

# 5 Nepal

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## I. Summary of Main Results

**T**otal expenditure on Social Protection (SP) in 2002/03 was around NRs9.4 billion, just over 2% of GDP. Almost half of total SP expenditure was on social insurance; the next most important component of SP was microcredit, which accounted for around a third of the total. Expenditure on social assistance, labor market programs, and child protection accounted for around 20%; most of the latter was in the form of school-feeding and textbook programs (see Tables 5.1 and 5.2).

The following SP programs reach more than 400,000 beneficiaries: educational assistance (meals and text books), microcredit (targeted at the poor and for job creation), health insurance (EPF and CIF) and food for work (primarily Rural Construction Infrastructure Development), and allowances for senior citizens (see Table 5.3)

Coverage rates<sup>1</sup> for the six key SP target groups<sup>2</sup> vary markedly—from over one third for the elderly (although most of these will receive the senior citizens' allowances rather than the more lucrative pensions) to under 10% for

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<sup>1</sup> Coverage = number of beneficiaries/reference population (see Section V.B). It should be noted that these coverage rates and most of the following indicators have been estimated from discussions with officials responsible for individual SP programs and the authors themselves owing to the unavailability of household survey data that would have both facilitated the tasks and led to more accurate estimates.

<sup>2</sup> The unemployed and the underemployed, the elderly, the sick, the poor, the disabled, and children with special needs.

the disabled, health insurance, and the poor (social assistance); microcredit (including job creation programs) is equivalent to a fifth of all poor households. The interpretation of these rates is, however, complicated by the difficulty of defining the reference populations for these target groups (especially for labor market programs) and the unknown amount of “leakage,” i.e. benefits going to beneficiaries outside the strictly defined target group (see Section V.B and Table 5.5).

Around 2.3 million poor people are estimated to be beneficiaries of some form of SP assistance—just less than one quarter of the total poor population—the majority of these are recipients of microcredit loans. Without these programs, SP assistance to the poor would be limited in the extreme. (see Table 5.6)

In 2002/03, SP expenditure of around NRs3.9 billion (around 40% of total SP expenditure) went to the poor, who currently make up around 38% of the population. Over 70% of the SP expenditure going to the poor came from microcredit programs. Total SP expenditure on the poor was equivalent to around 7% of the poverty line income, rising to 28% if only poor beneficiaries were included.

Table 1.1 summarizes the key SP indicators that have been derived. These are the indicators that will be used to formulate the Social Protection Index (SPI).

## II. Country Overview

This chapter presents a brief overview of Nepal’s social and economic characteristics. These characteristics are considered to be particularly relevant to the SP issues.

### A. Population

Nepal’s population increased from around 18.5 million in 1991 to 23.2 million in 2001. Based on the 2001 National Census, there were 4.2 million households with about 84% of the total population residing in rural areas. A high annual population growth rate of 2.24% and low average life expectancy even by South Asian standards of 60 years means that Nepal has a relatively young population.

However, a number of factors like improving sanitation, health and nutrition programs, and services have been lowering the traditionally high maternal and infant mortality rates and extending the longevity of the population generally. This means that Nepal’s population will be steadily ageing into the future. One study has projected that the population aged 60 years

Table 1. Summary of Key SP Indicators

SPI Component	Indicator	(%)	Nepal Estimate	(%)
<b>Expenditure on SP</b>	Total SP Expenditure as % of GDP			2.2
<b>Coverage of SP The Unemployed/ Underemployed</b>	Reference population—narrow Beneficiaries as% of total of unemployed/ underemployed	16	Reference population—wide As% of total labor force	3
<b>The Elderly</b>	Elderly receiving assistance as person of population aged 60+ years.	36	As for “narrow” reference population	36
<b>The Sick</b>	% of population with health insurance or in receipt of subsidies	4	As for “narrow” reference population	4
<b>The Poor/ Social Assistance</b>	% of poor population receiving some social assistance/welfare	8	% of total population	3
<b>The Poor/ Microcredit</b>	% of population receiving loan	21	% of total population	8
<b>The Disabled</b>	Disabled beneficiaries as % of disabled population	4	As for “narrow” reference population	4
<b>Children With</b>	CWSN receiving assistance as of % of poor children aged five to 14 years	31	% of all children aged 5-14 years	12
<b>Distributional Impact of SP</b>				
<b>Poverty-Targeting Impact Of SP Transfers On Household Income</b>	% of poor population who receive some assistance			26
	SP expenditure per poor person as% of annual per capita poverty line income/expenditure			7
	SP expenditure per poor beneficiary as% of annual per capita poverty line income/expenditure			28

Source: Chapter 5 Tables.

and over will double in the next twenty years and more than quadruple by the year 2051 (IIDS 2003). Moreover, the same study estimates that the number of those aged 75 years and over will more than double in the latter period. Detailed demographic studies are required to understand fully the nature and significance of an ageing population in Nepal.

Surprisingly, the same study has shown that females are underrepresented among the 60+ age-group, despite the fact that females outnumber males in the total population. However, average life expectancy for those reaching age 60 is higher for women (16.15 years for women compared to 14.89 years for men). In 2001, only 16% of the aged population was literate. Again, a strong gender bias in education is evident as the literacy rate for women aged 60 years and over stood at only 4%. Finally, labor force participation rates for the 60+ age-group appears to be very high with over 60% reporting some work activities in mainly agriculture and domestic services.

The ageing of the population in Nepal presents both a potential threat and an opportunity. The potential threat is that establishing more adequate social protection provisions for the aged in the future, without proper planning, could prove to be financially unsustainable. The opportunity provided by the aging of the population derives from the existing level of social protection for the elderly in Nepal. More specifically, the existing social protection arrangements for the aged are so limited that compared to many other countries, there are fewer political constraints on devising sustainable social protection policies for the elderly in the future.

Disaggregated data on Nepal's demographic situation indicate that adverse demographic indicators are much worse for people belonging to supposedly *dalits* (lower caste or so-called untouchables) and *janajati* groups (i.e. ethnic groups not included in the Hindu caste system). For example, the infant mortality rate and life expectancy for dalits are 116.5 deaths per 1,000 live births and 50.58 years respectively, compared to the *Brahmans* (highest caste group), where the infant mortality rate is 52.5 deaths and average life expectancy is 63.2 years. Similar disparities can be found in comparisons between other castes also (UNDP 2002).

## **B. The Economy**

Nepal's per capita income of about \$240 is one of the lowest in the Asian continent. Poverty continues to remain a pervasive problem. High rates of underemployment and heavy reliance on subsistence farming with limited prospects for mechanization are two major threats the economy has been consistently facing. The per capita income has been growing at less than 2%

**Table 2.1. Demographic Profile, 2001**

<b>Total Population</b>	23.15 million
Males	11.56 million
Females	11.59 million
<b>Urban/Rural Split</b>	
Urban	14%
Rural	86%
<b>Age Structure</b>	(in '000)
0-4 years	2,755
5-9 years	3,211
5-14 years	6,193
15-59 years	12,311
60 years +	1,504
75 years +	301
<b>Median Age</b>	
<b>Total</b>	<b>20 years</b>
Male	19.6 years
Female	19.9 years
<b>Household Composition</b>	
<b>Total Households (in '000)</b>	<b>4,174</b>
Average household size	5.4
<b>Population Growth (1991-2001)</b>	2.25%
Birth Rate	32.46 births/1,000 population
Death Rate	9.84 deaths/1,000 population
Sex Ratio	
at birth	1.05 males/females
under age 15	1.07 males/females
15-64 years	1.05 males/females
65 years & over	0.97 males/females
<b>Life Expectancy at Birth</b>	
<b>Total Population</b>	<b>59 years</b>
Males	59.36 years
Females	58.63 years
<b>Infant Mortality Rate</b>	
<b>Total</b>	<b>70.57 deaths/1000 live births</b>
Male	68.95 deaths/1000 live births
Females	72.27 deaths/1000 live births
<b>Total Fertility Rate</b>	<b>4.39 children born/woman</b>
<b>HIV/AIDS</b>	0.5% of total adult population
<b>HIV/AIDS Deaths</b>	2,400

Sources: CBS. 2002. Population Census 2001. *National Report* Vol. 1.

per annum in a situation where more than nine million people are currently estimated to be living below the national poverty line.

Nepal relies heavily on foreign sourced income. The international community funds more than 60% of Nepal's development budget and more than 28% of total budgetary expenditures. Foreign Direct Investment (FDI) in Nepal exceeded NRs22.6 billion (some 20% of total foreign investment) for the period 1988/89–2002/03 and provided employment to over 90,000 workers (Department of Industry, 2003). Remittance income from the high number of Nepalese working abroad (estimated as high as \$1.4 billion in 2003) is also significant.

The rate of economic growth in 2002/03 was only 2.7%. While the estimated growth rate for 2003/04 is slightly higher at 3.5% (MOF 2004), it will not be sufficient to overcome the expected population growth rate in the coming year. However, the latest Economic Outlook published by the ADB in 2004 presents a more optimistic scenario, where the agriculture and non-agricultural sectors are expected to grow at a rate of 3% and 5.8%, respectively<sup>3</sup>

Real GDP, which was growing at annual rates of 3.3 to 6.1% in the years 1995 to 2000, exhibited a sharp decline in 2001/02 to a negative 0.35% (see Table 2.2). Due to the low GDP growth rate combined with a population growth rate of more than 2.2%, the per capita GDP in 2001/02 declined by 2.9%. The drop in GDP in 2001/02 was mostly the result of a slowdown in the nonagriculture sector, which decreased by 2.1% that year. This slowdown was primarily driven by the ongoing violence in the country, which particularly affected the manufacturing and service sectors.

**Table 2.2. Growth Rates of Real GDP and Per Capita Income**

Growth Rate	1995/ 96	1996/ 97	1997/ 98	1998/ 99	1999/ 00	2000/ 01	2001/ 02	2002/ 00*	2003/ 04**
<b>Real GDP (at</b>									
94/95 price)	5.4#	4.8	3.3	4.5	6.1	4.7	(0.35)	2.7	3.5
<b>Agriculture</b>	3.7	4.2	0.8	2.8	4.9	5.5	2.2	<b>2.5</b>	<b>3.7</b>
<b>Nonagriculture</b>	6.5	5.2	4.7	5.6	6.8	4.3	(1.9)	2.9	3.3
GDP per capita			0.6	2.2	3.8	2.5	(2.9)	1.3	

\* Revised estimate.

\*\* Preliminary estimate of MOF (2004) #% increase, year on year.

Source: *Economic Survey. Fiscal Year 2002/03*. Ministry of Finance. HMG/N. 2003.

<sup>3</sup> It should be noted that the deteriorating security situation, unless corrected, is likely to lower the anticipated growth rate.

