



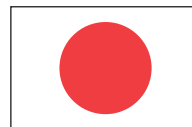
International
Labour
Organization

► Social protection responses to COVID-19 in Nepal

EXECUTIVE SUMMARY



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► Executive summary

The gradual intensification and global spread of the COVID-19 pandemic have led to immense economic disruptions, labour market shocks and weighty impacts on public health. The devastating consequences of the COVID-19 crisis have the potential to transform into long-lasting negative impacts and require, thus, a long-term comprehensive response.¹ A combination of employment, labour market and social protection policies are necessary to facilitate the recovery process, address the vulnerabilities of less protected population groups, particularly those unequally hit by the crisis, diminish the transaction costs of structural changes in the future, and prepare for new crisis and for an extended duration of the COVID-19 pandemic as a second wave looms in Nepal.

Previous global crises demonstrated the undeniable importance of social protection in economic development and the recovery process. The key lesson learned: social protection is not only an important response mechanism and automatic social and economic stabilizer in times of crisis but is also an investment in human capital and labour productivity ensuring sustainable long-term growth and facilitating structural change.²

The systems approach to social protection is the key to recovery efforts. The current COVID-19 crisis has once again proved the importance of comprehensive and shock-responsive social protection systems in economic and social development. The combination of contributory and non-contributory schemes and programmes, interlinked in their design and function, have been generally recognized as the way forward to achieving universal social protection. Specifically, the International Labour Organization's (ILO) systems approach, aligned with international labour standards, previews basic guarantees to ensure at a minimum that, over the life cycle, all in need have access to essential health care and basic income security through establishing and maintaining social protection floors as a fundamental element of national social security systems, while progressively ensuring adequate and higher levels of protection.³

This paper provides an assessment of how social protection systems can be reviewed and strengthened to fulfil their role as economic and social stabilizers during the crisis recovery and as integral elements of further economic growth. To initiate a further dialogue in this regard, the key objectives of the paper include analysing the social protection system in place, formulating potential measures to mitigate the impacts of the pandemic; and suggesting options for the social protection response Nepal can adopt to support workers in both formal and informal sectors as the crisis evolves.

¹ ILO Monitor: *COVID-19 and the World of Work. Fifth Edition, Updated Estimates and Analysis*, June 30, 2020 - https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_749399.pdf

² International Labour Conference, 101st Session, 2012, Report IV (1), *Social Protection Floors for Social Justice and a Fair Globalization*, ILC.101/IV/1 - https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---soc_sec/documents/publication/wcms_secsec_24781.pdf

³ ILO Social Protection Floors Recommendation, 2012 (No. 202) - https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:3065524:NO
Among other standards, ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) - https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312247:NO

► Impact of the crisis on the world of work

COVID-19 has significantly affected the economy in Nepal, hitting specific sectors particularly hard, distorting supply chains, disrupting domestic demand and slowing down overall economic growth. 3.7 million workers earn their livelihoods in the sectors deemed most at risk to experience a significant (medium to high) reduction in economic outputs as a result of COVID-19.⁴ Large-scale disruption of jobs are expected in the wholesale and retail trade (disrupted jobs estimated nearly at 780,000), manufacturing sector (estimated at 446,000), and construction, transport and accommodation and food services (at 404,000, 211,000, and 62,000, respectively).⁵

Remittances and tourism, the major sources of foreign exchange earnings for Nepal, are expected to decline in 2020. Overall, travel receipts which supply about 2.0 to 3.0 per cent of GDP will decline this fiscal year, however, the extent of decline will depend on the persistence of the pandemic and is likely to impact more significantly the sector if the outbreak is prolonged.⁶ Remittances to Nepal are expected to decline by 14 per cent in 2020 considering that COVID-19 related travel restrictions will inevitably affect labour migration flows and the pandemic is likely to have a long-term impact on the remittances forecast in the following years as well.

