Project: Social Security Fund Nepal:

Concept Note on Institutional Planning:

1. **Background:**

1.1 This project report on the provision of social security protection in Nepal begins with a review of the progress that has been made since the Draft Report "Social Security Reforms in Nepal in the Context of the Introduction of the One per cent Social Security Tax "by the ILO expert. The draft report contains 20 recommendations that cover many areas that need to be focused on before the successful implementation of social protection and their gradually extended implementation over a period of ten years. The first seven recommendations which are as follows:-

- i) More coherent system of social protection;
- ii) Establish social insurance schemes, which are firmly based on actuarial principles;
- iii) A clear marketing strategy of 'selling' the benefits of the Social Security coverage to employees and employers;
- iv) Speed up the legislative process;
- v) Four schemes can be established with the available resources;
- vi) Government responsible for funding organization and
- vii) Contributions collected to date should be identified.

The progress and development in the recommended areas shall be examined as they are within the scope of the present TOR except for recommendation 2, which deals with the actuarial aspects of the scheme.

1.2 The social protection schemes that are presently implemented are, as per draft report statement, patched with no coordinating mechanism in place. No significant developments in establishing a more coherent system has taken place. Awareness of the issues has been created and discussions on the need to establish such a mechanism have gained strength. The coordinating mechanism, approval of a structural framework and the passing of Labour and Social Security legislation are still in the process of discussion and in the process of approval. In addition to this, the Nepal Provident Fund has submitted an amendment to its Act, which would duplicate the Law on Provision of Social Protection in the provision of coverage specifically in the areas of medical care, sickness benefit to the population. The mechanism to resolve this issue is not evident from the discussions. The Provident Fund has also been exploring the idea of converting the present savings scheme covering old age into an old age pension scheme. As there is a lack of coordination both the Social Security Fund and the Nepal Employees Provident Fund are pursuing their individual objectives.

1.3 There is general consensus on the second recommendation of developing social insurance schemes in principle by all the parties. The costing of the four schemes needs to be carried out based on actuarial principle. These calculations will have to be refined as and when reliable and relatively accurate data In relation to the Nepal experience is available.

1.4 The process involving the actual introduction of the schemes is ongoing within the government machinery but the process has not set a target date for implementation by the Government of Nepal. In such an uncertain situation the marketing aspects of selling the scheme can only to be prepared in draft form as it is not possible to provide details of the process, entitlements and claims. A positive step taken by the Social Security Fund is to request, in its Annual Budget financial allocations for the printing of pamphlets (NP 200,000), Awareness program (NP 2,500,000), Press and Media (NP 50,000) and Seminars (NP 300,000) from the Ministry of Finance for the 2015-2016 period. The earthquake on 25th April 2015may have an effect on this program and budget as the country now faces the urgent task of rebuilding the earthquake damaged infrastructure and economy. Despite this development it is envisaged that in the first phase of this project, the training and capacity building of the all parties involved in the implementation, will be the “selling” of the concept. This is achieved through improving understanding of the principles on which the schemes operate and processes required for their implementation. The increased and improved knowledge on social security schemes is vital as all parties presently only understand how the savings principle works, due to the long existence of the Provident Fund, and expect that all the others schemes would apply the same principle. This creates a gap in understanding the fundamental principle of pooling of resources and receiving benefits only if there a contingency occurs. The process has to continue with the involvement of the employers, employee representatives and civil right groups as an on-going program of “buying” them into the social security program based on social insurance principles.

1.5 In the meantime, the legislative process has taken its pace and the Legal Position is as follows. The Law on Provision of Social Security 2071 has been sent to Cabinet for approval and will later be sent for approval by the National Assembly for implementation. The latest information, provided by the Executive Director of the Social Security Fund, was that at a Cabinet meeting held on 16 April 2015 an issue regarding the age of retirement to receive old age benefits was raised by one of the Ministers. A difference between the age for receiving a flat rate old age pension (70 years) and the Social Security Act which was 65 was raised. As a result the Law has been sent back for harmonization with the other Laws. Several meetings involving the secretary generals of the various ministries have been held to create a consensus and the outcome is awaited. This may cause a delay and there are no firm indications as to the date when this Act will be formally passed.

1.6 Meanwhile, the Social Security Fund / (Management and Operation) Regulation 2067 has been passed and been partially implemented. The Social Security Fund as an organization was established in 2013. The organizational structure of the Social Security Fund as a government department under the Ministry of Labour and Employment is shown in Appendix 1. The government has appointed a new Executive Director from 1st April 2015 and 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, which has surfaced as an issue that needs to be resolved.

1.7 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 had 6 meeting since 2013 and after deliberations have made decisions, some of the latest decisions of the SSF Board: The meeting was held on 2072 Vasakhi 26.

a) Social Security Act should be forwarded to Parliament.
b) From the initial budgetary program it was decided to launch the three schemes namely accident, maternity and sickness. According to the report the consultant was appointed and he was carrying out his work according to the job description. However, while submitting the progress report this office was asked to forward another scheme namely Medicare, so we have to go ahead with the 4 schemes.
c) Since the money collected by the social security tax was not transferred into the account of the Social Security Fund we have to negotiate or request the related agencies for the money.
d) It is decided that the existing National Level Welfare Fund, which is under the Foreign Employment Promotion Board, also is related with social security system, so to coordinate with this Board and establish the coordination mechanism and action is to be taken by the Executive Director of this fund to advance the task.
e) This Social Security Fund should advertise, inform the public and communicate the message about the Social Security Fund of Nepal.
f) As the task of data entry of the contributors is being done, the entry system should be systematic and the trade unions related with the different sectors should promote and try to improve the understanding of the protection to its members and encourage them to contribute to the Social Security system.