**Table 2.3. Structure of GDP at Current Prices**  
(NRs million)

Originating/ Fiscal Year	1989/90	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04
Agriculture, Forestry	79,512 48.5%	85,569 40.8%	88,830 40.0%	92,706 39.8%	93,496 38.8%	96,183 38.2%	100,856 37.8%	106,380 38.0%	108,752 39.0%	111,471 38.9%	115,629 39.0%
Mining & Quarrying	846 0.5%	1,117 0.5%	1,262 0.6%	1,348 0.6%	1,365 0.6%	1,416 0.6%	1,480 0.6%	1,547 0.6%	1,571 0.6%	1,601 0.6%	1,641 0.6%
Manufacturing	10,350 6.3%	19,555 9.3%	21,322 9.6%	22,826 9.8%	23,607 9.8%	24,856 9.9%	26,646 10.0%	27,649 9.9%	24,892 8.9%	25,384 8.9%	26,014 8.8%
Electricity Gas/Water	1,845 1.1%	2,862 1.4%	3,414 1.5%	3,475 1.5%	3,331 1.4%	3,520 1.4%	4,025 1.5%	4,413 1.6%	4,976 1.8%	5,348 1.9%	5,757 1.9%
Construction	16,957 10.3%	23,093 11.0%	24,733 11.1%	26,372 11.3%	26,953 11.2%	28,786 11.4%	31,550 11.8%	31,823 11.4%	32,180 11.5%	32,724 11.4%	32,812 11.1%
Trade, Restaurant & Hotel	16,824 10.3%	24,326 11.6%	25,424 11.5%	26,458 11.4%	27,981 11.6%	29,069 11.5%	31,036 11.6%	31,507 11.3%	28,329 10.2%	29,484 10.3%	31,187 10.5%
Transportation Communication, Storage	8,759 5.3%	13,995 6.7%	14,759 6.7%	15,902 6.8%	17,186 7.1%	18,355 7.3%	19,644 7.4%	20,860 7.5%	21,201 7.6%	22,021 7.7%	23,250 7.8%
Finance & Real Estate	15,198 9.3%	20,534 9.8%	22,096 10.0%	23,136 9.9%	24,494 10.2%	25,719 10.2%	27,026 10.1%	27,491 9.8%	28,402 10.2%	29,206 10.2%	30,017 10.1%
Community, Social Service	13,602 8.3%	18,924 9.0%	20,090 9.1%	20,817 8.9%	22,403 9.3%	23,885 9.5%	24,833 9.3%	28,080 10.0%	28,545 10.2%	29,241 10.2%	30,152 10.2%
Total GDP at Factor Cost	163,893	209,975	221,930	233,040	240,816	251,789	267,096	279,750	278,848	286,480	296,459

Source: Economic Survey 2003/04. MOF. HMG/N. 2004.

Over the years, the structure of GDP has been slowly changing, such that the shares of all nonagricultural sectors have increased. The contribution of manufacturing to GDP is below 10%. Due to declining activities in this sector particularly in food, beverages, manufacturing, leather and leather products, wood products, paper products, economic activity has shifted to other sectors. In recent years, services, including travel and tourism, have accounted for around half of GDP. One of the reasons for this structural shift is the continuing low productivity of agriculture. Based on the recent government estimates, during the last few years, the share of agriculture GDP has remained around 39% (see Table 2.3).

Government expenditure constitutes a significant portion of the GDP in Nepal. Table 2.4 presents an overview of government expenditure for the years 1989/90-2002/03. It divides government expenditure into regular and development expenditure and provides a detailed breakdown of the latter to show the amounts going into the social sectors. Observe that the share of development expenditure in the total budget has gone down substantially over the years since 1989/90. Furthermore, the share of social sector expenditure has also been declining during this period.

### **C. Employment and Labor Force**

Nepal's labor market is dominated by the agricultural sector where over three quarters of the labor force is situated. Most of the remainder is engaged in the services sector, with only 3-4% engaged in the manufacturing sector. Of these, women account for around 47% of the total and over 60% of the total workers in the agricultural sector.

The latest comprehensive data on Nepal's labor market is contained in the 1998/99 Nepal Labor Force Survey (NLFS). Based on this survey, Nepal's workforce consisted of 9.5 million persons, with a roughly even split between males and females. In addition to this group, an estimated 2 million<sup>4</sup> or just over 40%, of children aged between five and 14 years are child laborers. The labor force participation rate for people aged 15 years and over is relatively high at around 86%, reflecting high participation rates among women (81%) and the aged (based on 2001 Census data 47% of persons aged 65 and over are economically active).

The main factors contributing to the high labor force participation rate of the aged is the absence of social security arrangements for old people and the mass migrations of younger people either attempting to escape conditions

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<sup>4</sup> Estimates of the number of child laborers in Nepal vary widely. The estimate of 2 million is a mid-range estimate.

**Table 2.4. Government Expenditure, 1989/90-2002/03**  
(NRs million)

Sector/Fiscal Year	1989/90	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/2003
Regular Expenditure	6,672 33.9%	19,265 49.3%	21,562 46.3%	24,181 47.7%	27,174 48.4%	31,048 52.1%	34,523 52.1%	42,769 53.6%	48,590 60.7%	54,973 65.4%
Development Expenditure	12,998 66.1%	19,795 50.7%	24,981 53.7%	26,543 52.3%	28,944 51.6%	28,531 47.9%	31,749 47.9%	37,066 46.4%	31,482 39.3%	29,033 34.6%
Constitutional Organs					4 0.01%	29 0.05%	27 0.04%	13 0.02%	13 0.02%	9 0.01%
General Admin	14 0.07%	34 0.09%	42 0.02%	35 0.07%	46 0.08%	79 0.13%	108 0.16%	127 0.16%	250 0.31%	99 0.12%
Economic Admin & Planning	11 0.05%	32 0.08%	33 0.01%	17 0.03%	19 0.03%	21 0.03%	29 0.04%	196 0.25%	94 0.12%	33 0.04%
Social Services	3,973 20.2%	6,225 15.9%	7,613 16.4%	9,281 18.3%	10,324 18.4%	10,265 17.2%	12,406 18.7%	12,873 16.1%	11,530 14.4%	12,189 14.5%
Education	1,480	1,454	1,791	2,356	2,037	1,641	2,574	2,784	2,755	2,730
Health	394	859	916	1,621	2,076	1,677	2,127	1,972	1,877	1,620
Drinking Water	617	1,102	1,206	1,327	1,670	1,867	2,423	2,407	1,747	2,011
Local Devt	454	2,416	3,345	3,623	3,679	3,969	4,137	4,626	4,156	5,267
Other Social Services	1,028	394	355	354	862	1,111	1,146	1,083	995	561
Economic Services	8,201	12,853	16,983	17,055	17,900	17,324	18,649	21,114	17,452	15,591
(Agr/Irrigation/Land-Reform/Forestry/Industry)	41.7%	32.9%	7.1%	33.6%	31.9%	29.1%	28.1%	26.4%	21.8%	18.6%
Miscellaneous	799 4.1%	652 1.7%	310 0.1%	155 0.3%	651 1.2%	813 1.4%	531 0.8%	2,743 3.4%	2,142 2.7%	1,112 1.3%
<b>Total Govt. Expenditure</b>	<b>19,670</b>	<b>39,060</b>	<b>23,7542</b>	<b>50,724</b>	<b>56,118</b>	<b>59,579</b>	<b>66,273</b>	<b>79,835</b>	<b>80,072</b>	<b>84,006</b>

Source: Government statistics.

of conflict in the countryside or seeking employment opportunities in urban Nepal and abroad (ADB 2004).

The baseline report of SP (ADB 2004) highlights that classifying employment between formal and informal sectors is problematic. Using the ILO definition of the informal sector—principally, own-account workers and others where employment does not involve a formal employment contract—a rough approximation can be attempted. The informal sector would include both self-employed and unpaid family workers (84% of the total work force). Only government and state-owned enterprise employees are clearly in the formal sector. An unknown but decreasing proportion of private sector employment is in the formal sector and an indeterminate proportion of those are in other paid employment.

**Table 2.5. Breakdown of Employment (%)**

<b>Unpaid Family Workers</b>	<b>43</b>
Self-employed	41
Agriculture	(79)
Other	(29)
Private Sector	4
Government & State-Owned Enterprise	3
Other Paid Employment	9
Child Employment (among five to 14 years)	40

Note: All figures rounded to the nearest whole %.

Source: CBS, 1999. *Nepal Labor Force Survey 1998/99*.

During the last few years, a noteworthy feature of Nepal's labor force has been the prevalence of very high numbers of migratory workers in industries such as construction and significant rates of out-migration of largely unskilled workers seeking foreign employment. Even though precise estimates are not available, official estimates indicate that about 250,000 workers go abroad to seek employment opportunities annually. Also, there is a significant amount of labor transfer between Nepal and India. "Brain drain" is a related issue of concern because of the high out-migration rate of skilled Nepalese.

In Nepal, measurement of unemployment rate is problematic due to the high incidence of unpaid work and the absence of a standard measurement methodology. On the basis of the latest NLFS, unemployment is essentially an urban phenomenon, measuring 7.4% for this group. Youth unemployment rates in urban areas were higher at around 12%. Aggregate unemployment was at a low 1.8%.

An underemployed worker, as defined in the NLFS, is someone working less than 40 hours a week. Using this definition, the estimated underemployment rate for Nepal is around 27%. If a more conservative definition of working less than 20 hours a week is used, underemployment is found to be around 10%. In light of the NLFS finding that average weekly working hours in Nepal is 44 hours, the former is probably the better estimate. This implies that around one third of the Nepali labor force is either unemployed or underemployed. If the more conservative estimate of underemployment is used, the percentage drops to around 15%.

Survey results show that the incidence of child labor falls as the level of household income rises. This explains why there is a significantly lower incidence of child labor among the children of women working in the organized sector, where earnings are generally higher. In households where mothers are involved in lower paid exploitative labor activities, children of the household and girls especially, have a higher probability of being (exploited) child laborers. At the same time, there is a relationship between earnings and the educational attainment of mothers, with lower educated mothers being more likely to involve children in exploitative labor activities. Children in such households generally have lower education participation rates and a higher incidence of participation in child labor. These are important findings as they clearly demonstrate that financial considerations are central to the incidence of child labor and that a focus on promoting paid work, even low paid work, among married women has a positive disincentive effect on sending children to work. These findings are reinforced by the fact that all of the women in the survey were being paid rates below the statutory minimum wage.

While the industry and service sectors employ a minority of child laborers, these are the very sectors where the most exploitative child laborer practices are commonly found. When child labor is used, not only are the human development rights of children violated but wages, when paid, are miniscule and working conditions are most often hazardous to the health, safety, and morals of the children involved.

#### **D. Education**

Nepal seems to have made reasonable progress in primary enrolment particularly since the later half of the 1990s. The net enrolment rate (in primary school) increased from 65% in 1988 to 67.5% in 1995 and 81% in 2001, according to DOE data. In particular, during 1995-2001, the net primary enrolment rate for girls showed a significant increase of almost 20 percentage points (from 55.6 in 1995 to 75.1 in 2001). Although the survey data also show significant increases in primary school enrolment rate over the years, they are not as high

as those reported by DOE. For instance, DOE reports an increase of primary school enrolment rate from 67.5 in 1995 to 81.1 in 2001; whereas survey data show an increase from 57% in 1995/96 to 65.8 in 2000. Compared to the net enrolment rate, the rate of completion of primary education continues to be very low with less than 50% of the pupils starting in grade 1 reaching grade 5 (DOE 2001). Also, data indicate that there has been a steady rise in girls' participation in primary school. For instance, girl students as a proportion of total primary enrolment increased from 38.7% in 1993 to 44.8% in 2001.

**Table 2.6. Gross and Net Primary School Enrolment Ratios (%)**

Type of Date	1990		1995		2001	
	Net Enrolment Rate	Gross Enrolment Rate	Net Enrolment Rate	Gross Enrolment Rate	Net Enrolment Rate	Gross Enrolment Rate
Government Data*	65.2 (1988)	107	67.5	114.1	81.1	124.7
Survey Data**			57.0	86.0	65.8	102.0

Note: Gross enrolment rate = (total children in primary school) / (total children of 6–10 years in population)

Net enrolment rate = (total children of six to 10 years in primary school) / (total children of 6–10 years in population)

Sources: \*Department of Education (DOE). 1990; DOE 1995; DOE 2003; \*\*CBS, 1996; New Era. 2004.

Furthermore, data on school enrolment shows significant regional disparities. Similarly, significant disparities in enrolment rates are seen across various ethnic groups as well as income groups. Overall, it appears that children in rural areas are much more deprived than those in urban areas. The major problems in both primary and secondary education are noted as low quality, internal inefficiency, low pass rates, high dropout rates, and large proportion of untrained teachers.