The World Trade Organization (WTO) previews an increase in general inflation due to a drastic fall in imports from China during the pandemic which will lead to an increased reliance on imports from third countries and consequently on the growth of products' costs.⁷ This tendency will have an impact on a broader range of population groups affecting a general consumer purchasing power, not only those in disrupted jobs but also the low-income population in general. Additionally, as of mid-February 2020, food inflation in Nepal already increased by 9.8 per cent compared to a year earlier, with a significant increase in the prices of vegetables, spices, and alcoholic beverages. ADB estimates that the average annual inflation for FY2020 could be higher than anticipated if the situation further worsens due to the COVID-19 pandemic.⁸

► Impact of the crisis on vulnerable groups

The crisis has had a disproportionate impact on some people more than others, depending on their life stage, employment, legal status, occupation or different life-cycle associated risks.

Age-specific and life-cycle related vulnerabilities:

- The crisis has proven to disproportionately impact **children**, aggravating child poverty and deteriorating access to essential services. Lack of access to health care, education, adequate

⁴ ILO, Covid-19 Labour Market Impact in Nepal, Briefing Note, May 21, 2020 - https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-kathmandu/documents/briefingnote/wcms_745439.pdf

⁵ ILO, Covid-19 Labour Market Impact in Nepal, Op. cit.

⁶ ADB, Nepal Macroeconomic Update, Volume 8, No.1, Op. cit.

⁷ WTO, COVID-19 and its Effect on Nepal, Accessed 3 September 2020, https://www.wto.org/english/tratop_e/covid19_e/sawdf_nepal_e.pdf

⁸ ADB, Nepal Macroeconomic Update, Volume 8, No.1, Op. cit.

⁹ UNICEF, Child & Family Tracker, Tracking the Socio-Economic Impact of COVID-19 on Children and Families in Nepal, July 16, 2020 - <https://www.unicef.org/nepal/media/9451/file/COVID-19%20Child%20and%20Family%20Tracker.pdf>

housing or proper nutrition will not only have life-long negative implications for individuals but would also result in irreversible negative effects on the economy of Nepal.⁹

- With the decreasing employment opportunities, **young people** (aged 15-24) are particularly vulnerable during the crisis, experiencing income losses, difficulties entering the labour market and disruptions in their education or training. The youth unemployment rate, standing at 23.9 per cent before the pandemic is likely to increase.¹⁰ The crisis is not only disproportionately affecting **women** in terms of income loss and access to social protection but has also exacerbated gender inequalities in the labour market.
- Another group that requires particular attention is **persons with disabilities and/or chronic diseases**, who are not only more vulnerable to the virus but are also generally more prone to be living in poverty and experience limitations accessing certain services.

Vulnerable groups in employment:

- **Informal workers** are particularly vulnerable to economic and labour market shocks. Approximately 5.7 million or 80.8 per cent of workers in Nepal have informal jobs and the major sectors in informal employment that expect to face the highest degree of disruption are construction – 97 per cent, trade – 74 per cent and manufacturing – 84 per cent.¹¹
- **Home-based workers** are another particularly vulnerable group, which accounts for approximately 1.4 million workers in Nepal, mainly women.¹² The main source of income for home-based workers relies on produced goods for export, the demand for which will be distorted in the long run, with a significant immediate drop due to stagnating global supply chains.
- The crisis has proven to have had a disproportionate impact on the **rural population**. Considering that agriculture is the largest contributing sector to the economy in Nepal, even small shocks will amplify the negative impact on a large number of people in rural areas as they tend to have lower incomes and are more prone to fall into poverty.

Vulnerabilities associated with legal status:

- **Nepalese working abroad** are particularly vulnerable to the impact of the COVID-19 crisis compared to the destination country's residents, which manifests both in their inability to access a range of social protection mechanisms in the host countries or the inability to return to their families in the country of origin. Overall, Nepal's COVID-19 Crisis Management Centre has estimated that, including those in India, there are 1.3 million Nepalis migrant workers who want to return home.¹³

¹⁰ ILOSTAT, *SDG Indicator 8.5.2. – Unemployment rate (%) – Annual Nepal Labour Force Survey (2017)*, age band 15-24 - <https://www.ilo.org/shinyapps/bulkexplorer8/>

¹¹ ILO, *Covid-19 Labour Market Impact in Nepal*, Op. cit. *Covid-19 Labour Market Impact in Nepal*, ILO, May 21, 2020 - https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-kathmandu/documents/briefingnote/wcms_745439.pdf

¹² ILO, *Covid-19 Labour Market Impact in Nepal*, Op. cit.