2. In addition the Report of the National Steering Committee has made a number of recommendations The Recommendation of the National Steering Committee with reference to the implementation strategy is listed below :-

   “4.1.1 *Enacting Social Protection Act:* The government will enact a comprehensive Social Protection Act to govern and provide legal basis for all social protection initiatives. Such Act will not only bring all existing programs under its umbrella but also will provide a grid for new initiatives that will come up in future. It will also reflect the political consensus and will on the part of political leaders as expressed through national legislature. Apart from unemployment benefits all other programs are under implementation though in different coverage and doses. Over the next 10 years they all will be improved in terms of quality, coverage, quantity and utilization. While beginning with the poor and vulnerable segments of the population, social protection programs will be expanded gradually to provide coverage for all.”

   These recommendations provide the guidelines to the implementation program for social protection in a phased manner over a period of time. In the recommendations the emphasis is on the existing programs and their delivery. As at the time of this report the preparation of the legal framework for social protection has been undertaken and as stated earlier awaiting approval.

   A discussion with the Director General of the Department of Vital Registration and Social Security, Mr. Basant Raj Gautam revealed that benefit costs to provide for the old age benefit and other monthly pensions to widows and venerable groups have risen sharply from Rs 5 billion to Rs 15 billion in three years. The safety net programmes provide flat rate Old Age Pension benefit, Nepal School Feeding Programmes, Karnali Employment Programme and schemes for Dalit’s and endangered communities and other disaster relief. As at 2014 a total of 922,741 elderly people were receiving Rs. 500/a month from the government, while there were 668,378 recipients under the Nepal School Feeding Program. Under the Karnali Employment program 323,600 individuals had benefitted. In the Budget presented by the Minister of Finance for the year 2015/2016 the allocation for social security has been increased by Rs 7 billion to Rs 22.67 billion. A total of 2,152,861 people including 964,292 senior citizens, 621,980 single women, 60,656 disabled persons and 483,034 children from the Karnail zone will receive benefits. In addition old age benefit including a monthly medical allowance of Rs 500 will result in monthly payments of Rs. 12,000 per person compared to Rs 8,000 previously. In addition to the rising costs of the social protection the administrative problems of registering the population, a task assigned to the Civil Registry a new Department, are numerous and in-house capacity to resolve them is lacking. Computerization can assist in resolving some issues but there is also a lack of IT knowledge which makes is difficult to plan, install and deliver an efficient working system.

3. In terms of progress it can be stated that the establishment of the Social Security Fund and the organization headed by Mr.Raju Tapa supported by a Deputy Director, 2 senior officers and 7 other permanent supported by 22 computer staff employed on a contract basis for one year has been established. The organization has an office situated at Babar Mahal, Kathmandu and a web site is running. The Fund through the 1% tax on payroll has collected Rs. 8080.82 billion, which is presently held by the Ministry of Finance. A total of Rs. 550 million or 6.8 % has been allocated for the initial setting up of the Social Security Fund. The Social Security Fund is presently only recording data received from the agencies that pay the 1% Tax imposed from 2012. 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 need to be addressed, as well as examination of the scope of future coverage considered. The total records that have been entered into the Social Security Fund data base as at 14 June 2015 shows that 1461 employers (government, non-government and private sector) with a total of 1,049,446 individual records have been submitted records. The term non-government used to classify employers refers to NGO's and other charitable organizations.
4. Presently, there is a debate around the 1% Tax that is being collected. The Ministry of Finance states that this is a tax and the collected funds will be used for financing the social protection of the whole population. Employee Unions do not agree as they argue, and correctly so, that this is a contribution towards employee protection and is separate from Income Tax. The Ministry of Finance which holds the fund may have utilized the collections from the 1% Tax for social security payments to meet the needs of the poorer sections of the population.
5. Action according to recommendation 7 has commenced and is ongoing since the establishment of the Social Security Fund. The Social Security Fund is engaged in the input of data of the 1% Tax collections from employers. The number of employers that have been registered on the Data base as published in the Annual Report 2014/2015 are as:-

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

These figures are for all payments made are from 1/1/2011. It needs to be noted that the data base records especially employee records contain multiple duplications as the same name may be repeated more than once. The system lacks data verification and the process of data cleansing and updating of missing information needs to be established. There are proposals to engage a private sector firm to provide IT services in the area of programming. Budget request for hardware and software amounts to Rs. 25 million. In addition the data that is being collected has not been well designed as details of employees far exceed requirements. This is both time consuming and would affect requirements for data storage, while slowing data retrieval. In addition there is a need to develop a unique identification number for the employees based on the citizenship number. The provision of an employer's number needs to be changed to match the needs of administering the schemes efficiently. The financial data provided is only the records based on the employee and employer payment inputs while the money is handled by the Ministry of Finance.

6. In a review of the proposed laws, that have been provided, the amendments to the Employees Provident Fund, as mentioned earlier, is in conflict with the proposed Social Security Law. The preamble of the Employee's Provident Fund Law covers all the areas of social protection to be provided under the Social Security Law. This conflict has to be resolved by the government through a high level coordinating committee. A provident fund scheme in general operates on a savings principle with the objective of providing lump sum or periodical payments at the time of retirement. The net value of the savings and accumulated interest at the time of retirement dependents on the rate of contribution, rate of interest and the rate of inflation. Payment of the accumulated amount as a periodic payment over a number of years till the accumulated sum reaches zero does not alter the principle on which it operates. The lump sum amount received is in many cases is insufficient to provide

adequate economic protection during long periods of retirement. Another point is that there is a tendency to spend the amount, on social family needs, which depletes the savings within a short period of time. Many provident funds also allow for preretirement withdrawals, which in turn affect the amount available at the time of retirement and consequently the adequacy of the benefit to cover longer periods after retirement.

7. An efficient way out of this duplication is for the provident fund to concentrate on providing protection after retirement while the Social Security Fund protects against all pre-retirement contingencies. The Employees Provident Fund can consider transforming the lump sum payment at retirement to a pension scheme with suitable changes, while the other schemes are administered by the Social Security Fund. The coordination mechanism through the National Steering Committee would manage the separation.