Nepal's growth rate of adult literacy in recent years has been satisfactory as it increased from about 38% in 1996 to 49% in 2001. But wide variations exist in the literacy rate and access to primary education across various geographical regions and socio-economic groups. As for the ethnic dimension of literacy, the literacy rates are highest among the following three population groups: (i) Indian origin migrant Nepali people, (ii) *Thakalis*, and (iii) *Hill Brahmins*. Despite significant efforts in improving the quality of school education, one has to accept the hard reality that even today the overall quality of education in Nepal is very low.

During the last three decades, women have made substantial gains in literacy. Despite this, the level of literacy is still low and the gender gap is quite large. There is also a substantial difference in the literacy rates of rural and urban women: during the mid-1990s, 47% of adult women in urban areas were literate compared to only 17% of adult women in rural areas. Also, significant differences in female-male literacy gap exist among various ecological and developmental regions, the Kathmandu Valley has the highest female literacy rate and also the highest female-male literacy ratio.

## E. Health

### I. General Health

Table 2.7 presents the trends of some of the important health indicators in Nepal. During the 1990s, health indicators showed significant improvement. For example, during the decade 1991-2001, the average life expectancy at birth increased from 54 to 62 and the crude death rate decreased from 16.6 (per thousand) to 10. Also, the reductions in mortality rates of infants and under-five children were significant. In spite of this progress, Nepal's current health status is relatively low even when compared with its South Asian neighbors. For instance, Nepal's child mortality rate of 91 per thousand live births is higher than that of all SAARC countries apart from Pakistan; similarly, life expectancy at birth in Nepal is the lowest in South Asia. As for maternal mortality, only national estimates are available. According to these estimates, the maternal mortality rates in 1991/92 and 1996/97 were 515 and 539 per 100,000 live births, respectively.

**Table 2.7. Trends in Health Indicators**

Indicator	1991/92	1996/97	2001/02
Life Expectancy at Birth (years)	54.0	56.1	61.9
Crude Death Rate (per 1,000 live births)	16.0	11.5	10
Maternal Mortality Rate (per 100,000 live births)	515.0	539.0	

Source: New Era 2004; New Era, IIDS and VaRG, 1993; NFHS 1996.

Table 2.8 presents information on the nutritional status of Nepali children for various years. These figures indicate that there has been some positive change in the nutritional situation of children during the past few decades. For instance, the percentage of underweight children (of age group six to 59 months) was 69.1 in 1975, while this percentage dropped to 48.3 in 2001 (see Table 2.8).

**Table 2.8. Percentage of Undernutrition Children Under 5**

Survey	Year	Location	Age group (mos.)	Prevalence of		
				Stunting <sup>a</sup>	Wasting <sup>b</sup>	Under-weight <sup>c</sup>
National Nutrition Status Survey (NNS)	1975	National	6-59	69.4 <sup>d</sup>	13.0 <sup>d</sup>	69.1 <sup>d</sup>
Nepal Family Health Survey (NFHS)	1996	National	0-36	48.4	11.2	46.9
Nepal Micronutrient Status Survey (NMSS)	1998	National	6-59	54.1	6.7	47.1
Nepal Demographic and Health Survey	2001	National	0-59	50.5	9.6	48.3

<sup>a</sup> Percentage of children with height – for –age <-2 SD from WHO/NCHS growth reference

<sup>b</sup> Percentage of children with weight-for-height <-2 SD from WHO/NCHS growth reference

<sup>c</sup> Percentage of children with weight-for –age <-2 SD from WHO/NCHS growth reference

<sup>d</sup> Data taken from WHO Global Database on Child Growth and Malnutrition, 1997 and Far-western Mountain, \*\*\* Mid-western and Far-western Tarai

Source: NDHS. 2001. (p.191).

There has been a notable reduction in early childhood mortality rates in Nepal, particularly in the second half of the 1990s (see Table 2.9). The faster decline in mortality in the late 1990s might be attributed to a better coverage of immunization and improved access to health services during this period. By the late 1990s, all Village Development Committees (VDCs) had subhealth posts and the polio eradication campaign, which also helped improve the general immunization coverage.

**Table 2.9. Trends of Selected Early Childhood Mortality Rates**  
(For the 5-year period preceding the survey)

Particular	1991	1996	2001
Infant Mortality Rate	80.1	78.5	64.4
Child Mortality	44.8	43.2	28.6
Under-Five Mortality	121.3	118.3	91.2

Source: NFFPHS. 1991. (p. 32); NFHS. 1996. (p. 102); NDHS. 2001. (p. 129). (cited in New Era 2004).

Moreover, data indicates clear disparities in early childhood mortality rates by regions and place of residence. There are significant disparities between rural and urban areas. Rural areas have much higher childhood mortality rates compared to the urban areas. Similarly, the mountain region and the mid-western and far-western development regions have much higher early childhood mortality rates than the rest of Nepal. Furthermore, an analysis

of the differentials of IMR indicates that the most significant demographic factors to affect IMR are birth interval and mother's age at birth. The sex differential in IMR appeared to be narrowing over the years.

## 2. Disability

Based on a recent study (NPC/UNICEF 2001), about 1.63% of the total population of Nepal suffer from disabilities with estimates of 1.65% in the rural areas and 1.43% in the urban areas. This suggests that in Nepal more than 300,000 people can be classified as disabled.<sup>5</sup> It was found that most of the disabled people (31%) had multiple disabilities implying that about 0.51% of the total population of Nepal are very severely disabled. Furthermore, disabilities were found to be more prominent among males than among females. It was also found that 50% of different types of disabilities occurred before the age of five, suggesting that most of the disability cases were the result of childhood diseases and accidents.

Two thirds of the disabled persons (68.2%) have no education. In general, persons with disabilities are not integrated into the schools, in skill training or in employment promotion programs. There are several government as well as nongovernment organizations working in the field of disability in the country. The major government organizations are: the National Planning Commission, Ministry of Women, Children and Social Welfare, Ministry of Education, Ministry of Health, Ministry of Local Development, and the Social Welfare Council. However, the country still requires a lot of efforts to extend the outreach to encompass everyone with disabilities (NPC/UNICEF 2001).

## F. Housing and Physical Infrastructure

Access to drinking water and sanitation facilities in Nepal is relatively poor compared to other South Asian countries. In particular, Nepal has the lowest percentage of the population with access to sanitation facilities (25% in 2001/02) in the whole region. The percentage of the population with access to drinking water is higher (72.8% in 2001) but still very low by international standards. More importantly, the water quality is poor everywhere and supply (of piped water) is largely unreliable (UNDP 2002). The poor quality of drinking water and sanitation facilities is largely responsible for the high incidence of water-borne disease in Nepal. Due to lack of a systematic study on the situation of drinking water in Nepal, information is available only on

<sup>5</sup> In this study, a person was considered disabled if s/he could not perform the daily activities of life considered normal for a human being within the specified age and where the person needed special care, support and some sort of rehabilitation services. Accordingly, the study classified disabilities under four broad categories, namely, (a) communication disability, (b) mobility disability, (c) mentally related disabilities and (d) complex disabilities.

the gross beneficiary population of piped water supply. Information is not available at the national level on such details as sources of water supply used, time taken to fetch water, methods of purification, and others (Sharma and Bhatta 2003).

**Table 2.10. Access to Improved Drinking Water (%)**

Residence	1991	1996	2001
Rural	42.8	61.4	71.1
Urban	89.9	84.7	86.0
<b>Total</b>	<b>45.9</b>	<b>63.4</b>	<b>72.8</b>

Source: NFFPHS. 1991. (p. 44); NFHS. 1996. (p. 20); NDHS. 2001. (p. 20). (cited in New Era 2004).

Table 2.10 provides data on the trend in access to drinking water. It should be noted that access to drinking water as presented above does not necessarily mean access to safe water. There is virtually no information on access to safe drinking water in Nepal. The trend in the 1990s shows a gradual increase in the access to improved drinking water sources. Improvements observed are basically in the rural sector, which is an outcome of Nepal's emphasis on rural drinking water supply. In the urban areas, there has been virtually no improvement in the access to improved drinking water. In fact, there is some evidence that the drinking water situation in urban areas actually worsened over the 1990s. This may be attributed to the high growth rate of population in urban areas without commensurate investment in basic infrastructure.

Table 2.11 shows the trend in access to sanitation during the 1990s. It indicates that access to sanitation improved very slowly over the years and continued to remain relatively poor at the end of decade. A large gap in access to sanitation exists between rural and urban areas. Even in 2001, about three fourths of the rural population and one fifth of the urban population of Nepal did not have access to sanitation.

**Table 2.11. Access to Sanitation (%)**

Residence	1991	1996	2001
Rural	16.3	17.5	24.7
Urban	59.4	73.4	79.9
<b>All</b>	<b>19.8</b>	<b>22.5</b>	<b>30.4</b>

Source: NFFPHS. 1991. (p. 44); NFHS. 1996. (p. 20); NDHS. 2001. (p. 20).

## G. Poverty and Inequality

### I. Poverty

According to the Nepal Living Standards Survey (NLSS) (CBS, 1996 and 1997), the incidence of poverty in Nepal was about 42% (44% in rural areas and 23% in urban areas) in 1995/96. The poverty line was estimated to be NRs4,404 on the basis of a daily per capita calorie requirement of 2,124, average price level prevailing in 1995/96 for this food basket, and basic non-food expenditures (NPC 1998). There are wide variations in poverty levels based on rural-urban divide, geography, gender, ethnic groups, and occupational castes. Based on the NLSS data, the depth of poverty (poverty gap) at the national level was estimated to be 0.12. These estimates indicate that poverty is more rampant, deeper, and more severe in rural areas (NPC 2003).

**Table 2.12. Survey: Poverty Measures, 1995/96**

Region	Headcount Index (Population below the poverty line)	Poverty-Gap Index	Squared-Poverty- Gap Index
National	0.42	0.121	0.050
Residence			
Urban	0.23	0.070	0.028
Rural	0.44	0.125	0.051
Ecological Zone			
Mountain	0.56	0.185	0.082
Hills	0.41	0.136	0.061
Terai*	0.42	0.099	0.034

\*Terai refers to the Southern plains of Nepal.

Source: World Bank. 1999. Vol. 2. (p. 23).

Based on an exercise undertaken within the NPC in 2000, the most recent poverty incidence for Nepal was estimated to be 38%. This poverty estimate was calculated on the basis of economic growth in the last few years relative to 1996. As this new estimate was not based on any survey, this is neither comparable with the 1996 survey nor adequate to provide the basis for poverty analysis (NPC 2003). The survey results of the second round of NLSS (2003/04) are yet to be finalized.

As for the other aspects of human poverty in Nepal, low levels of all aspects of human development indicators characterize the current situation in the country. Despite noteworthy improvements in some of the social indicators over the last four decades or so, their levels are still low as the country started with very low indicator values. For instance, the HDI value for

Nepal for 2003 (based on 2001 data) is 0.499 indicating a low level of human development even by South Asian standards (UNDP 2003). All countries in South Asia are better placed than Nepal in terms of HDI value, except for Pakistan.

Furthermore, the people belonging to the so-called lower caste groups and ethnic minorities are poorer than those from the so-called higher caste and certain privileged ethnic groups. The lower caste groups are not only poor economically, but are also severely deprived of opportunities in other human dimensions like social and cultural development. Significant disparities in human development indicators are visible between the lowest caste groups and upper caste groups (NPC 2003).

As highlighted earlier, in the case of Nepal, poverty is mostly a rural phenomenon. Since agriculture plays a central role in the lives of the people in rural areas, agricultural productivity in general, and land ownership and land quality in particular, are the principal determinants of rural poverty. The poor not only have less access to land, but they also own less productive land. Overall, the major causes of poverty can be identified as low economic growth (particularly low agriculture growth), slow social development, poor physical infrastructure, a relatively high population growth rate with consequent higher demands on fragile lands, limited opportunities for nonagricultural income, absence of good governance, and deep-rooted exclusionary practices.

