that that amount will be transferred to the Social Security Fund when the law is passed. The employers have calculated this to cost them 8.33% and hence only 1.67% additional contribution can be borne by the employer. The total cost estimates according to the Draft Design and cost assessment of five social insurance schemes (sickness, maternity, employment injury, unemployment and medical care) are:

Contribution rates for the proposed social insurance schemes

Scheme	Contribution rate (as % of insured earnings)
Sickness	0.4%
Maternity	0.3%
Employment injury	1.7%
Unemployment	2.4%
Medical care	3.5%
Total	**8.3%**

The total available contribution rate is 2.67% and is sufficient to implement the Sickness, Maternity and Employment Injury schemes, which requires a combined rate of contribution of 2.3% (0.4 + 0.3 + 1.7). This could be the initial coverage of the workers and is recommended.

However, the claim by the employers that 8.33% rate of contribution for gratuity needs to be considered. The gratuity payment is for services provided to the company and the law regarding gratuity payments states that no payments need be paid if the worker has not completed 3 years of service. Entitlement to two weeks of pay per year of service is if the employee has completed 3 years and less than 7 years; and three weeks of pay per year for more than 7 years and less than 15 years while service in excess of 15 years entitles the worker to 4 weeks of wages per year of service. The basis of determining the 8.33% has not been found and seems to be on an averaging principle of dividing 100% by 12 to provide the maximum allocation based on the assumption all employees will complete more than 15 years of service. It is recommended that an actuary studies the cost estimates and determines the correct rate based on data from employers and using actuarial methods. This may reveal some higher available margins to implement an additional scheme.

Social Security Protection Administration:

Nepal can adopt a two institution model for the administration of social security protection to administer and implement the schemes. The Employees Provident Fund can implement schemes covering old age protection, invalidity and survivorship while the Social Security Fund can administer employment injury, sickness, maternity, medical benefit and unemployment. Under such a framework the long term schemes will be under the Employees Provident Fund while the short term protection schemes under the Social Security Fund.

Reforms in the long term schemes will have to be undertaken to convert the present savings based coverage to the more comprehensive social insurance based coverage. As social insurance based coverage may be achieved at lower rates of contribution and yet provide coverage for invalidity and survivorship. The Employees Provident Fund may have to terminate the medical benefit which was introduced in 2013 or restrict it only to contributors as at 2015 with new entrants not receiving the benefit.

Centralized collection of contributions is another administration process that needs to be examined. A centralized collection system is convenient for all employers as they would only prepare one schedule of payments and make one payment each month. Despite this administrative ease the process of separating the contributions requires an advanced computer system. The complexities that are involved are very difficult to handle and errors that normally occur could create further problems. Both the organizations are established by different laws that define the covered population differently. The Employees Provident Fund covers employers on a voluntary principle while the Social Security Fund is mandatory for all employers. This creates different employers to be covered where some may be covered by both the Acts while others only under one Act. Resolving the difference in this case through a centralized collection system is difficult. In addition the Social Security Fund in the beginning will have limited geographical coverage which leads to a smaller set of employers covered.

The definition of contributable income in both the Acts differs. Contributions to the employees Provident Fund are based on the basic salary while the social Security Act defines it as income inclusive of all allowances. This fundamental difference makes it impossible to centralize contribution collection. Adding to this complexity is the definition of worker or employee. The

Social Security Act covers all workers irrespective of the status of their employment while only permanent employees are covered by the Employee Provident Fund. Hence it is recommended the collection of contribution from employers be separated with both organizations individually responsible for the collection and recording of contributions.