8. The other social protection schemes paid out of the government budget have a universal coverage, providing protection against poverty of the venerable population. These are programs which are cash transfers delivered, managed and administered under the Ministry of National and Regional Development through the Department of Vital Registration and Social Security. The programs are managed at the district and village level through officers and village heads appointed by the government. The management of these programs may also need to be reviewed as the cost escalations from Rs.5 billion in 2002 to Rs.15 billion in 2004 with a short period of three years indicate there are issues that need attention. In addition capacity building by organizing training workshops will be needed to improve understanding of social protection principles and practices. The department has accepted involvement and participation and the officers will be included in all the training workshops.
9. The earlier International Labour Organization study has recommended a social security structural framework which stipulates that the coordination of the social security protection will be provided through the National Steering Committee established under the Social Security Fund Act. It is envisaged that this Committee through a coordination mechanism would prevent duplication of benefits delivered and administered by the agencies. As there are a number of agencies that are providing benefits that are closely similar the need for coordination by either avoiding duplication or harmonizing the different benefits is pertinent. The Chairman of the National Steering Committee will be the Minister of Finance and members of the Committee will be from the Minister of Labour and Employment, Minister of Federal Affairs and Local Development, Minister of Agricultural Development, Minister of Industry, Minister Cooperative and Poverty Alleviation, Vice Chairperson, National Planning Commission, Member Secretary National Planning Commission,

Secretary of Finance and Secretary the Secretary of Ministry of Labour and Employment.

10. The recommendations in the Report "Social Security Reforms in Nepal in the Context of the Introduction of one percent Social Security Tax "state that the Strategic tasks of the Social Security Fund shall be as follows:- *
    i) The setting of policy guidelines in close consultation with government and social partners;
    ii) Coordinating the various programs and schemes to ensure coherence;
    iii) The supervision of the Fund and Social Insurance schemes;

11. In addition the operational level tasks identified are:-*
    i) Formulation of management statement;
    ii) Setting the targets for the performance and the various schemes;
    iii) Defining monitoring instruments;
    iv) Designing and maintaining the central data base and processing the data into periodical reports;
    v) The formulation of investment guidelines for the Fund;
    vi) The formulation of a reporting regime; and
    vii) Research and development.

    (* ILO Nepal Draft Report)

12. The establishment of the Social Security Fund (SSF) in 2013 as a department under the Ministry of Labour and Employment with civil servants being appointed to various post is a positive development. This indicates that the government acknowledges the need to develop social security protection and is committed to financing the administration cost. Despite this commitment the Social Security Fund has been established as a government department and has witnessed transfers of senior officers, who were the pioneers and driving force in the implementation of social security protection. These transfers or removal of experienced officers from the Social Security Fund has a significant effect on the continued administrative progress of the Social Security Fund as new officers have to start anew and move up the learning curve. Consideration as provided in the new Act should be given to making the Social Security Fund an autonomous body similar to the Employees Provident Fund as it would ensure stability of staff as well as the ability to recruit and employ qualified staff to meet the needs and objectives of the Social Security Fund
13. In line with the objectives of setting the policy guidelines on social protection in Nepal the management of the Social Security Fund needs to establish a coordinating structure amongst the government departments, government agencies and social partners. This structure is important as Social Security Fund will be responsible as the secretariat for The National Steering Committee on Social Protection, which will function as the coordinating body for all the agencies and ministries. However, this Committee can only be established after the legislation is approved by Parliament

and under the Act the secretary is the Secretary General of the Ministry of Labour and Employment. It is proposed that the secretariat services shall be provided by the Social Security Fund for all committees established under the Act. According to the proposed legislation the members from the Ministries and Organizations responsible for social protection in Nepal will be represented on the Committee. The Committee consists of Ministers of the various Ministries involved in social protection and the National Planning Commission. This high level committee will have the authority and power both to make decisions and ensure that the decisions taken by the National Steering Committee on Social Protection would be binding on the all the organizations involved in social protection. An area of concern is that the involvement of politicians could lead to decisions that may be affected by other factors rather than principles.

The Social Security Fund can provide the secretariat to handle administrative matters relating to meetings including monitoring and reporting on the implementation of the decisions. The National Steering Committee will have to tackle the difficult question of noncompliance by any of the Ministries. The National Planning Commission would be able to provide the technical inputs and strategic direction for social protection in Nepal.

The Social Security Fund will focus on the implementation of the social security schemes as provided in the Act. The Steering Committee of the Social Security Fund, known as the Board under the Regulations, would approve guidelines on administration and enforcement of the schemes. The Board will in addition decide the investment policies and monitor the Social Security Fund in these areas. The secretariat will, in addition to the services for the National Steering Committee, provide secretariat services to the Social Security Fund Steering Committee and all other subcommittees that may be established by the Steering Committee.

14. **The Secretariat for the National Steering Committee &Steering Committee of Social Security Fund**: After the passing of the Act by Parliament, the secretariat established in the Social Security Fund shall function as the Secretariat for the National Steering Committee on Social Protection. The duties of the Secretariat in this role will be as follows:-

    i) Manage the appointment of the Board members for the period of their appointment;

    ii) In the event of a vacancy due to death or any other legal reason inform the Minister and take steps to fill the vacancy.

    iii) Plan and schedule meetings, prepare the minutes, make security arrangements for document handling and storage;

    iv) Prepare the venue of the meeting, make all travel and related arrangements professionally;

    v) Prepare and make payments to members according to the approvals;

vi) Responsibility for bringing to the attention of the Minister and managing the appointment of members of the Steering Committee after their tenure expires.

This role of secretary to the National Steering Committee and Social Security Fund Steering Committee can be fulfilled by building capacity of officers within the Social Security Fund to meet the objectives effectively. Training of the secretariat officers in the areas of administrative arrangements, document preparation, minute taking, decision recording and distribution, security arrangements for document handling, as well as preparing reports indecision implementation needs to be undertaken, prior to the passing of the Law. The processes and procedures for scheduling meetings, invitation, reminders, cancellation (if any) and rescheduling have to be documented and followed to ensure professionalism. The procedures for maintenance, storage and security of the minutes will have to be designed and officers trained in the process.