In order to examine the poverty trend in Nepal, Table 2.13 presents selected poverty indicators for 1976/77, 1984/85, 1991 and 1995/96. Except for the 1991 survey, which covered only rural areas of Nepal, all the others were national level household surveys. As mentioned above, data from the 2003/04 survey is not yet available.

Poverty incidences are not directly comparable across surveys because of the differences in the definition of the poverty line, survey methodology, and area coverage. By applying the definitions of the poverty line, income, and consumption employed in earlier surveys to the NLSS data for 1995/96, the WB recalculated poverty estimates for comparing the poverty incidences over time (World Bank 1999). Based on the WB study, a few tentative conclusions emerged, which suggested that poverty situation in Nepal had not improved during 1976-1996. Moreover, it suggested that during the same period the number of people living below the poverty line increased significantly (see Table 2.13). Furthermore, these comparisons indicated that there was some improvement in the poverty situation in urban areas, but the poverty situation in rural areas had not changed significantly (NPC 2003).

Table 2.13. Poverty Trends

Comparison Between 1976/77 and 1995/96	Population Below the Poverty Line (%)		
	Rural	Urban	Nepal
Poverty Incidence in 1976/77	33.0	22.0	33.0
Poverty Incidence in 1996 (CBS/World Bank 1996)	44.0	23.0	42.0
<b>Comparison Between 1984/85 and 1995/96</b>			
Poverty Incidence in 1984/85			
Terai	35.4	24.1	34.5
Hills	52.7	14.5	50.0
Mountains	44.1		44.1
<b>Total</b>	<b>43.1</b>	<b>19.2</b>	<b>41.4</b>
Poverty Incidence in 1995/96 (NLSS)			
Terai	37.3	28.1	36.7
Hills	52.7	14.5	50.0
Mountains	62.4		62.4
<b>Total</b>	<b>46.6</b>	<b>17.8</b>	<b>44.6</b>

Note: National poverty incidence for 1995/96 of 42% was based on the assumption of 2,124 per capita daily calorie requirement. The poverty incidence of 44.6% is based on 2,250-calorie requirement (in consistency with the surveys of 1976/77 and 1984/85).

Source: World Bank, 1999.

## 2. Inequality

Although data on inequality do not appear to be entirely consistent over the years, the following trends in inequality during the 1976-1996 period can still be observed:

- (i) rural inequality appeared to be slightly lower than urban inequality;
- (ii) rural household inequality appeared not to have changed much, but rural per capita inequality has increased; and
- (iii) urban per capita income inequality appeared to have increased at a rate faster than that of rural per capita income inequality.

Table 2.14 shows an increasing trend in the concentration of income between 1984/85 and 1995/96. For instance, the share of the bottom 40% income-group decreased in both rural and urban areas across all ecological zones with the sharpest reduction in the Hills (by 70% and 92% in the rural and urban areas, respectively). In contrast, the top 10% income-group increased its share by factors of 1.6 to 3.55 with the greatest gains in the Hills (2.7 and 3.55 in the rural and urban areas, respectively). These figures show that per capita income inequality has clearly been rising in recent years.

**Table 2.14. Percentage Share of Per Capita Income by Income Category and Residence**

Income Group	Rural				Urban	
	Nepal	Terai	Hills	Mountains	Terai	Hills
<b>MPHBS 1984/85</b>						
Bottom 40%	23	24	23	33	27	24
Middle 50%	54	53	56	54	52	56
Top 10%	23	23	21	13	21	20
<b>NLSS 1995/96</b>						
Bottom 40%	11	15	7		18	2
Middle 50%	37	48	37		53	27
Top 10%	52	37	56		29	71

Source: NESAC. 1998. (see Table 11.5. Economic Indicators Income Distribution in SAARC).

### 3. Maoist Insurgency and Poverty

During the last eight years, Nepal's situation has been increasingly deteriorated by civil unrest between the government forces and the Maoists. Lately, the Maoists have emerged as a major political/military force, which currently controls large areas of the country, especially in the remote areas of the hills and mountains. In recent years, the struggle between the government forces and the Maoists has become alarmingly violent and brutal. More than 10,000 lives have been lost and the country is virtually facing civil war. Along with the loss of lives, the Nepali people have witnessed widespread destruction of property and infrastructure, losses arising from stoppage of work, decline in most economic activities arising from a general sense of uncertainty and insecurity, sharp reduction in the service sector like tourism, disruption of most developmental activities, etc. (Sharma 2003).

Even though the full consequences arising from the escalating conflict in poverty terms will not be evident for some time, a reasonable assumption is that the livelihoods of many poor Nepali households have been significantly disrupted. For instance, the unsatisfactory performance of the agriculture sector, particularly in rural areas, has caused severe food insecurity. The slow down in the industrial and services growth (mainly tourism), and fall in agriculture production in the conflict-hit areas have taken a heavy toll on the economy and the people. Furthermore, the security expenses have skyrocketed, which have raised regular government expenditure significantly, thereby, diverting the limited resources that could have been used for development purposes. Consequently, the current conflict issue has aggravated the existing poverty situation in the country (Ibid.).

### III. The Definition of Social Protection in Nepal

The first baseline study on SP in Nepal was undertaken during November-February 2003/04 under the auspices of the Ministry of Women, Children and Social Welfare and financed by ADB. A steering committee was set up with the joint secretary of the ministry as coordinator and representatives from all key ministries as members. The committee met several times and discussed a wide range of issues, which mainly focused on the definition of social protection for Nepal, profile of risk and vulnerabilities, inventory of social protection arrangements and pre-conditions for SP reforms in Nepal. One major output of the study was a baseline report on SP in Nepal (ADB 2004).

The members of the steering committee of the baseline study were given a number of opportunities over the course of the project to discuss the issue of an appropriate definition of SP that might be supported in Nepal's case. Although the Committee did not agree on a final formulation of SP, there were a number of underlying concepts on which there was agreement.

- (i) The first was that the reference point for SP is poverty. The concepts of vulnerability and risk analysis were considered useful tools for focusing priorities and policies; and
- (ii) However, the committee believed that it is essential to delineate the concepts of risk reduction, risk mitigation, and risk coping to distinguish SP instruments from other policies with poverty alleviation features. These concepts have been defined as follows:
  - (a) Risk Reduction: reducing the number of risks people will face in the future through current investment in the necessary social and economic infrastructure. Nepal has invested heavily in risk reduction;
  - (b) Risk Mitigation: making provision now for managing unavoidable risks before they are realized in the future. To date, Nepal has invested only modestly in risk mitigation; and
  - (c) Risk Coping: making provision for managing unavoidable risks at the time they are realized.

In the committee's view, the reduction, mitigation, and coping of risk are best achieved by considering risk management measures at two levels:

- (i) The first set of measures is designed principally to reduce the probability of risk realization. This would include, for example, measures such as the provision of universal education and the

- development of economic infrastructure that reduce the probability of future unemployment and the provision of clean drinking water that reduces the probability of health damage;
- (ii) The second set of measures is designed to manage risks once they are realized. Measures for managing risk realization can be either ex-ante (e.g. contributory social security schemes) or ex-post (e.g. social assistance arrangements to assist the indigent aged).

In the steering committee's view, only the latter measures should be included in the definition of SP. If this distinction is not made, the concepts of automatically trigger SP interventions.

In the pre-conditions of SP reform in Nepal, the baseline study has clearly stated that Nepal's capacity to establish and sustain effective and efficient SP instruments depends critically on the following three key factors:

- (i) financing capabilities;
- (ii) program monitoring and evaluation capabilities; and
- (iii) service delivery capabilities.

There are many similarities between Nepal's definition and ADB's definitions on SP activities, particularly in the inclusion of labor market activities, social assistance and social insurance programs, direct subsidies to households for educational and health costs, and emergency relief and programs targeted at children with special needs. On the other hand, the review of SP definitions used by the Government and other organizations working in Nepal suggests that the definition of SP in Nepal's case should be narrowed down compared to the ADB definition. This is particularly relevant in the case of area-based and Child Protection subcomponents, where ADB includes programs for small-scale community level infrastructure as well as nutrition, health education, immunization, and pre-schooling that are not included in definitions currently prevailing in Nepal.

Another important issue in this regard is how the feasibility of quantifying the relevant SP programs and activities that fall within the definition of SP can be ensured. Obtaining the required information is difficult given the multiplicity and varied nature of current projects and programs and the very wide range of implementing agencies. Estimating annual costs and numbers of beneficiaries is not straightforward for projects and programs designed to improve the social and physical infrastructure of targeted communities. In many cases, implementation and expenditure are phased over a number of years. Furthermore, there are cases where the population continues to benefit

from the resulting infrastructure and technical assistance (e.g. agricultural extension services) for many years, despite the formal completion of the project. Such considerations apply particularly to area-based improvements.

In this context, it should be noted that ADB's Progress Report on the Social Protection Strategy (ADB 2002) provides a somewhat contradictory picture. Although projects listed in Appendix 3 as being SP projects provide a very wide portfolio, footnotes to the tables tend to imply a more restrictive approach.<sup>6</sup> A review of major activities undertaken reveals an emphasis on labor and vulnerability issues as well as on the targeting of vulnerable groups. SP training provided has also been targeted at topics such as labor standards/legislation and social security and assistance. There is a similar emphasis in the appendix to this report, where the incorporation of basic labor-protection measures in a wide variety of projects is highlighted. The implication is that the ADB's SP activities cover a narrower and more "traditional" range than is implied by the definition of SP it has adopted.

The definition of SP to be used for this study is: "The set of policies and programs that enable vulnerable groups<sup>7</sup> to reduce, mitigate and/or cope with the risks associated with their particular circumstances and that do not fall under activities normally associated with other sectors such as rural development, basic infrastructure, health and education, and that are both targeted at these groups and involve cash or in-kind transfers."

A detailed discussion of the definition including ADB's definition of SP can be found in the forthcoming section Social Protection Index and Multicountry Analysis of this book. Based on the above definition, Table 3 contains a schedule of the types of programs that are considered to fall within the above definition. The table also indicates those programs falling within the ADB's categorization of SP activities that will not be considered in this study. The latter primarily include programs that involve the construction of physical or social infrastructure and integrated community development schemes and programs that traditionally fall within the education and health sectors, e.g. primary and pre-school education, immunization, health and nutrition education, pre- and post-natal care.

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<sup>6</sup> For instance, under Child Protection Programs (Table 5, Appendix 3), the footnote states that "basic education ... projects are normally excluded." Yet the table includes the Laos Basic Education (girls) project.

<sup>7</sup> The primary target groups for social protection policies, which reflect ADB's definition of social protection, are the unemployed/ underemployed, the elderly, the sick, those affected by natural disasters, the poor, the disabled, and children with special needs.