Implementation Plan for Social Security Fund:

The implementation of the Social Security Act 2072 after it has been passed in Parliament would require action in the following areas:

I. The date on which the Act will come into force. It is recommended that a period of two (2) months be given from the proper establishment of the organization. This refers to permanent personnel being appointed and trained, an ITC system for registration of employer and employee established and administration of the organization being on firm grounds;
II. Regulations for the processes of registration, benefit under all the schemes and other related areas have to be prepared, approved and gazetted;
III. Decision on the geographical area for the initial coverage of the Act. It is recommended the Kathmandu Valley area be first covered;
IV. Decision on the number of workers in an enterprise that is to be covered. As stated earlier it is recommended that all enterprises with 5 or more workers be covered;
V. A decision on the schemes that will be implemented. It is also recommended that three schemes employment injury, sickness and maternity be introduced in the first phase. The extent of commuting accident coverage should also be determined. Medical benefit be considered if there is available financing and willingness of employers to reduce the gratuity contribution rate;
VI. The government needs to make a decision on coverage of all or part of its employees.

In conclusion the pilot schemes should be launched in the Kathmandu valley covering all employers employing five or more workers irrespective of the industry or the status of the worker as provided in the Act.

Capacity Building:

A capacity building and social protection awareness program was successfully carried out during the mission. The program extended beyond Social Security Fund and included the Employee Provident Fund, The Nepal Employers Federation, Unions and members of civil society. Capacity building within the Social Security Fund was through discussions, lectures and talks held on a daily basis with all personnel of the organization. The Employee Provident Fund benefitted the most from discussions and lectures for the staff. These were for all senior and middle management staff and covered all areas of social protection. The result was that the management has become aware and is willing to study ways to convert the present system of old age protection from a saving scheme to social insurance based.

A delegation of 11 members comprising of representatives of the government departments, and unions were sent on a study tour of Thailand and the strategies used to implement social security programs. The objective of the study tour was for members to identify relevant strategies and administrative processes implementable in Nepal. The successful study tour improved knowledge and administration of social security protection.

A Train of Trainer session for five days by ILO experts from the Turin Centre engaged participants from government departments involved in social protection planning and implementation, employer federations, union members and social groups extended the knowledge of social protection. The successful program in terms of delivering the required knowledge and providing the participants with on line access to information for reference has built the foundational knowledge on concepts of social security protection. This trained group would act as the source to extend the knowledge within their departments and organizations.

The Concept Notes on Institutional Planning, Human Resource Planning and Development and Operational Guidelines to the Social Security Schemes in Nepal provide the detail for implementation of the schemes with the passing of the Social Security Act 2072 by Parliament. Discussion and clarifications on the Concept Notes have been comprehensively delivered to the senior officers of the Social Security Fund and Ministry of Labour and Employment. In general there has been acceptance of the recommendations contained in these technical papers. Despite this acceptance it is envisaged that with the change of government as a result of the new Constitution there may be changes in the Ministry of Labour and Employment. This could mean that the process of capacity building may have to be repeated as newly appointed officers would not have any prior knowledge of social protection.

Conclusion and Recommendations:

It can be stated that the mission on capacity building and planning was successful as a whole. The government will be able to implement and enforce the Social Security Act 2072 through an organizational structure as recommended. Human resource development and planning shall occur concurrently with the development of the organizational structure. Efficiency and productive which leads to economic and successful administration of the provisions of the Act are dependent on a well designed ICT system. Acceptance by workers and support by the employers are the main factors that will determine the long term success and viability of the social protection schemes.

It is recommended three schemes namely employment injury, maternity and sickness be implemented in phase one of the provision of social security protection in Nepal. Plans to introduce the other schemes should be made to extend the coverage to other geographical areas within a year of successful implementation of the schemes and ultimately cover the whole country within five years. The number of schemes should also be extended and within the five year period all the five schemes should be implemented. In the meantime, those schemes introduced in the first phase should be examined with a view of improving the benefits in accordance with the economic development of Nepal.

A note of thanks to all staff of the Social Security Fund especially Mr. Raju Thapa the Executive Director for their support.