In addition the Secretariat would also provide similar services to the Social Security Fund Steering Committee. The membership of this tripartite Board consisting of all three partners, namely government, employee and employer represented requires similar services. As the appointment of members representing employers and employees are for a fixed term of four years the secretariat will have to manage and maintain appointments of the members as well as provide the administrative services for the meetings. The administrative procedures should be made similar to those for the National Steering Committee mentioned above. The Board that has been established under the Social Security Regulations since 2011 with 11 members will be replaced with the Steering Committee when the Act is passed by Parliament. In the organizational structure the Secretariat shall report directly to the Executive Director.

The Secretariat shall also provide services to the Investment Committee appointed to manage the Funds of the Social Security Fund. The Act has empowered the Steering Committee to appoint committees, which in many cases could be the Finance and Budget Committee dealing with the financial needs of the Social Security Fund, Personnel Committee dealing with approval of matters relating to staff policies, promotions, remuneration and other staff issues including disciplinary matters, the Secretariat will provide services to them as well. The objective of centralizing all secretarial matters of the Social Security Fund is economies of scale and also to ensure that there is sufficient work throughout the year. A central depository of all important documents stored securely and managed professionally would be achieved through this process.

15. **The Operational tasks of the Social Security Fund are the efficient administration, planning and implementation of the schemes.** As the Social Security Fund is being created as a semi-autonomous organization headed by an Executive Director, two (2) Deputy Executive Directors and five (5)Divisional heads will be needed to support him to effectively manage the organization.The appointment of the Executive Director has been detailed in Section 9 of the Act. The terms and conditions of service of the Executive Director and of Deputy Executive Directors shall be determined by the National Steering Committee and the Minister of Finance.
16. The Act stipulates that the **Executive Director** shall perform the following functions:-
    - **i)** Implement, or cause to implement, the decisions of the Steering Committee;
    - **ii)** Prepare long-term plan, annual programme and budget of the Fund and present them to the Steering Committee for approval;
    - **iii)** Implement, or cause to implement, the long-term plan approved by the Steering Committee;
    - **iv)** Present the progress report of the work done by the Fund to the Steering Committee on periodic basis;
    - **v)** Operate and manage day-to-day affairs of the Fund and oversee, control, direct and supervise subordinate staff;
    - **vi)** Maintain documentation of, conserve and repair and maintain moveable and immoveable and physical assets of the Fund; and
    - **vii)** Carry out, or cause to carry out, other tasks assigned by the Steering Committee.

      In addition to those mentioned above it is necessary for the Executive Director to also ensure:-
    - **viii)** Effective implementation and management of the schemes;
    - **ix)** Planning the development and extension of coverage, subject to the directions of the Chairman of the Steering Committee;
    - **x)** The Executive Director shall have administrative control of the officers of the Organization;
    - **xi)** The Executive Director shall perform such other or further duties as the Minister or the Steering Committee may from time to time determine;
    - **xii)** The Steering Committee and the Executive Director may appoint such other officers of the Social Security Fund as may be necessary for the purpose of carrying out the provisions of this Act. No person shall be eligible for employment as officer of the Social Security Fund if he has, directly or indirectly, any share or interest in any contract or proposed contract with, for or on behalf of the Social Security Fund; Any officer of the Social Security Fund who has or acquires directly or indirectly any such share or interest shall be liable to dismissal by the Steering Committee through the Executive Director:

xiii) The Steering Committee on the recommendations of the Executive Director may approve the setting up of divisions, regional and district offices; The Steering Committee with the recommendations of the Executive Director may set up within the Social Security Fund such divisions and regional and local offices as it may consider necessary for the efficient functioning of the Social Security Fund;

xiv) The Executive Director shall have the power to dispose of staff questions. Subject to any other provisions in the staff rules, the Executive Director shall dispose of all questions relating to the service (other than questions on appointment, suspension, promotion and dismissal), pay, privileges and allowances of officers and servants of the Social Security Fund;

xv) Duties for the actuarial evaluation of the schemes, and a review of the benefits in payment.

17. **Two Deputy Executive Directors** shall support and assist the Executive Director in specific functional areas as well as to perform the duties of the Executive Director in his absence. Functional responsibilities shall determine the division of duties and responsibilities of the Deputy Executive Directors. General administration and enforcement of the schemes can be classified under two major branches, Benefit Administration and Finance & Administration. The responsibilities placed under the Benefit Administration Branch shall include employer and employee registration, recording contribution, benefit payment, administration and enforcement of the Act and Regulations. The Finance and Administration Branch shall have the responsibility for financial management, personnel administration and ITC.

18. **Duties of the Deputy Executive Director for Benefits Branch** shall be as follows:

i) Responsible for the overall systematic, efficient administration of Registration and Contribution of employers and employees;

ii) Design and implement strategies to extend coverage of employers and employees, through geographical expansion and new liable employers and employees;

iii) Responsible for the accurate and timely recording of all contributions received;

iv) Approach employers, financial institutions and banks to develop and improve contribution collection systems;

v) Establish and improve benefit payments to eligible beneficiaries;

vi) Design the procedures for benefit claims and processing,

vii) Maintenance of pensions in payment;

viii) Responsible for Medical Benefit and Rehabilitation benefit and arranging for such services at negotiated prices.

19. **Duties of the Deputy Executive Director Finance and Administration Branch** shall be as follows:

I) Responsible for the accurate and timely recording of all financial transactions of the Social Security Fund;

II) Preparing the Annual Administration and Benefit Budget of the Social Security Fund;

III) Preparation of the Annual Financial Report of the Social Security Fund in accordance with the standard principles of accounting and acquiring the Audit Certificate;

IV) Recording, approving and maintaining all long term benefit payments approved to beneficiaries;

V) Investment of the Funds in accordance with the approval of the Investment Committee;

VI) Preparing employment and remuneration policies for the staff and reviewing them from time to time;

VII) Administration of the Social Security Fund including staff appointments, promotions, training and terms and conditions of employment of the staff;

VIII) Establishing an effective ICT system to support the functions of the Social Security Fund;

IX) Prepare long term and annual plans for the Social Security Fund and maintain the statistical data for actuarial analysis;

X) Publicity and customer service.