**Table 3. Inclusion/Exclusion of Social Protection Programs**

Component/ Subcomponent of Social Protection	Included/ Excluded	Comments
<b>Labor Market Programs</b>		
Direct Employment-Generation (microenterprise development and public works)	Included	Includes loan-based programs to support small businesses, etc.
Labor Exchanges and Other Employment Services	Included	Including retrenchment programs
Skills Development and Training	Excluded	Unless targeted at particular groups, such as the unemployed or disadvantaged children
Labor Legislation (including minimum age, wage levels, health and safety, etc.)	Included	Not amenable to quantification
<b>Social Insurance Programs</b>		
Programs to Cover the Risks Associated with Unemployment, Sickness, Maternity, Disability, Industrial Injury, And Old Age	Included	
Health Insurance	Included	
<b>Social Assistance and Welfare Programs</b>		
Welfare and Social Services Targeted at the Disabled, the Indigent, Those Affected by Disasters, and Other Vulnerable Groups	Included	
Cash/In-Kind Transfers (e.g. food stamps, health cost exemptions or subsidies)	Included	
Temporary Subsidies For Utilities, Housing, etc.	Included	Only if imposed in times of crisis and if targeted at particular vulnerable groups. General subsidies are excluded even if their rationale is to assist the poor.
<b>Micro and Area-Based schemes</b>		
Microinsurance/Microfinance Schemes	Included	Microfinance seen as an important aspect of SP. Mainstream rural credit programs will be excluded.
Agricultural Insurance	Included	Agricultural insurance will be rarely affordable and therefore, targeted at the most vulnerable farmers.
Social Funds	Excluded	Except where direct transfers to households occur
Disaster Preparedness and Management	Included	Reconstruction of physical infrastructure is excluded.
		De-mining programs included. Number of beneficiaries not amenable to quantification
<b>Child protection</b>		Not amenable to quantification

continued next page

**Table 3. Inclusion/Exclusion of Social Protection Programs** (continued)

Component/ Subcomponent of Social Protection	Included/ Excluded	Comments
Child Rights and Advocacy/Awareness Programs Against Child Abuse, Child Labor, etc Early Child Development Activities	Included Excluded	Direct assistance for health and education would be included in following categories. Otherwise, these programs fall within basic health and education programs, which are excluded.
Educational Assistance (e.g. school-feeding, scholarships, fee waivers)	Included	Will generally be included under social assistance
Health Assistance (e.g. health cost reduced fees/subsidized medicines for vulnerable groups)	Included	Would not include transfers through the tax system
Family Allowances		
Street children/child worker/orphan initiatives	Included Included	

Source: Authors.

## IV. Current Social Protection Activities and Programs

### A. Introduction

This chapter presents an overview of current SP activities and programs in Nepal. The programs and activities described here include the major programs operated by government agencies, national nongovernmental organizations (NGOs) and international nongovernmental organizations (INGOs). The descriptions aim to present the main features of the programs as well as the key quantitative information required to construct an SPI for Nepal. It is, however, not always possible to quantify the SP activities of some programs; in these cases, descriptions in such cases are limited to qualitative discussions.

The key quantitative variables<sup>8</sup> required for constructing an SPI are the cost/expenditure of the programs, the number of beneficiaries served by the programs, the number of the program beneficiaries who are poor, and the amount of program expenditure going to poor beneficiaries. Except for information on program expenditure, only a small subset of the required data is readily available from published sources. The main source of information for government SP expenditures is the “Estimates of Expenditure,” a Ministry

<sup>8</sup> For details see the forthcoming section Social Protection Index and Multi-Country Analysis of this book.

of Finance (MOF) publication commonly referred to as the Red Book (MOF 2002 and MOF 2004). Expenditure information for INGO programs has been obtained from the MOF document entitled “Statement of Technical and Other Assistance” (MOF 2004b). Unless otherwise stated, all the other information cited in this chapter comes from discussions and meetings with relevant officials and experts and unpublished reports.

The remaining sections of this chapter are structured around the components and subcomponents of ADB’s definition of SP listed in Table 3.1, i.e. labor market programs, social insurance programs, social assistance and welfare programs, micro and area-based schemes, and child protection programs.

## **B. Labor Market Programs**

### **I. Labor Legislation and Standards**

The labor market standards currently in place cover only the formal sector workers, who constitute less than 5% of the labor force (CBS 1999). The main legislation that deals with labor standards is the Labor Act. Introduced in 1992, this Act has provisions for regulating the working conditions of formal sector workers. It covers issues related to job security, working hours and conditions, wage rates, collective bargaining arrangements, occupational health and safety, and anti-discrimination provisions. There are, however, no regulations governing the working conditions of workers in the informal sector except for a NRs60 per day minimum wage requirement for agricultural workers introduced in 2000.

According to the labor regulations, workers in the formal sectors are entitled to the following benefits:

- (i) automatic permanency of employment after working with the same employer for 12 months and protection against unfair dismissal from employment;
- (ii) working hours limited to a maximum of eight hours a day with rest breaks every five hours, six days a week;
- (iii) collective bargaining rights and rights to union membership;
- (iv) minimum wage provisions, annual salary increment in line with inflation, and time-and-a-half payments for overtime;
- (v) prohibition of gender-based discrimination and provisions against the exploitation of minors and women in hazardous work; and
- (vi) provision of occupational health and safety standards.

The objective of the Labor Act is to ensure compliance with international labor conventions. Unfortunately, enforcement of labor regulations is a big

problem and there is a high degree of noncompliance both in the formal and informal sectors. Although an inspectorate managed by the Ministry of Labor and Transport Management does exist for the purpose of identifying and addressing compliance failures, it is largely ineffective.

## **2. Active Labor Market Programs**

As part of its poverty alleviation and human resource development strategies, Nepal pursues a range of what can be described as active labor market programs. Some of such programs include women-only initiatives as part of gender equity programs (e.g. Women's Development Program). Also, some special arrangements have been made for the rehabilitation of women and children who have been involved in either exploitative labor or human trafficking activities. In addition, active labor market approaches are employed as part of structural adjustment processes concerned with the privatization of State-Owned Enterprises (SOEs) (ADB 2004).

These programs, in most cases, are centrally sponsored by a number of government ministries within the framework of the development planning processes of the National Planning Commission. However, actual program activities are undertaken in financing and service delivery partnerships with international agencies such as the ILO, UNDP and UNICEF, international donor agencies, and the NGO sector. Detailed program planning and general management oversight usually is provided at the local level by district development committees in consultation with local communities and financing partners.

In the earlier study of SP in Nepal (ADB 2004:106), active labor market programs in Nepal's case were categorized under the following headings:

- (i) income-generating activities, including the formation of micro-enterprises;
- (ii) job creation programs as part of public works infrastructure projects;
- (iii) vocational education and training initiatives; and
- (iv) assistance for economic migrants.

### **a. Income-Generating Activities**

Income-generating programs are among the most important SP programs for informal sector workers in Nepal. These programs attempt to help poor and marginalized individuals and groups to generate income by providing access to microcredit and technical training. The goal is to assist such individuals and groups to establish micro-enterprises, diversify farm production, and extend their assets. These programs are often targeted towards women workers

and disadvantaged minorities. Hence, apart from improving the economic status of the participants, they also help to promote gender and social equity. As microcredit provisions are an integral part of most of these programs, they will be discussed further when describing microcredit activities later in this chapter. Lately, particularly since the 1990s, several poverty-reduction interventions have started incorporating the income-generating components.

### **b. Direct Employment Creation**

Direct employment creation in Nepal is accomplished mainly through public works infrastructure at the local level and through SOEs. There are two main sources of funding for public works projects. The first is the Food for Work Program handled by the national government. The second is a block grant, provided for general purposes, of NRs500,000 paid by the national government to each of the VDCs. Most of these funds are supposed to be spent on local infrastructure projects and in the process, employment opportunities are made available to poor people living locally. However, critics argue that this usually doesn't happen in practice as funds get misused. In addition, INGOs and NGOs directly provide active labor market services on their own initiatives.

The Food for Work Program gives cash and in-kind payments to the poor in return for work done in labor-intensive public works projects. Lately, the program is better termed as the Rural Community Infrastructure Works (RCIW), as the focus has been shifted towards building rural infrastructure at the community levels such as rural roads and similar other projects. Currently, this program covers 30 of the 75 districts in the country. The Ministry of Local Development and the Ministry of Forest and Soil Conservation administer it through local level government bodies. In the fiscal year 2002/03, an estimated 50,000 households received food aid through this program (WFP 2003).

In 2002/03, the total annual budget for RCIW was about \$7.8 million out of which the government contributed about \$1.2 million or about 15% of the total budget (see Table 4.1 below). Table 4.1 also shows that the actual expenditures of RCIW matched the availability of funds. Of the total expenditures of RCIW, 50% were wages paid primarily by rice, while 18% was spent on construction materials.

### **c. Vocational Education and Training**

There are 11 trade schools and 118 private technical training schools that provide vocational education and training in the nation. These schools are supervised by the Council for Technical Education and Vocational Training. Some VDCs and municipalities also operate vocational training facilities. As

**Table 4.1. RCIW: Contribution of Funds by Donors and Expenditures**

Item	Amount (\$ million)	(%)
<b>A. Contribution of Funds</b>		
HMG/N (central & local government)	1.2	15
German Government	1.2	15
British Government	1.0	13
WFP (various donors)*	3.8	50
Others (SNV, SDC, DANIDA)	0.6	7
<b>Total</b>	<b>7.8</b>	<b>100</b>
<b>B. Expenditures</b>		
Wages for laborers	4.0	50
Construction material costs	1.3	18
Social mobilization and economic empowerment	0.6	9
Capacity-building	0.5	6
Technical assistance	1.0	12
Government services	0.4	5
<b>Total</b>	<b>7.8</b>	<b>100</b>

RCIW = Rural Community Infrastructure Works Program (food-for-work).

\*WFP donors for RCIW include the Governments of Britain, Canada, Germany, and Norway.

Source: HMG/WFP/GT. 2002/03. Annual Report: Rural Community Infrastructure Works Program.

part of these programs, 100 severely disabled people are also provided with vocational and skill development training annually.

#### **d. Assisted Economic Migration**

Motivated by the need to boost foreign exchange earnings and provide employment opportunities for Nepali youths, the Government announced in the Tenth Plan (2002-2007) that it would provide loans, at subsidized interest rates, to assist individuals traveling abroad for foreign employment. As part of this provision, mostly conflict-hit people and particularly women are given higher priority. Also, under this program, loans of up to NRs100,000 are available to economic out-migrants. Similar incentives have also been offered to Maoist rebels in the country to motivate them to lay down their arms. While these loan facilities help the economic migrants and the remittance economy, the Government has been criticized for not actively working to protect these workers from exploitation of foreign employers and from unscrupulous local agents. As part of this program, a total of 150 youth migrants have already been provided subsidized loans in order to assist them in pursuing foreign employment opportunities as of August 2004.

### **3. Affirmative Action Programs**

The few legislatively based affirmative action programs that exist in Nepal are mainly targeted towards the following traditionally disadvantaged

population groups: women, disadvantaged caste/ethnic groups, and people with disabilities. It should be noted, however, that even when affirmative action provisions exist, they do not often help the targets because of implementation problems. Nevertheless, affirmative action has featured prominently in the Ninth and Tenth Five-Year Plans of Nepal and continues to be an issue of importance to government policymakers and the donor community.

The Agricultural Perspective Plan has specified that 25% of employment-oriented training seats and 20% of new jobs in agriculture should be set aside for women. Similarly, the Local Self-Governance Act (1999) requires that 20% of the seats in local government bodies at the Ward and VDC levels be reserved for women. Many of the 40,000 or so women elected in these local bodies have benefited from this Act. There are also some quotas for women at the District Development Committee (DDC) and municipal levels. Another legislation that has special provisions for women is the Civil Service (First Amendment) Act, 1998. The privileges accorded to women under this act include a lowering of the maximum age restriction for joining the Civil Service—a 50%-shorter probationary period compared to men and a shorter minimum service period for promotions. The Act also removes age limits for women for first and second class officers' posts in universities and government corporations. In order to increase the representation of women in the Civil Service, the Administrative Reforms Committee has recently approved reserving 20% of the seats for women for a five-year period. Additionally, Ministry of Women, Children and Social Welfare has been offering special coaching classes to women preparing for the Civil Service examinations.

Other government initiatives aimed at bringing more women into the formal labor market include the Labor Act, 199; Labor Rules, 1993; and recent decisions by the Government to create both combatant and noncombatant positions for women in the Royal Nepalese Army. The Labor Act and Labor Rules seek to provide equal employment opportunities for women in the private sector and give special privileges to employed women. For example, they require organizations with more than 50 women employees to have provisions for maternity leave and breastfeeding breaks for nursing mothers.