Nepal Social Security Protection Programs:

Pillars	Programs	Major Activities	Responsible institution
Essential Services	Water and Sanitation	• Increase access to potable drinking water, • Improve water quality, • Increase access to sanitation services.	MoPPW, MoLD, Local bodies
	Basic Healthcare Services	• Free essential health care (EHC)services, • Free maternity health services, • Free child immunization, • Nutrition support to <5 children, vitamin A, Polio, and fortified cereal, • Identifying and periodic updating benefit package for free service, • Free of charge consultation and free essential drugs, • Providing free contraceptives measures, • Free Ayurveda and alternative healthcare services, • Operationalize hospital based One Stop Crisis Centre, • Establish and operate geriatric friendly hospital and geriatric centers, • Hospital based disaster response mechanism, • Targeted health care safety net, • Transportation subsidy for essential medicines.	MoHP
	Free Education up to Grade 12	• Provide access to quality education for all children in community schools up to grade 12, • ECED services to all children of 3-4years of age, • Universal school nutrition and health programs, • Lifelong learning opportunities for all adults, • Expand open schools and universities to provide second chance, • Improvement of quality of services,	MoED

		• Capacity building of relevant agencies, • Strengthening of information base along with monitoring and evaluation system	
	Protection of victims of gender based violence and trafficking	• Implement GoN Action Plan against GBV, • Support to paralegal committees for demand side strengthening, • Form Village level committee and link with ward citizen program, • Support to GBV victims for social and family rehabilitation, • Establish service centers at village levels.	Office of Prime Minister and Council of Ministers, MoWCSW, Local bodies, NGOs and CBOs
	Food Security	• Mapping food deficit areas, • Assessing and projecting needs, • Food supply including transportation subsidies, • Introduction of ration cards for vulnerable groups, • Complementary programs and services to promote local agricultural production.	MoAC, MoLD, MoCS
	Housing	• Revisit national housing policy, • Building and distribution of low cost housing for the poor in different ecological settings, • Improvement of urban slum areas and facilities.	MoPPW
	Agriculture Promotion (subsidy for fertilizer, seeds etc.)	• Targeted program for socially and geographically disadvantaged farmers. • Fertilizer and seed transportation subsidy program • Cooperative crops and horticulture farming and small irrigation program, • Cooperative livestock farming, • Commercially viable agriculture horticulture and livestock production and utilization program, • Income generation and nutritional improvement program for farmers(having <0.5ha land), • Food and nutrition promotion program through livestock and crops.	MoAC
	Old Age Care Service	• Residential care, • Free health care for senior citizens above 70 years.	MoWCSW
	Child Care Programme	• Child care homes, • Day care centres, • Child workers rehab, • Anti-trafficking and child abuse surveillance	MoWCSW, CCWB
	Youth Care Programme	• HIV / AIDS • Drug & alcohol rehabilitation.	MoHP
Cash Transfers	Employment Guarantee Schemes	• Develop employment guarantee schemes, • Entrepreneurship development and Youth Self Employment Program, • Active labor market programs (LMIS), • Rural Community Infrastructure Works, • Karnali employment program, • Employment creation through infrastructure development programmes	MoLTM, MoLD, MoF, Local bodies
	Senior Citizen Allowance	• Review and rationalize the benefit size improved in the budget 2072 to Rs 1,000/ with medical allowance, • Develop MIS system and link it with vital, registration and national ID system, • Make effective M & E system, • Enhance capacity of delivery institutions and staff	MoWSW and MoLD