20. **Benefit Administration Branch** shall have the following divisions:

i) Registration / Inspectorate/ Contributions Division:

a) One Unit of this Division shall be known as the Registration unit. The Unit has the responsibility of R**egistration of Employers**, dealing with all matters relating to maintaining updated employer records and information. This includes initial registration of liable employers and subsequently changes to the employer details such as changes in the postal or location address, telephone or mobile numbers of the enterprise, details of ownership, opening of new business units or branches by the employer, liquidation of the business. The unit will be responsible for recording all contribution payments received from employers according to the month and year for which the payment relates, detect and list employers that have defaulted or delayed contribution payments for the particular month and year, issue penalty charges, reduce the charges based on provisions in the Act and carryout the related processes.

Work with banks and other contribution collection agencies to ensure the transfer of all documents for contribution payments. Action to make corrections to employer payment records as well as the payments of the penalty provided in the Act.

b) **Registration of employees,** which is the second function, includes initial verification for registration of employee, which includes name, identification number and other particulars at first registration. This is followed by any correction of records of employees, updating employee contribution records and handling all queries regarding employees. The additional work of coding the employee's employment according to the employment codes in Nepal will also be undertaken.

   Registration of Employees and recording the contribution received for the employee by amount, month and date shall be the responsibility of this unit. These employee records need to be maintained with accuracy and updated to be current. Employee record corrections and correction of wrongly entered contributions shall be undertaken with a minimum turnaround time. The unit will have liaison with all employers, employees and provide information as requested by the clients.

c) An Inspectorate unit shall be **responsible for enforcement** of the Act and Regulations which includes contribution collection, updating of records, imposing and collecting fines, dealing with businesses that are liquidated, checking of the employers wage records to ensure compliance in the payment of contributions, investigation of complaints against employer and other matters. An inspectorate unit within the division will enforce the Law and ensure compliance, getting non-registered employers to comply, and carrying out prosecution of defaulting employers. Regular annual inspections of employers to investigate contribution payment are in accordance with the Law as well as investigations for benefit payment.

ii) **Benefits Division:** This will have 4 separate units, each dealing with a different benefit. The units are as follows:-

a) **Employment Injury and Occupational Diseases unit**: This unit will have the responsibility of receiving all claims for employment injury submitted by the employer, investigating the incident, verifying the contributable income, checking medical leave presented and medical treatment claims from the various parties, approving the claim, calculating the benefit, arranging for medical boards and finally making periodic payments. In the event of death the unit will examine the documents and determine the beneficiaries according to the Act and Regulations. Provision for rehabilitation and the provision of prosthetics to disabled will be the responsibility of the unit. After approval the process of payments will be transferred to the Accounts Branch accompanied by documents showing bank account details of the claimant.

b) **Maternity Benefit Unit**: Claims for Maternity payments and medical costs related to the confinement will be received and processed in this unit. Contributions paid on behalf of the worker will be checked for eligibility; another requirement that needs checking is number of children before payment is approved. Approval of payment will be forwarded to the accounts division for payments together with documents showing the calculations and the amount to be paid for that particular claim. These will be accompanied by documents showing bank account details of the claimant.

c) **Sickness benefit unit**: This benefit has two components the medical benefit and the loss of earnings due to the illness that entitles the claimant to be compensated with cash payments. The entitlement to the benefit will be checked against contributions paid on behalf of the employee and any previous claims made within the period of one year. Upon entitlement the medical benefit payments could be made directly to the providers of the benefit at agreed rates upon the submission of documents on a monthly basis. Such payments will have to be checked against claims submitted by employers and employees to determine and verify that treatment has been provided. The rates being charged for the treatment and the pharmaceutical products given would have to be checked and verified against the schedule of agreed rates.
After due verification of entitlement the amount to be paid is calculated and payments documents prepared. The claim is approved and forwarded to the Accounts Department for payment accompanied with documents showing bank account details of the claimant.

d) **Unemployment benefit unit**: In the initial stages of the introduction of social security protection is proposed that this benefit not be implemented until such time when the labour exchange and vocational training systems in Nepal are established and functioning. The Act allows for the staggered implementation of the provisions of the protection schemes and could be applied in this case.

e) **Medical Scheme Unit**: This is a reimbursement scheme and as the contributions are high should be considered at a later stage.

iii) **Finance and Administration Branch** shall have the responsibility of dealing with matters relating to finance and all aspects of administration of the Social Security Fund.

The Finance Division shall have the following units:

a) **Contribution Unit:** This unit will deal with accounting for all contributions received and all benefits paid in accordance with the schemes. All contributions received at the designated Banks and their branches will be deposited by electronic transfer into the Social Security Fund central account. Documents of payments of the contributions shall be received from the banks together with monthly Bank statement from the branches by this unit. These contribution documents will be checked against the Bank Statement of the Social Security Fund and balanced in accordance with accounting procedures. Contribution payments of each individual employer will be entered into the respective account in the employer data base. The details of month, year, date of payment, number of employees and total amount paid will be stored in the data base. Contributions of workers will be entered into the employee's account in the employee data base. Balancing, verifying and correcting all such accounts shall be the responsibility of this unit.

b) **Benefit Unit** shall check, verify and make payments for all the benefits claims approved by the Benefit section. The unit will check and verify that the approval process has been complied with and check payment documents. After establishing the processes are correct, amount is calculated correctly, dates and period for payment are according to the certificates benefit payments will be made into bank account of the claimant. The due accounting process of recording the payments, preparation of vouchers and approvals by relevant authorized are given shall be followed. In addition all long term periodical payments or pensions will be managed and paid through this unit.

c) **Investment Unit:** Responsible for all the investments of the Fund in accordance with the decisions of the investment committee of the Social Security Fund, negotiation of all contracts, supervising contractors building the assets of the Social security Fund, bank dealings, money market activities and all matters related to investment of the Fund. The unit will also prepare reports and get approvals for all the investments from the investment committee.