¹³ Ibid

► Emergency response and measures taken to mitigate the impact of COVID-19

The Government of Nepal has introduced a number of measures to mitigate the immediate and medium-term impact of the crisis.

- Health spending has been increased to ensure an adequate response to the health crisis to include free health care to those that have tested positive for COVID-10. Additionally, an insurance package of NPR 2.5 MM was provided to healthcare and security personnel involved in treating COVID-19 patients.
- Measures to ensure the viability of the Social Security Fund (SSF) have also been introduced. Employers have to pay the salaries of their workers during the lock-down period but can use their welfare fund, in return the government is temporarily depositing the contributions to the SSF normally deposited by employees and employers.
- In response to the spike in unemployment due to the COVID-19 crisis and given the absence of a statutory unemployment benefit, the government has been relying on the Prime Minister's Employment Programme (PMEP) which aims at providing 100-days of waged-employment to the unemployed, including returnee migrant workers and informal sector workers.¹⁴
- Measures for vulnerable and low-income households included the relief package introduced by the GON such as waivers of public utilities' fees and transportation costs.¹⁵
- Other immediate measures to mitigate the impact of COVID-19 on economic development and the labour market include tax deferrals, relaxation on repayment of loans for businesses, support for enterprises in the most affected sectors, such as tourism and transportation, as well as subsidized funding sustaining small and mid-size enterprises affected by the pandemic.¹⁶

► Policy options for the response in Nepal

A mid- to long- term recovery response needs to be considered. Temporary relief measures and food distributions programmes for the poor and vulnerable are essential to maintain an adequate level of access to basic needs. At the same time, rapid social protection measures need to be combined with mid- and long-term approaches in building resilience to future shocks, all the while contributing to social and economic aspects of the economic recovery and development strategy.

Broader income support to workers affected the most by the crisis. In response to COVID-19 and growing concerns around employment protection, the GON has introduced several temporary job retention and income replacement measures in absence of unemployment insurance including temporary deposits by the government of the contributions to the SSF and expansion of public works projects. These efforts to implement temporary measures could offer a possibility to introduce

¹⁴ MOLESS, Prime-minister Employment Program - https://moless.gov.np/?page_id=1351

¹⁵ "Nepal COVID-19 Relief Package", *Nepali Times*, March 30, 2020 - <https://www.nepalitimes.com/latest/nepal-covid-19-relief-package/>

¹⁶ Ibid

broader income support to workers affected the most by the crisis and provide an opportunity to fill in the coverage gap in absence of statutory unemployment benefit.

An unemployment insurance scheme building on a suggested employment protection scheme temporarily subsidized by the government. The major coverage gap of the working-age population is correlated with the absence of an unemployment insurance scheme. Experiences from different countries demonstrate that unemployment insurance has been critical in addressing the employment impacts of COVID-19 providing a rapid and substantial response to income losses of laid-off workers due to the pandemic.

Strengthen the new social insurance system under the Social Security Fund:

- Measures focusing on already registered workers under the new social insurance could address the regularity of contributions with options of strategic planning towards building long-lasting and trusting relations with the members. These could include an assessment of root causes of the irregularity of contributions, evaluation of schemes' design in terms of benefit packages, replacement rates and level of contributions.
- Measures expanding the coverage and attracting new members to support the viability of the SSF are necessary. Introducing a new employment protection scheme with the perspective of transforming it into full-fledged unemployment insurance would consequently lead to a higher number of workers registered with the SSF. Other options for extending the coverage could also include a further harmonization of the operations between the EPF and SSF, extension of coverage to informal sector workers and revision of the contribution rates through an actuarial study.
- Measures expanding protection to own-account and informal workers would require particular attention given a high proportion of workers in Nepal concentrated in the informal sector, family-owned businesses, micro or small enterprises or being self-employed. A careful assessment of options expanding protection to these categories of workers is needed not to jeopardize the financial sustainability of the social insurance schemes in place.