There are only a few affirmative action programs targeted towards disadvantaged caste/ethnic groups and people with disabilities. The Administrative Reforms Committee referred to earlier has approved quotas in the Civil Service for disadvantaged caste/ethnic groups along with reservations for women. More specifically, the Committee has decided that 10% and 5% of the Civil Service seats should be reserved for the Dalits and ethnic minorities, respectively. In addition, the Government has also established the Dalit

Development Commission and the National Foundation for the Development of Indigenous Nationalities to assist these disadvantaged groups.

In regards to people with disabilities, the Special Education Council has made provisions for 2,000 trained teachers and special classes for around 10,000 children with disabilities. The government has also agreed, in principle, to an action plan presented by “The National Federation of the Disabled” that would introduce affirmative action initiatives similar to those offered to women. If implemented, these initiatives would introduce a 5% employment quota in both the public and private sectors. Some of the other initiatives in the action plan include special quotas for people with disabilities in primary and secondary schools, greater participation in local and national government decision-making, residential and community care facilities, free health services, and income tax and transport concessions. One of the important legislations affecting people with disabilities is the Disabled Protection and Welfare Act 1982. Unfortunately, this Act has not been able to provide any substantial assistance to people with disabilities in practice. The baseline report of Nepal’s SP also highlights that people with disabilities have yet to receive attention by way of substantive programs of affirmative action. For instance, some employment on the basis of disability is offered by the Civil Service but at lower levels and usually without permanency (ADB 2004).

#### **4. Bonded Labor Program**

Although bonded labor has been legally abolished in Nepal, informal bonded labor arrangements continue to exist. The number of individuals working in bonded labor conditions has been estimated to be as high as 200,000 (Sharma and Upadhyaya 2001). The most widely known formal bonded labor system in Nepal, the *Kamaiya* system, was officially abolished only in July 2000. The Bonded Labor Act, which freed the *Kamaiyas* from their bonds, also has provisions for returning mortgaged property to former bonded laborers and engaging them in income-generating activities. But these provisions have not been fully implemented. Hence, many of the former *Kamaiyas*, who constitute around 10% of the bonded laborers in Nepal, survive by participating in the Food for Work program financed by the World Food program. Almost all of these former bonded labor groups are poor, based on the official poverty line.

One major initiative in this regard has been taken by the ILO as part of its “South Asian Debt Bondage Project.” Under this project, ILO has been attempting to address these concerns by establishing loan facilities through microfinance institutions and support with sanitation, education, health care, income-generating opportunities, and empowerment programs to prevent vulnerable households again falling into the trap of bonded labor. As

stated earlier however, even after the theoretical emancipation of the bonded labor system in July of 2000, provision of land for food security remains a significant unresolved problem. The situation of those other than the Kamaiyas *who* are working under bonded labor conditions are yet to be addressed in any substantive way (ADB 2004).

## **C. Social and Health Insurance Programs**

### **1. Work Injury Insurance**

Work injury insurance was introduced in Nepal in 1959. Under the Civil Services Act and the Labor Act, it is available to mine workers and employees of enterprises with 10 or more workers. The objective of the insurance program is to provide compensation to workers injured or killed during the course of their work. The scheme is financed by employers through direct payment of insurance premiums to private insurance companies. While the coverage of Civil Servants and other government employees under this framework is automatic, many eligible private sector employees are not covered due to noncompliance on the part their employers. The benefits provided to Civil Servants and other government employees include paid leaves, payment of full medical expenses, lump sum payment of pension, NRs10,000 plus 20% of monthly salary where employment termination is necessary, death benefits, and a NRs700,000 lump sum payment to the families of security personnel killed in the line of duty while fighting the ongoing Maoist insurgency. The benefits for non-Civil Servants include payment of full medical expenses if hospitalized, and half of the expenses if not hospitalized, lump sum payments of up to five years' salary for certain injuries, and death benefits (ADB 2004).

### **2. Citizens Investment Fund**

Introduced in 1990 under the Citizens Investment Fund Act 2056, this program is administered by the Citizens Investment Trust. Participation in this program is voluntary and it provides members with tax-deferred investment opportunities for their retirement savings. Although the program is currently available only to formal sector workers, there are plans to expand the coverage to the informal sector as well. The investment options offered by the Fund are as follows:

- (i) Employees Savings Growth Scheme: employees make a monthly contribution of 5% to 10% of their salary for five to 10 years;
- (ii) Gratuity Scheme: employees can take termination payments (gratuities) in place of regular pension payments;

- (iii) Investors Account Scheme: investors choose the mix of investment made on their behalf by the Fund, but they cannot access their investments until retirement;
- (iv) Company Pension Schemes: the Fund manages the money, but the companies take responsibilities for paying the benefits; and
- (v) Flexible Retirement Savings Plan for self-employed people.

At present, approximately, 87,000 members are covered through various schemes provided by the Trust.<sup>9</sup>

### **3. Employees Provident Fund**

This Fund was introduced in 1962 to provide financial support to the formal sector employees upon retirement. The coverage is compulsory for all government employees and organizations with 10 or more workers also have the option of participating in the scheme. The Fund has around 380,000 members. The Fund is financed by contributions from the employees and the employers and from the returns on its diversified investments.

Lump sum benefit payments are made to members upon retirement or early termination of employment and to survivors in cases of death of the employee contributor. The benefits include the contributions made by the employee and the employers plus interest earnings. The Fund also has provisions for paying a lump sum of NRs50,000 in the case of permanent disability or accidental death of an employee contributor. Another benefit provided by the Fund is borrowing privileges to members—they can borrow up to 90% of their equity at a low interest rate, and can also get loans educational and housing purposes. The total benefits paid by the Fund in 2001/02 were around NRs32 million.

### **4. Civil Service Pension Scheme**

Unlike the Employees Provident Fund, which is available to both the government and nongovernment organizations, the Civil Service Pension Scheme is available only to civil servants, employees of government-owned enterprises, personnel of the armed services, and teachers of government schools and universities. Administered by the MOF, this scheme provides monthly retirement pensions based on the years of service and the salary at retirement. The pension amount increases with the movement of salaries for current employees. In order to qualify for these monthly pension payments, civil servants must have completed at least 20 years of service. For members

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<sup>9</sup> Based on information received from the Trust.

of the Armed Forces, the minimum number of years of service required is only 16 years. Lump sum gratuity payments are made to retirees who have not completed the minimum years of service. The total annual expenditure on this scheme for 2003/04 was approximately NRs3.15 billion. During 2002/03, approximately 103,125 pensioners received benefits from the Civil Service Pension Scheme.

## **5. Microinsurance**

Lately, some of the major institutions that primarily deal with microfinance (e.g. Nirdhan Utthan Bank and other Rural Development Banks modeled after the Grameen Bank) have started offering microinsurances, particularly in the area of livestock and health. The microinsurance schemes that exist in Nepal currently include livestock insurance, life insurance, and health insurance.

Livestock insurance scheme was introduced in Nepal in 1988 by the Deposit Insurance and Credit Guarantee Corporation. The insurance scheme guarantees a payment of 80% of the insured value of the livestock if they die. Of the insurance premium, which is set at 6% of the purchase price of the animals, 50% is paid by the government. In spite of this facility, however, the slow process of settlement of losses in this scheme has resulted in limited enrolment of potential participants. Consequently, only 8,000 farmers had purchased livestock insurance by the year 2000. Another livestock insurance scheme, the Small Farmer's Development Program, was launched in Nepal in 1998 by the Agricultural Development Bank. Although the government finances 50% of the premium in this program as well, the premiums are set at a higher level than in the other program (10% of livestock value). This scheme had provided 629 households with livestock insurance. Other smaller insurers in the market are the Swabalamban Bikas Bank and the Nirdhan Utthan Bank.

Only a very small fraction of the population in Nepal has access to life insurance. One life insurance scheme targeted at rural laborers and subsistence farmers is the Joint Relief Scheme operated by the Central Regional Grameen Development Bank Ltd. since 1999. Provided on a group insurance bases, this scheme has around 19,000 policyholders. The Center for Micro Finance has also been operating a life insurance scheme since 2000. This program has only 800 subscribers so far.

Health insurance coverage is even more limited than life insurance coverage in Nepal. Adequate access to health care is also still a luxury for most Nepalis, especially for women. One approach to providing low-income people with resources for health care is through microinsurance. Accordingly, the ILO has been supporting government, trade unions, employer organization, NGOs, and health providers to establish gender-sensitive health microinsurance

schemes in five districts. The BP Koirala Institute of Health Care also has a health microinsurance scheme that is available to any organized group. The groups serve as intermediaries between the insured group members and the insurer. In order to make the scheme accessible to a maximum number of people, differential premium rates are applied to rural and urban contributors and discounts are provided to families with six or more contributing members. In 2003, around 18,000 individuals (2,500 households) had subscribed to this program.

Several schemes also exist for providing communities and individuals with subsidized pharmaceuticals, health clinic services, and hospital referral services. The Public Health Concern Trust, for example, has established the Kathmandu Model Hospital as a partner institution to provide subsidized services to small communities. It has also partnered with the General Federation of Nepalese Trade Unions (GEFONT) to provide similar services to both union and non-union workers. So far, the take-up of this arrangement has been limited. But GEFONT hopes to increase participation to 50,000 members by expanding the scheme to locations outside Kathmandu.

One recent ILO study has compiled information on several schemes of microinsurance in Nepal. Based on this study (which is still ongoing), a total of 448,000 people are benefiting from these various forms of microinsurance schemes operated by nongovernment organizations. These schemes are almost always linked to microcredit programs (ILO 2004).

## **6. Health Care**

Civil servants, police, and army personnel are provided with medical benefits as a condition of service with the value of benefits being capped under a formula related to salary levels (see ADB 2004 for details). For others, health costs are the responsibility of the individuals, but charges in public facilities are generally lower than those applied by private providers. The Ministry of Health estimates that 70-75% of current health costs are met directly by patients. The exception is that needy recipients of Senior Citizens Allowance are entitled to free medical and hospital treatment, financed by earmarking 5% of general purpose block grants to local governments.

Lately, the Government has conceptualized a Community Health Insurance Scheme to be undertaken as a pilot project in eight districts. The scheme will be based on voluntary participation and will be contributions-based, with the Government (and donor support) making up the balance of the cost that is estimated to be NRs10 million a year. The main benefit offered by the arrangements is to be a 20% premium subsidy for the poor. The proposed project aims to cover a total of almost 70,000 persons in the eight districts (ADB 2004).

## **7. Road Accident Compensation**

The Ministry of Labor and Transport Management/Traffic Police administers some road accident compensation programs in Nepal under the Motor Vehicles and Transportation Act 1997. There are three types of such programs currently in operation: (i) Motor Vehicle Passenger Accident Insurance, (ii) Transport Workers Accident Insurance, and (iii) Third Party Insurance. The objective of the first two insurance programs is to provide compensations to individuals injured in transportation accidents and to the dependents of individuals killed in such accidents. The Motor Vehicle Passenger Accident Insurance covers only the passengers in public transport, while the second insurance scheme covers drivers, handle boys, helpers, cleaners, and others employed in public transportation services. The compensations can range up to NRs50,000 in the case of passengers traveling in public transport vehicles; up to NRs150,000 for drivers; and up to NRs100,000 for other victims of transport accidents. The third program, Third Party Insurance, provides compensation to other people injured or killed in motor accidents and also pays for damages to property.

## **D. Social Assistance Programs**

The main social assistance programs are shown in Table 4.2, including those targeted at the disabled. Information on the most important is provided below.

### **I. Senior Citizen's Allowance**

This program aims to support the aged and their family-based support systems by providing monthly cash payments of NRs150 per month<sup>10</sup> to persons aged 75 years or above, regardless of their economic status. The minimum age for receiving support is only 60 years in the case of persons who are widowed and destitute. The program also has provisions for supporting severely disabled persons aged 16 years or more. The allowance for these last two categories of recipients is NRs100 per month. Available statistics indicate that 195,000 aged people; 230,000 widows; and 3,700 disabled people received allowance in 2001/02. It is not clear what fraction of the population satisfying the widowhood and disability criteria benefited from the program. In the year 2002/03, the total beneficiaries of this program were 429,738, which included senior citizens, widows, and people with disabilities. In the same year, 180 child victims of the ongoing conflict situation in the country were provided allowances under the immediate relief program.