d) **Book-keeping or Accounting unit** to manage all the accounting needs of the Social Security Fund and prepare the annual budget for benefit and administrative expenditure. Prepare monthly financial reports, Annual Financial Accounts with Audit Certificate and manage all the administrative expenditure of the Social Security Fund. Payment of all salaries, purchases through tender and general administrative expenditure shall be undertaken by this unit.

iv) **Administrative Division** has a wide range of responsibilities which includes personnel and support services for the effective implementation of the social protection programs. A number of functional units need to be established to fulfil these functions they are as follows:

a) **Personnel unit** shall manage all staff recruitments, transfers, leave, discipline, promotions and negotiate with unions to determine the salary package for the staff as well as all other matters. Personal records of all the staff and their dependants shall be maintained. In addition preparation of policies for staff recruitment, staff promotion, transfer and discipline shall be prepared for approval by the Steering Committee.

b) **Computer / IT Unit** shall be responsible for the smooth functioning of all ICT processes for the Social Security Fund ensuring efficiency and a reliable secure computerized system. Data entry, data updating, data security, reports and technical support to users of all social security programs needs to be provided by the unit. Managing the networks both WAN & LAN for efficient updating of all contribution, benefit and pension records. Recommend updates to system and changes to processes from time to time. Liaise with third parties like banks and employers to iron out any technical issues.

c) **Procurement Unit** will handle all the purchases according to needs of the Social Security Fund together with the Accounting unit. It shall handle the store for all documents and assets of the organization.

d) **Public Relations unit** will handle dealings with the public including complains and publicity campaigns. Publicity of the schemes and the Social Security Fund using multimedia, both electronic and printed, shall be used to disseminate information on the benefits available under the schemes. Complaints received in writing, over the phone or internet will be dealt with by the unit in addition to any complaints over the counter or through the news media.

The unit shall maintain a library of social security and relevant publications for use of the officers and researchers. In the initial period this unit shall also be responsible for the monthly statistical report of the activities of the Social Security Fund as well as annual reports for actuarial and reporting purposes.

21. **Staff requirements:** The two Deputy Executive Directors each based on functional requirements of implementing the Act shall deliver benefits and provide coverage to the workers and employers. The Deputy Directors shall have the necessary qualifications and experience to manage each branch with efficiency and provide the leadership. The Deputy Director of Finance and Administration should have qualifications in finance and administration and it is recommended that a Masters in Business Administration should be the minimum qualification and 5 years' experience in banking.

    The senior officers will be supported initially by four (4) Division Directors heading the Registration Division, Benefit Division, Finance Division and the Administration Division. The next level of officers will be in charge of the units and the number required in each unit will be two. The reason for requiring two in each is to separate the function of approval of benefits from the calculation of the benefit amount. This separation is a measure to prevent fraud and is also a check that ensures miscalculations are reduced. The support clerical staff for each unit will be determined by the volume of work. However, at the start of the programs it would be prudent to have at least one clerical staff in each unit. The IT unit is to be dealt with separately as the requirement will depend on the design of the system and decisions on out sourcing specific routine functions.

    There has to be adequate number of post provided for each division and unit keeping in mind the rapid expansion of the coverage and consequently the need for additional staff. The management can be given the flexibility of filling the post on a need basis as the Social Security Fund continues to grow. The employed staff both officers and support staff in the initial period could be civil servants determined by the government. Careful selection of hard working and dedicated officers and staff will have a major impact on the successful implementation of the schemes and the Social Security Fund as an organization. This is possible and it is recommended that for the purposes of capacity building the staff should be made permanent to the Social Security Fund. In addition to the permanent staff some of the routine or seasonal work can be handled either by engaging staff on a contractual basis for limited periods of time to handle defined. These staff shall receive benefits provided under the Labor Law. The casual or contract staff can later be absorbed into the establishment depending on their dedication, efficiency, commitment and honesty.

22. **Director of Registration Division** This is the operational level in the organizational structure of the Social Security Fund. The responsibility of the Directors is to ensure a planned and efficient approach to the implementation of the schemes. Despite having separate functional responsibilities, the Directors will have to cooperate and work as a team to efficiently provide the required protection of the covered population. The responsibilities common to all division directors relates to ensuring the annual plans of their division are prepared and executed with precision and efficiency. They will also ensure the work flows of their departments are such that the delivery of benefits will be without any delays.

The Director of Registration shall in addition to the daily administrative responsibilities also design strategies to ensure all employers liable under the Act, register their enterprise and all workers employed within the specified time frame provided in the Act. Programs to encourage enterprise owners to comply with the law and adhere to procedures have to be designed and implemented. A Policy on inspection of registered employers to check for compliance and leading to effective enforcement shall be determined and applied. The policy recommended is that each inspector inspects at least 600 employers in a year. The total number of working days in a year after deducting 52 Saturdays, 54 days of leave entitlement (emergency 12, medical 12, and 30 annual leave) is 236 which will be sufficient to carry out 3 inspections a day and leave time for detection of unregistered employers as well as enforcement work. In the area of benefits, responsibility for improving work flows to ensure timely payment to claimants and making final decisions on claims shall be carried out.

Internally the Deputy Director shall be supported by an officer who will be in charge of a specific unit. During the initial period of implementation of the schemes the scope of work and responsibility will be limited for these officers; hence the number of officers within the units should be kept to the minimum requirements for effective economical implementation.

Benefits under the maternity, sickness and medical programs will only payable to claimants after a period when the claimant has completed the contribution qualifying conditions During this period of at least six months, comprehensive training of the appointed officers and support staff can be initiated. Officers in each unit shall be supported by an adequate number of support staff at the clerical level possessing the relevant technical knowledge and experience. The number of support staff will be determined by the volume of work to be completed and the complexity of the work. A minimum of two support staff per unit will provided at the beginning of the implementation stage of the schemes. However, the actual minimum would have to take into consideration the accounting process, which requires the separation of duties. The process of separation of duties especially in the claims of benefits where a separation in the process of receiving a claim and registering it there will be a needed to fulfill accounting requirements as well as prevent fraud occurring. All the staff employed shall have proper qualifications and be employed through an open application system. The number of support staff will depend on the level of responsibility required for the task, the level of IT support provided to the system and the time required for various tasks associated with the successful completion of the job.