Non-contributory schemes play a key role in ensuring a basic level of protection for all, in particular for those groups who do not have access to any other social protection mechanisms.

The following options for the non-contributory schemes could be explored:

- *Universalization of child benefits to every child under five across all the 77 districts in the country.* Considering that households on average have 4.06 children, such a strategy, in case the scheme is universalized, would allow reaching at least one-third of all the households increasing their purchasing power and alleviating the impact of the pandemic on the families without protection.¹⁷
- *Revising qualifying criteria to reach larger vulnerable groups of the population and narrow the coverage gap.* Such options could be considered as harmonizing and lowering the qualifying conditions for old-age benefits or reviewing the registration process for and improving access to the disability allowance, given major coverage gaps of the disability allowance scheme.

¹⁷ CBS, *Nepal Living Standards Household Survey, 2011* - https://cbs.gov.np/wp-content/uploads/2018/12/Statistical_Report_Vol1.pdf

- *Top up options could be envisaged in times of crises and during the recovery phase.* Focusing on the adequacy of the benefits to ensure substantial support to the poorest while offering additional security to workers and their families at risk of falling into poverty.

The systems approach to social protection is key to recovery efforts in the long-term.

Comprehensive social protection systems have proven to be powerful economic and social stabilizers in times of crises and an indispensable element of economic recovery and growth. The expected lengthy recovery from the pandemic requires building long-term strategies for the strengthening of the social protection system. Nepal has a possibility to create a long-term vision for the social protection system, building on a combination of contributory and non-contributory schemes towards achieving universal protection.¹⁸ Taking advantage of social dialogue to shape a sustainable recovery path and guided by international labour standards, such a long term and comprehensive vision of the social protection system would help to reduce fragmentation, close coverage gaps, facilitate the formalization process and address long-term structural adjustments.

While assessing possible options for a social protection response in Nepal, a few important aspects also need to be considered:

- The recovery process entails **greater adaptability of the social protection** schemes and programmes to the changing realities of the labour market and economic development, and where needed, the introduction of innovative approaches to ensure the effective coverage of the population;
- While closing the coverage gap, additional effort needs to be made in assessing the needs of the so-called “**missing-middle**” portion of the population, often neither contributing to social insurance schemes nor benefiting from non-contributory options;
- The recovery strategy also needs to focus on the **sectors hit the most** of the economy and the **most affected by the crisis workers**. Often the vulnerabilities of certain population groups might be less visible and more difficult to assess, in particular when it comes to informal or migrant workers;
- Particular attention will need to be paid to **women** and **persons with disabilities**: Considering the diversity of life-cycle risks women face compared to men, there are already several additional barriers accessing social protection, including a greater burden of family responsibilities and unpaid care, specifically in relation to children and older persons, as well as interruptions and inequalities in paid work, reinforced by often precarious or the informal nature of jobs. The crisis is not only disproportionately affecting women in terms of income loss and access to social protection, but also exacerbates gender inequalities in the labour market.
- **Persons with disabilities and/or chronic diseases**, are not only more vulnerable to the virus but are also generally prone to be living in poverty and experience limitations accessing certain services.

¹⁸ ILO, *Innovative Approaches for Ensuring Universal Social Protection for the Future of Work*, Christina Behrendt and Quynh Anh Nguyen, ILO Research Paper Series, May 15, 2018 - https://www.ilo.org/global/topics/future-of-work/publications/research-papers/WCMS_629864/lang--en/index.htm

► Social protection responses to COVID-19 in Nepal

The COVID-19 pandemic has transformed the world of work, heavily impacting the well-being of workers and their families, exposing a number of sectors to the crisis and aggravating the existing inequalities in the labour market. Previous global crises have demonstrated the undeniable importance of social protection in economic development and the recovery process. The systems approach to social protection is the key to recovery efforts. This paper provides an assessment of how social protection systems can be reviewed and strengthened to fulfil their role as economic and social stabilizers during the crisis recovery and as integral elements of further economic growth.

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