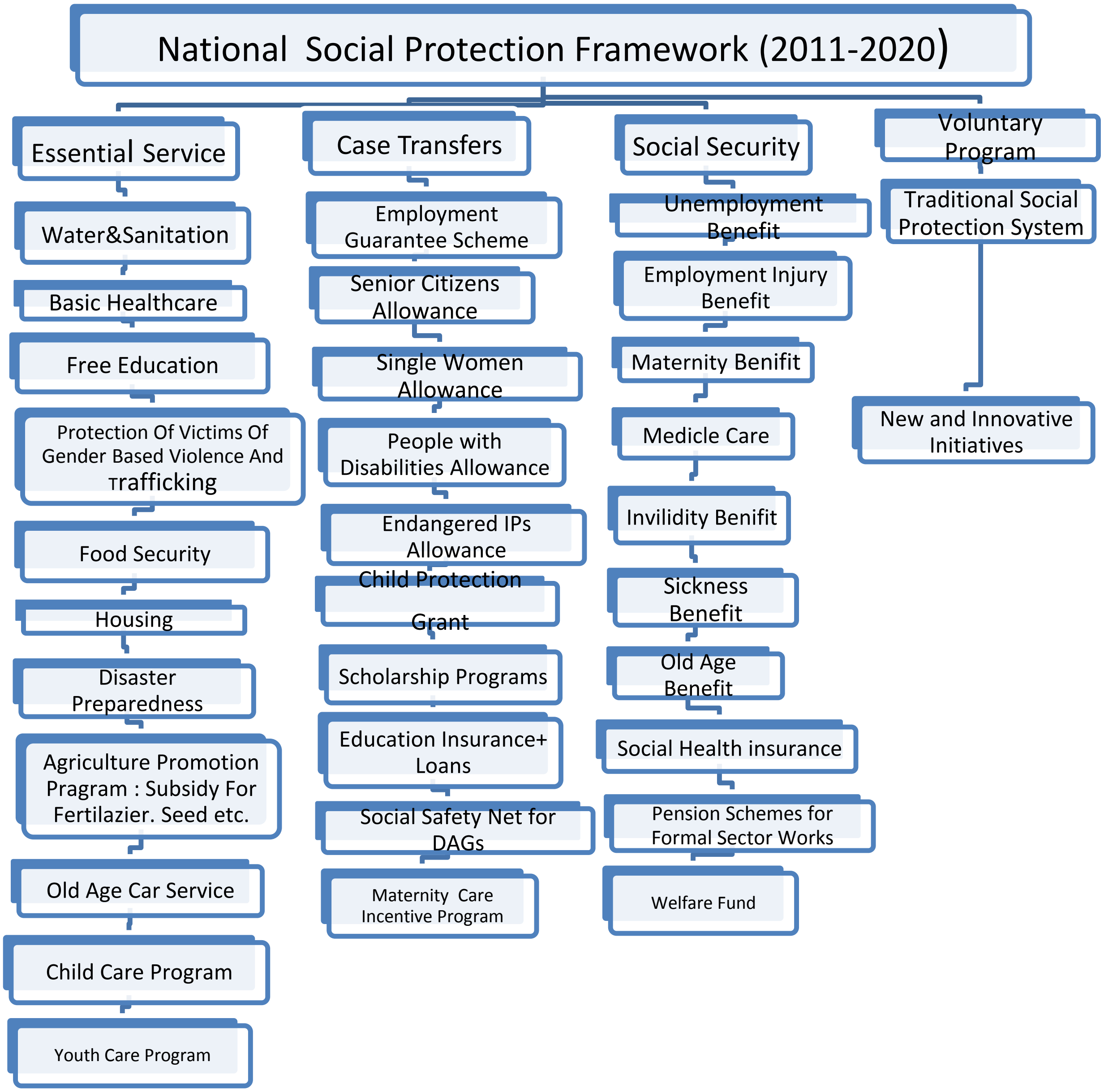
		• Research study on impact evaluation of ongoing programs • Assess technological options and adopt appropriate one for delivery, • Introduce funeral benefit, • Implement the guidelines/procedures in delivering the services by the local service providers	
	Single Women Allowance	• Review and rationalize the benefit size and package based on evidence, • Implement step by step reforms and innovation for continuous improvement	MoWSW and MoLD
	People with Disabilities Allowance	* Establish new policies that are disable friendly, * Improve delivery of benefits,	MoWSW and MoLD
	Endangered IPs Allowance		MoWSW and MoLD
	Child Protection Grant	• Expand child protection grant progressively to make it countrywide, • Revisit benefit-size based on revenue growth, • Complement programs related to nutrition, immunization services, waiver in health fees and elimination of child labour, • Strengthen delivery and payment system, • Improve guidelines and directives, • Establish linkage to service delivery, • School feeding, • Micronutrient package, • Fortified flour, • Prepare database system, monitoring and evaluation system and link it to Vital Registration System.	MoWSW and MoLD
	Scholarship Programs	• Standardize and rationalize scholarship programs including scholarship for targeted poor and marginalized, girls, martyrs children, selected janjatis and students with disability • Textbook support programs • School meal programs	MoE
	Education Insurance and loans schemes	• Education insurance schemes for civil servants and formal sector employees • Education loans for students pursuing studies in technical higher education • Promote activities based on CSR at least for basic education • Improve design and implementation of free ship schemes	MOE
	Social Safety Nets for DAGs	• Support endangered and marginalized communities (cash and kind transfer) • Provide transportation subsidy for critical supplies • Introduce special employment schemes • Support to deserted senior citizens, children and single women	MoF, MoLD, MoWCSW
Social Security	Contributory schemes	Medical Benefit, Sickness Benefit, Maternity Benefit,	SSF &MoLE