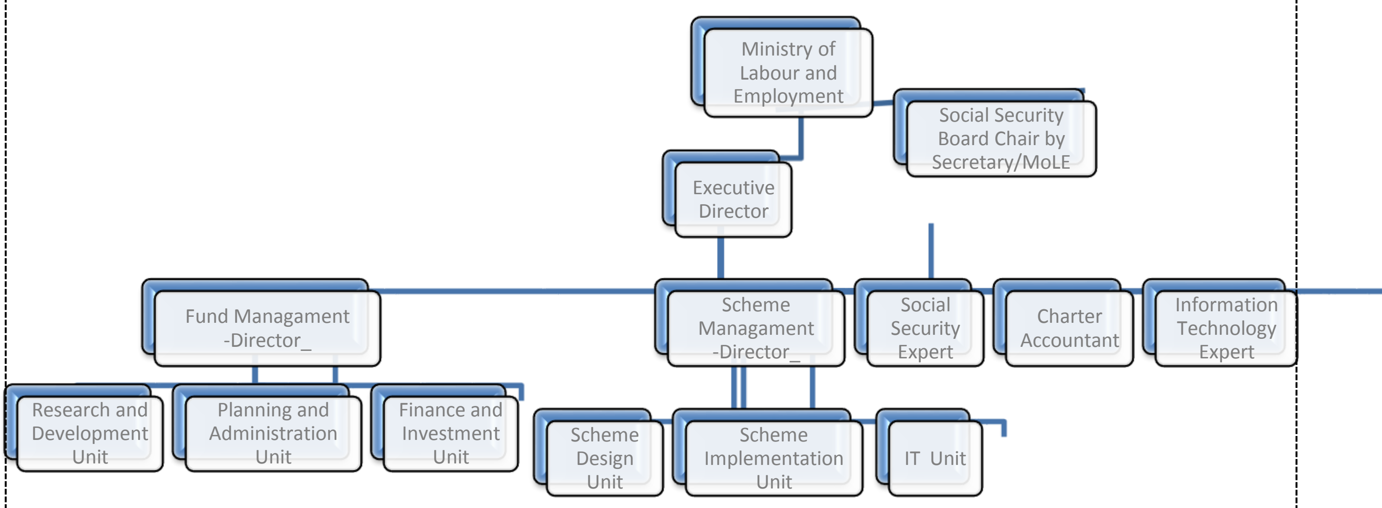
23. **Director of Finance and Administration,**

Personnel unit: The unit forms the backbone of the organization ensuring that qualified and experienced staff is recruited for the social Security Fund. The officer in charge should possess qualification in human resource management, be both honest and efficient. The number of other officers to assist in the recruitment, short listing and interviewing candidates shall support the unit. These officers will be able to fulfil other tasks of personnel management for the Social Security Fund. Supporting staff at the clerical level shall be limited to two during the initial stages.

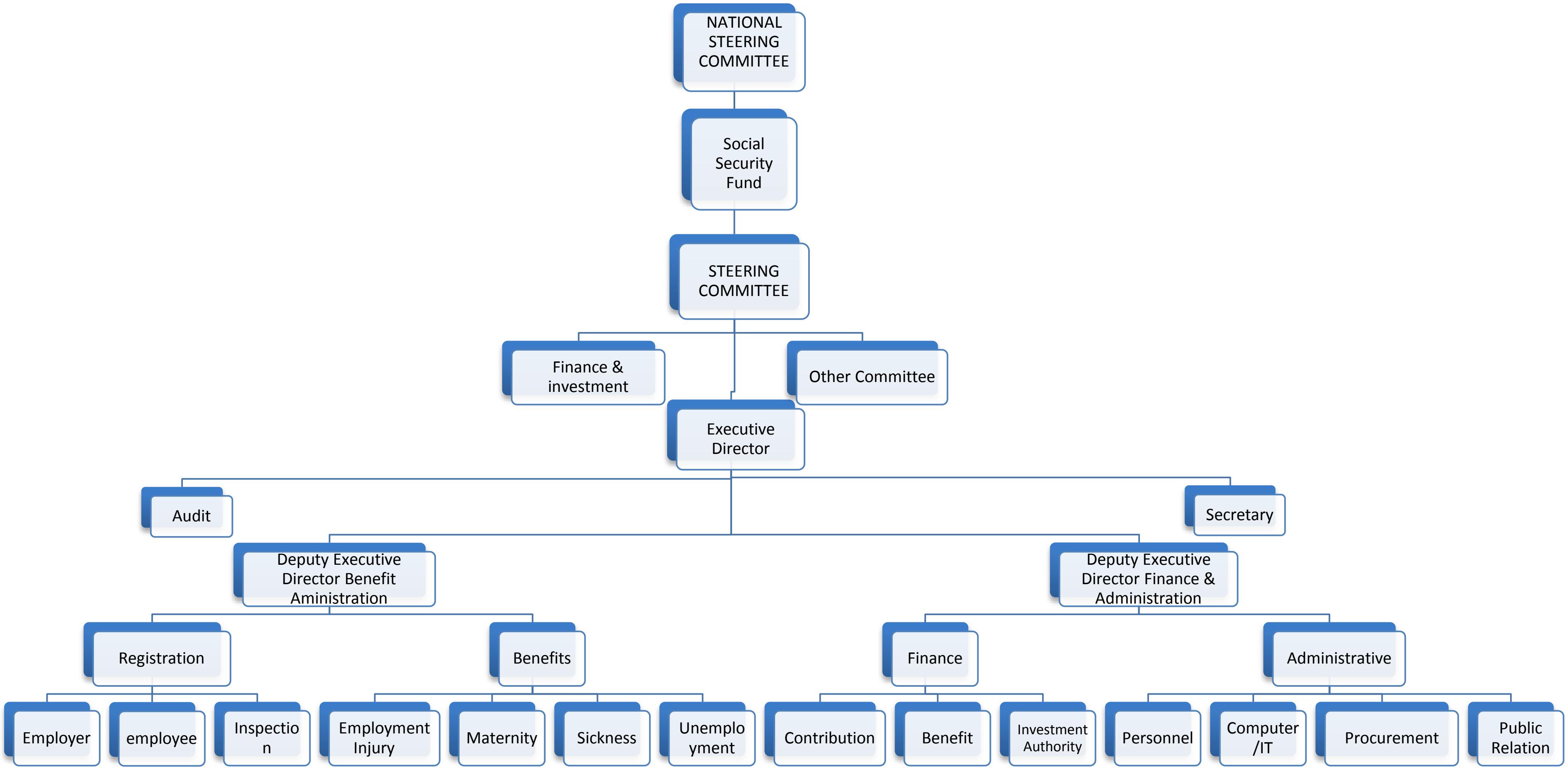
Computer / IT Unit: The provision of efficient services to employers, employees and their survivors is dependent on a well-designed and managed computer system. The Act states that the Social Security Fund will conduct its administration using a computer system. The unit shall be staffed with experience and qualified persons who have the technical knowledge of managing the system. The number of staff is dependent on the design of the system, the outsourcing of certain processes and the connectivity with the banks, employers and other agencies. **Procurement Unit:** This unit requires an officer with accounting qualifications who will be able to prepare the annual budget of the Social Security Fund and then manage the budget. An officer would be required to manage the store as well as all assets that have been purchased. The core staff will then be increased in line with the expansion of the organization. **Public Relations unit:** Acceptance of the schemes amongst the employers, employees and general public can be enhanced with improving knowledge of the protection being provided. Each group responds to different messages based on how the scheme improves their lives and the benefits that they receive in the event of a contingency. A positive message encourages employers and employees to participate in the scheme reducing enforcement expenditure. The unit needs the expertise in customer relations and complaint handling to ensure its successful management of publicity campaigns.