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<sup>10</sup> Based on this year's budget speech by the Finance Minister, this amount has been increased to NRs175 per month (MOF 2004).

**Table 4.2. Major Social Assistance Programs and Number of Beneficiaries, 2002/03**

Social Assistance Program	SP Subcomponent	No. of Beneficiaries
<b>Government Programs</b> Targeted to the senior citizens, poor, widows, conflict-hit children	Senior citizen treatment allowance for elderly	499
	Allowances to senior citizens and widows	428,970
	Social Welfare Centers	205
	Old Age Homes	269
	Allowances to conflict hit children under immediate relief program	180
	NGO/INGO/Multilateral (UNDP and others)	Social assist thru housing assistance
	<b>Total Social Assistance</b>	<b>431,161</b>
Disability Programs	Allowances to disabled people	3,696
	Skill development training for disabled Fund for Disabled People	1,937
NGOs/INGOs/Other Organizations	Various support programs to people with disabilities	27,000

Source: Various.

In terms of administration of the program, the Ministry of Women, Children and Social Welfare makes policies at the national level, while local bodies under the direction of the Ministry of Local Development handle implementation. In 2002/03, the total annual expenditure for the social assistance programs was around NRs662 million.

## **2. Residential Aged Care**

Recognizing the increasing erosion of traditional family support systems for the aged as a result of the socio-economic and cultural transformations in the country, the government program aims to provide free or low cost housing and personal care services to senior citizens, who are over 60 years old and are incapable of self-support. Altogether 25 fully government-financed old age homes are operating in the country, they serve around 600 senior citizens. Similarly, there are 15 homes that are funded by a combination of government grants, member fees, and support from NGOs in 2003. The total annual expenditure of government old-age homes is NRs3.9 million.

### **3. Ganesh Man Singh Peace Campaign**

Introduced in 1999 and administered by the Ministry of Home Affairs, this program is designed to assist noncombatant victims of Maoist activities and the families of these victims. In order to receive assistance, the conflict victims must have suffered injury, death or property losses and must not be Maoists themselves. The benefits include assistance with housing and resettlement, treatment of injuries, allowances for the families of those killed, scholarships for surviving children, and assistance with foreign employment for those affected families. The total annual expenditure on this program is NRs50 million.

## **E. Micro-/Area-Based Schemes**

### **I. Microcredit and Microenterprise Development**

Microcredit can play an important role in the lives of the poor both by making available much needed resources for further developing economic activities and by providing money to meet regular and emergency consumption needs. Microcredit initiatives began in Nepal in 1956 and were formalized under the Cooperatives Act of 1959. But in spite of a relatively long history, microfinance initiatives cover only a small percentage of the population. For example, it is estimated that approximately 80% of rural credit is still obtained from moneylenders charging interest rates as high as 60%.

Microcredit facilities were expanded in 1963 with the establishment of the Cooperative Bank (now the Agricultural Development Bank), which has assisted some 152,000 small farmers across the country. More recently, Nepal Rastra Bank (Nepal's Central Bank) has taken further steps to expand microfinancing opportunities by instructing commercial banks to reserve at least 7.5% of term lending to the poor and disadvantaged and by providing loans directly to rural self-help groups. While Nepal Rastra Bank's direct loans have covered more than 6,000 poor individuals, it is not clear to what extent commercial banks are complying with this requirement.

There are also a number of Grameen Bank-type institutions providing credit to the poor in Nepal. The most prominent among these institutions—Nirdhan Bank, SB Bank, Chimmek, and Deprosc Bank—collectively disbursed around NRs3000 million in loans to about 236,000 households. Similarly, the Rural Self Reliance Fund has provided credit worth NRs73.7 million covering over 48,000 people.

Although microenterprises are urban-based in most countries, the Nepali government, in collaboration with UNDP, is actively trying to promote them in the nation's rural areas as well. The Ministry of Industry, Commerce, and Supplies has accordingly established the Micro-Enterprise Development

Program (MEDP) as a partnership between UNDP and the Agricultural Development Bank Nepal. The aim of this training program is to equip program participants with the necessary skills for enterprise development and also help them secure necessary credit and activate their enterprises. The program helped around 1,700 entrepreneurs to achieve an annual income level of NRs12,298 in 2002. So far, the participation rate in this program is quite low, especially among women.

## 2. Area-Based Health Programs

The Community Drug Program, operated in 30 districts, currently provides funds for the initial stocking of community pharmacies where drugs are provided at subsidized rates. Particularly in localities remote from formal treatment services, the Government sponsors the Women's Health Volunteer Program that provides training in basic first aid and healthy lifestyle advice to some 50,000 women volunteers. Arrangements have been established in 13 districts also to provide medical (first aid) kits containing a small range of basic pharmaceuticals for some 250,000 households.

## 3. Traditional Family and Community Support Systems

The traditional family and community-based support systems are mostly informal in nature and therefore, are not included among the SP programs represented by the different indices being developed in this study. Most of these traditional systems are either getting increasingly marginalized or are proving to be insufficient to support their communities in today's changing times. Nevertheless, they continue to provide some degree of SP to a significant number of people in the country. Hence, it is worthwhile to gain an understanding of the support mechanisms employed by these traditional SP "programs." Brief descriptions of some of the major traditional organizations and institutions of relevance are presented below (ADB 2004).

**Guthi.** The term *Guthi* in the Newari language means living together in mutual trust and self-service. The Guthi system has traditionally been practiced by the Newar community of Kathmandu Valley to collectively manage temples and religious institutions, conduct religious and cultural activities, and help each other in times of need. Guthis can be clan-, lineage- or territory-based. They are supported by the physical resources contributed by its members.

**Dhikur.** *Dhikurs* are traditional rotating credit associations that are popular among most hill communities of Nepal. They enable members to raise capital for income-generating activities, even where modern credit

institutions are able to provide assistance. Typically, each Dhikur has a coordinator, who is responsible for calling meetings, keeping records, collecting contributions and fines, and distributing funds to members.

**Parma.** *Parmas* are agricultural labor exchange associations found among the *Gurungs* of western Nepal and the *Limbus* of eastern Nepal. Forms of Parma are also practiced by agricultural communities in the Tarai belt. At times, labor exchange in the Parma system is performed for immediate reciprocity as in the case of planting and harvesting seasons. In other cases, labor might be contributed to help others in tasks that might not be reciprocated immediately. It is assumed that each family receiving labor assistance through the Parma system will contribute the same amount of labor to others in the long run.

**Rodhi.** Practiced by the Gurungs of western Nepal, *Rodhis* are community meetings that provide social, cultural, and vocational support for young people. Apart from providing an environment where young girls and boys to socialize in the evening, *Rodhis* also function as centers where exchange of information about income-generating activities takes place and older community member pass on traditional home industry skills to members of the new generation.

**Aama Samuha.** *Aama Samuhas* or mothers' groups originated in the Gurung communities of western Nepal to provide social, cultural, and vocational support to women whose husbands went abroad to serve in the British and Indian Armies. In recent years, many NGOs and donor agencies have utilized the concept of the Aama Samuha to empower women and promote savings and credit programs.

**Tiho and Gola.** These too are systems practiced by the Gurung community. *Tihos* are informal village assemblies that function informally to manage natural resources, agriculture and irrigation, and animal husbandry. They also mobilize *Gola* or voluntary labor for community construction projects.

**Bheja.** *Bhejas* are voluntary community associations prevalent among the *Magars* of western Nepal. They provide support for religious and agricultural activities, resource management, cultural activities, and conflict management.

**Pancha Bhaladmi and Dharma Panchayat.** These are political self-help groups and local councils found among the *Thakalis* of western Nepal. They perform political, social, cultural, religious, legal, and judicial functions.

**Posang and Mirchang.** Both these voluntary organizations are unique to the people of the *Mustang* district in western Nepal. The primary functions of *Posangs* include supporting cultural and religious activities, dispensing justice, and conducting a population census of the community every three years. Additionally, they also provide support in economic areas such as agriculture, irrigation, and animal husbandry. *Mirchangs*, on the other hand, are formed to manage natural resources, particularly forests. The *Mirchangs* made unwritten rules and regulations concerning the use of forest resources like the prohibition of unauthorized entry into forests. *Mirchangs* have largely been displaced by now by the USAID Resource Conservation and Utilization Project.

**Khyal.** *Khyals* are public forums for community discussions and resolution of community issues among the *Tharus* of the western Terai region.

**Chattis Mauja Irrigation System.** Originally associated with the Tharu community of Rupandehi district in the Terai, this community irrigation management system has members from many other castes and ethnic groups as well. The system consists of an elected committee that formulates and implements decisions related to water distribution and labor contributions.

## F. Child Protection Programs

### I. Child Support Programs

The Children's Act 1991 is the main legislation that provides protection to children in Nepal. It specifies the obligations of the guardians and other members of society to ensure rights of children to nutrition, health, education, and humane treatment. But since the State does not have an investigative or interventionist role to ensure compliance with this Act, the impact of the Act is rather limited.

There are a number of government and nongovernment programs targeted towards particular groups of children. For example, the Government provides around 58,000 scholarships to girls and disadvantaged primary school children under the Education for All Program. Similarly, the Government also has programs for providing free textbooks and nutritious food for primary school children and special scholarships for secondary school children. In 2002/03, for example, the government spent NRs318 million on nutrition programs for approximately 341,000 primary school children. It also spent another NRs123 million for providing free textbooks to primary school children. Two major nongovernmental programs run by NGOs include residential homes for 647 orphans and disadvantaged children provided by the Bal Sangathan and child

protection programs run by CWIN. The CWIN programs serve around 8,300 disadvantaged children. The major INGOs involved in child support programs include the following: Plan International, Save the Children, Action Aid, Freundes Kries Hilfee, Kinder House, Association for Children of Chuni, Child Heaven International, Group for Transcultural Relationship, Educate the Children, and Child Welfare Scheme.

## 2. Children with Special Needs

Even though a complete set of data on the child protection issues in Nepal is not readily available, Table 4.3 summarizes the available information on Nepali children with special needs, based on which the total number of children with special needs is estimated to be about 3.76 million. The categories of children listed in this table need to be targeted by child protection programs. Subsequent paragraphs focus on two of these categories of children: (i) victims of worst forms of child labor, and (ii) children with disabilities.

**Table 4.3: Children with Special Needs**

Category	No. of Children	Source	Comments
<b>Children in Worst Forms of Child Labor</b>			
Domestic Child Laborers			
Bonded Labor			Based on survey conducted by ILO in 2001
Porters/Rag-Pickers			
Victims of Trafficking			
<b>Total</b>	<b>127,000</b>	ILO	
Children Not Attending School	2,064,500	ILO	One third of total children of 5-14 age group
Malnourished Children (0-4 years old)	1,377,600	ILO	Half of children estimated to be malnourished
Disabled Children	191,250	NPC/UNICEF and ADB 2004	Based on the Disability Report, roughly 25.5% of disabled people are aged 0-14. Given the total disabled to be 750,000, about 191,250 are children
<b>Total Children with Special Needs</b>	<b>3,760,356</b>		About 3.76 million children are estimated to need special care. This is bound to overlap, but as it doesn't directly include conflict-hit children, this is a reasonable approximation.

Source: ILO. 2001; NPC/UNICEF. 2001; ADB. 2004. *Social Protection Study Nepal*; NLA. 2001; CDPS. 2001.