		Employment Injury, Invalidity Benefit, Survivors Benefit, Old Age Benefit, Unemployment Benefit, Family Allowances.	
	Pension Schemes for Formal Sector Workers	• Civil service pension including security personnel • Citizen investment trust • Employees provident fund	MoF and MoGA
	Welfare Fund	• Security personnel – Nepal Army, Nepal Police/Armed Police Force • Private enterprises • Migrant workers	MoD, MOHA, MoLTM
	Crop and Livestock Insurance	• Piloting program • Legislation enactment • Establishment of Farmers' Welfare Fund • Expand coverage	

Annual Accidents by Description

S.N.	Fiscal Year	No.of Accident	Fatality	Serious Accident	Normal Accident
1.	049/50	1945	42	156	833
2.	050/51	1987	83	145	851
3.	051/52	2055	85	203	1028
4.	052/53	2272	104	237	1052
5.	053/54	2396	72	230	1120
6.	054/55	2081	82	206	945
7.	055/56	2197	98	264	1448
8.	056/57	1875	75	132	1042
9.	057/58	2055	124	294	1294
10.	058/59	2180	75	190	1330
11.	059/60	2225	180	144	1908
12.	060/61	3652	86	471	1894
13.	061/62	3709	127	626	1697
14.	062/63	1989	83	459	1673

15.	063/064	2097	93	491	2179
16.	064/065	2211	120	611	2163
17.	065/066	2765	137	720	2448
18.	066/067	4104	146	748	3116
19.	067/068	4914	171	553	3632
20.	068/069	5096	148	396	3317
21.	069/070	4770	147	246	3431
22.	070/071	4672	143	229	3481
23.	071/072	4999	133	233	3643


National Social Protection Framework (2011-2020)
Essential Service
Water&Sanitation
Basic Healthcare
Free Education
Protection Of Victims Of Gender Based Violence And Trafficking
Food Security
Housing
Disaster Preparedness
Agriculture Promotion Pragram : Subsidy For Fertilazier. Seed etc.
Old Age Car Service
Child Care Program
Youth Care Program
Case Transfers
Employment Guarantee Scheme
Senior Citizens Allowance
Single Women Allowance
People with Disabilities Allowance
Endangered IPs Allowance
Child Protection Grant
Scholarship Programs
Education Insurance+ Loans
Social Safety Net for DAGs
Maternity Care Incentive Program
Social Security
Unemployment Benefit
Employment Injury Benefit
Maternity Benifit
Medicle Care
Invilidity Benifit
Sickness Benefit
Old Age Benefit
Social Health insurance
Pension Schemes for Formal Sector Works
Welfare Fund
Voluntary Program
Traditional Social Protection System
New and Innovative Initiatives