There has to be adequate number of post provided for each division and unit keeping in mind the rapid expansion of the coverage and consequently the need for additional staff. The management can be given the flexibility of filling the post on a need basis as the Social Security Fund continues to grow. The employed staff both officers and support staff in the initial period be civil servants determined by the government. Careful selection of hard working and dedicated officers and staff will have a major impact on the successful implementation of the schemes and the Social Security Fund as an organization. This is possible and it is recommended that for the purposes of capacity building the staff should be made permanent to the Social Security Fund. In addition to the permanent staff some of the routine or seasonal work can be handled either by engaging staff on a contractual basis for limited periods of time to handle defined. These staff shall receive benefits provided under the Labor Law. The casual or contract staff can later be absorbed into the establishment depending on their dedication, efficiency, commitment and honesty.

Figure 1: Present Organizational Structure of SSF:



Proposed Organizational Structure of SSF



Implementation Plan

Pre-Gazetting of the Social Security Fund Act 2072:

The Bill of the Act which has been sent to parliament for debate and passing by the august assembly may be debated and passed next year as the major issue of the constitution seems to dominate the affairs of the parliamentarians. The Act provides the macro framework for the implementation of the schemes while delegating the authority to prepare the Regulations and specific procedures for the implementation of the social security plans to the Ministry of Labour and Employment. The Regulations that need to be prepared are provided in the attachment below. The power to make such Regulations is provided in Clause 81 of the Act where it is stated that they will be framed by the government and will have to be submitted by the Ministry of Labour and Employment. Clause 82 of the Act empowers the Fund to prepare the procedures and directives and these will require the approval of the Ministry of Labour and Employment. The procedures and processes for the implementation will be prepared in the next phase of this mission. The Regulations as provided should be prepared to allow for the smooth implementation of the schemes.

Strategies for the implementation of the social security plans: A decision on the number of social security plans that will be implemented has to be made by the government after consultations with the social partners. 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. 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. The decision will also affect the need to establish an organizational structure with staff that has an understanding of the processes to manage it effectively and economically. In addition to the scheme decision the initial geographical area to be covered where the scheme will be implemented as a pilot project must also be made.

In the event the four schemes namely maternity, medical, sickness and unemployment are implemented it must be noted that during the first thirteen months from the date of commencement no benefits will be paid to any of the contributors. This is due to the eligibility condition that requires at least a minimum of 12 contributions before entitlement to benefit. The Social Security Fund has been collecting the 1% Tax from employees for more than 3 years and the contributors have already started voicing that they have not received any benefit despite having paid the contributions. Adding another year to just collections involving a new and expanded group of workers could result in some negative impact and acceptance of the schemes. In addition the staff experience in benefit management will be delayed for more than a year and the lack of sufficient work during this period could lead to staff demoralization and a tendency to slip into a lax work culture. It is recommended that the employment injury scheme together with the other schemes be launched simultaneously with the other three schemes except the unemployment scheme. The employment injury scheme will have immediate coverage and result in benefits being paid within the first month of launch of the schemes. Preparation of staff before the launch will be basic and they could gain the experience over time, this is a hand on approach. Employers on the other hand will from the start of the scheme pay a fixed contribution and follow set procedures and will not have to change their payroll program in accordance with introduction of new schemes. This may reduce costly software program and administrative changes. There is also a relationship between the medical benefits with the sickness and employment injury scheme and their implementation simultaneously would create administrative synergies.

The unemployment scheme requires a sophisticated administrative system in place if it is to be successfully implemented. The Ministry of Labour and Employment has established employment information centres in a number of places. These centres are not being run at a professional level which would be able to support the requirements of an unemployment scheme. It is recommended that the unemployment scheme be implemented at a later stage when the administrative capabilities and an integrated labour market system are operational.

The consultant has been informed that the unions had agreed with the employer's federation that they were willing to support the introduction of the social security schemes if an unemployment scheme is implemented