### **a. Victims of Worst Forms of Child Labor**

In the context of Nepal, five areas have been identified where the worst forms of child labor are prevalent, which include issues like bonded child labor, domestic child labor, rag-picking children, children working as porters, and trafficking of girl children. In 2001, a study was conducted to investigate the situation of poverty among children in urban areas focusing on the above five aspects. Using the Rapid Assessment methodology, the study proposed intervention measures combining a broad range of qualitative and quantitative survey tools allowing for flexibility to suit local conditions so that necessary modifications can be made. Consequently, Nepal has been selected as one of the three countries in the world for the launch of the ILO-IPEC's Time Bound Program for the Elimination of the Worst Forms of Child Labor that targets children involved in these worst forms of child labor. The Time-Bound Program combines sectoral, thematic, and geographically based approaches to eliminate the worst forms of child labor as a matter of urgency in Nepal. The objective of the program is to eliminate worst forms of child labor by the year 2005. Funded by donors, the annual budgeted expenditure of the program is NRs6.5 million.

According to the ILO sources (based on the 2001 data), nearly one in every three children of Nepal, i.e., about 2.6 million children between the ages of five and 14, was a child laborer. The Government maintains that it is fully committed to eliminate the worst forms of child labor through the ratification of the ILO Convention 182 (ILO 2001). A brief account of the five worst forms of child labor in Nepal is presented below:

#### **(i) Domestic Child Laborers (DCL) in Kathmandu (NLA 2001)**

The Government figures on population projection for the year 1999 estimated that in Nepal, there was a total of 4.7 million children aged six to 14 years of which 25.5% were economically active. Of the economically active children, 4.4% were employed in wage work and 40% of those wage workers (equivalent to 83,000 children) work in informal service sector largely comprised of domestic labor. Roughly, half of those domestic child laborers (DCL) may be working in the urban areas of Nepal. Most DCL are migrants from rural areas, almost half of them do not receive any salary, and the majority of DCL work very long hours. The common reasons for the prevalence of DCL in Nepal appear to be two-fold: (i) widespread poverty in rural areas, and (ii) desire on the part of parents to provide their children with a better exposure and good education.

#### **(ii) Child Bonded Labor in Nepal (NLA 2001b)**

Mostly children from *ex-Kamaiya* (bonded labor) families are heavily involved in child labor like working on farm and/or as domestic servants in either rural

or urban areas of Nepal. Based on a sample survey study in selected VDCs of five districts where the Kamaiya system prevailed till recently, it has been estimated that out of a total of 57,603 children of age five to 18 in Kamaiya families, 29.4% currently work for others with or without wage. Furthermore, out of those working children, close to 75% are estimated to be working in the vicinity of the village of their origin, while the rest 25% seem to have migrated to urban or market centers mainly to work as domestic servants.

### **(iii) Child Porters in Nepal (CDPS 2001)**

The poor people in rural areas usually find it convenient to use children to work as porters as a survival strategy. One study has estimated that there are a total of 46,029 child porters (aged under 18) in Nepal. The majority of the child porters were found to be boys who had originated from rural areas, both the hills and mountains. Most child porters had attended schools, but seemed to have dropped out due to household poverty and expressed a desire to continue school. The study has reported that child porters depict one of the worst forms of child labor, as they work much harder than their physical strength would normally permit and they are not well paid either.

### **(iv) Child Rag-Pickers in Nepal (CDPS 2001b)**

Studies have identified a number of reasons for the prevalence of street children in Nepal which mainly include rural-urban migration, hardship in rural life, high fertility rate, dysfunctional family, ill treatment by step parents, and search for opportunities. Once they are on the street, they are forced to face problems concerning shelter, health hazards, and other physical as well as moral challenges that might lead them ultimately to perform the act of rag-picking. The rag-pickers need to confront various problems arising from unhealthy environment, insecurity, illiteracy, exploitation, and lack of alternative means to support themselves (CDPS 2001b). Based on interviews of 300 children aged five to 17 years working currently as rag-pickers in six major municipalities and interviews of some key informants, the study estimated that most of the child rag-pickers originate from rural areas and most of them belong to supposed low caste. Based on the sample, the study has estimated that there are close to 4,000 child rag-pickers in all urban centers of Nepal.

### **(v) Girl Trafficking in Nepal (CDPS 2001c)**

Girl trafficking is another distressing issue considered one of the worst forms of child labor in Nepal. The CDPS study has indicated that the exact number of girl children trafficked is quite difficult to estimate given conflicting ranges of numbers, as there has been no rigorous methods to verify those numbers.

The ILO has estimated the number to be more than 12,000 every year (including both women and children).

The Government introduced the National Master Plan of Action Against Trafficking in 1998 with the aim of eliminating all human trafficking in Nepal. This action plan is organized around a number of core strategies that include legislative actions, awareness building campaigns, targeted income and employment programs for children above 14 years of age, and rescue and reintegration programs to repatriate victims. But significant levels of human trafficking continue to exist.

#### **b. Children With Disabilities**

The National Planning Commission conducted a disability survey in 2001, which included a sample of more than 13,000 households (75,994 population). This survey did a thorough screening for these households to identify the disabled persons based on the standard definition (see the section on disability in Chapter II for the definitions adopted). Based on the estimations made by this study, the national prevalence of disability in 2001 was 1.63% among the total population. Furthermore, about 25.5% of the total disabled persons were children belonging to the age group 0-14 years (NPC/UNICEF 2001). Using these estimates, roughly one out of four disabled persons in Nepal is a child. Based on these, the total estimated number of children with disabilities turns out to be 191,250 (25.5% of the estimated 750,000 total disabled in the country) (see Table 4.3). There is very little support for children with disabilities in Nepal. For example, there are only a few primary schools for children with disabilities and fewer than 6,000 children attend such schools nationwide.

## **V. Synthesis of Results**

This chapter synthesizes the information obtained from the review of Nepal's SP activities contained in Chapter 4. In general, the fiscal year 2002/03 has been used as the reference year for the purpose of quantifying the relevant data. The information thus obtained is used to derive indicators required to formulate a SPI. The proposed methodology concentrates on the following items:

- (i) annual expenditures on SP;
- (ii) the coverage of SP programs and activities, i.e., the number of beneficiaries; and
- (iii) the distributional impact of SP activities.

For details concerning the methodology see the section Social Protection Index and Multicountry Analysis of this book.

## A. Social Protection Expenditure

Ideally, the total expenditure on the activities that involve one or more of the SP components should be available from the government budget and other “top-level” information. In Nepal’s case, information on government expenditure was indeed readily available from published government documents. The primary sources of information for government expenditure on SP activities were the annual reports, titled “Estimates of Expenditure.” More disaggregated figures were obtained from the concerned government ministries. However, there was limited readily available information on SP activities in the nongovernment sectors and the authors had to contact specific individuals working in these sectors to fill in the details.

There are around 40,000 NGOs registered in Nepal and many of these play an important role in SP in Nepal. Since most of these organizations are registered at the district level where records are generally difficult to access and since an unknown number of them are inactive, it is not practicable to obtain relevant information about NGOs. However, most NGO funding comes from INGOs most of which implement their SP programs in partnership with local NGOs, civil societies, cooperatives, and other grassroots-based organizations. Hence, a comprehensive accounting of INGO SP activities takes into account activities of most of the NGOs as well.

In the year 2002/03, the total annual expenditure on SP programs by INGOs was about NRs4.5 billion. In most cases of the INGO-funded projects, it was found that only aggregate budgets of individual INGOs were available. Hence, while it was possible to estimate the total expenditure of INGOs on SP activities, it was difficult to ascertain precise expenditure amounts on individual SP components. After excluding INGOs that did not have any SP-related programs, the average annual total INGO expenditure on SP for 2002/03 was estimated at NRs3.2 billion (MOF July 2004) or approximately 70% of the aggregate budget of INGOs. This is based on the data available from the Social Welfare Council (see Annex 3) for 2000/01, which shows that the majority of the resources of both the NGOs and INGOs were allocated to such sectors as community development, child and women development, and health. As these sectors are likely to involve SP components, it suggests that the contribution of NGOs and INGOs to SP activities in Nepal is substantial.

Table 5.1 contains a summary of annual expenditures by SP component, while Table 5.2 presents the data for SP subcomponents. The figures in Tables 5.1 and 5.2 include expenditure of the Government as well as national and INGOs. Since most of the SP programs in Nepal are ran by the Government and since it was possible to obtain disaggregated data on government SP programs from official sources, the figures presented in these tables represent

**Table 5.1. Summary of Annual Social Protection Expenditure and Indicators**

SP Component	Expenditure (NRs'000)	(%)
Labor Market Programs	586,925	6.3
Social Insurance	4,455,893	47.5
Social Assistance	662,352	7.1
Micro/Area-wide Programs	3,151,270	33.6
Child Protection	528,387	5.6
Total	9,384,827	100.0
Indicators of Social Protection Expenditure		
SP Expenditure as% of GDP	2.2%	
SP Expenditure Per Capita (NRs)	NRs408 (\$5.5)	

Source: Various.

**Table 5.2. Annual Expenditure on Social Protection by Subcomponent\***

SP Component /Program	Funding	Annual Cost (NRs'000)	Comment
<b>Labor Market Programs</b>			
Active Labor Market	Government/GTZ/WFP/	254,451	Active labor market programs mainly include income-generation programs and training programs; Funding for Food for Work provided by HMG/N, GTZ, DFID, WFP, SNV, SDC, DANIDA
Affirmative action	SNV Netherlands	35,448	
Food for Work		297,026	
<b>Subtotal</b>		<b>586,925</b>	
<b>Social Insurance Programs</b>			
Provident Fund, Citizens' Investment Fund, Poverty Alleviation Fund	Government/ Employees Provident Fund/Citizens' Investment	227,823	Figures for provident fund are disbursements rather than contributions
Health Financing	Fund/WB	226,777	
Pensions		4,001,293	
<b>Subtotal</b>		<b>4,455,893</b>	Health financing includes microinsurance
<b>Social Assistance</b>			
All Social Assistance Programs (mostly targeted at the elderly, widows, and the disabled)	Government/INGO	662,352	Most of the social assistance programs are handled by MWCSW and MLD, HMG/N
<b>Subtotal</b>		<b>662,352</b>	
<b>Micro/Area-wide Programs</b>			
All Micro/Area-Wide Programs	Government and several donors	3,151,270	Most of these programs have credit as major component; and most are targeted towards women and disadvantaged groups
<b>Subtotal</b>		<b>3,151,270</b>	
<b>Child Protection</b>			
Education-Related Programs	Government/Bilateral & Multilateral Donors	467,581	Other programs include government, NGO and INGO programs for children at risk and children with special needs.
Other Programs	INGOs	60,806	
<b>Subtotal</b>		<b>528,387</b>	
<b>Grand Total</b>		<b>9,384,827</b>	

\*More disaggregated expenditure figures are provided in Annex 4.

Source: Authors.

relatively accurate SP expenditure estimates for Nepal. According to Table 5.1, the total expenditure on SP activities in Nepal for 2002/03 was about NRs9.4 billion (about \$126 million).

As shown in Table 5.1, the total expenditure on SP activities in Nepal is dominated by social insurance, which accounts for 47.5% of the total SP expenditure. This is followed by expenditures on micro and area-wide programs whose share in 2002/03 was about 34% of the total SP expenditure. The respective shares of the remaining three SP categories—social assistance programs, labor market programs, and child protection programs—were, respectively, 7%, 6% and 6% of the total expenditure (see Table 5.1).

There are two key indicators that could be used to monitor national spending on SP and to provide intercountry comparisons:

- (i) Total SP expenditure as a percentage of GDP: in Nepal's case, total SP expenditure accounted for 2.2% of GDP in 2002/03.
- (ii) Per capita SP spending: per capita expenditure on SP in 2002/03 was approximately NRs408 (equivalently about \$5.5).

## **B. Coverage of Social Protection Programs**

The second proposed component of the SPI is the coverage of SP programs. The available data and information on the number of beneficiaries of the SP programs are listed in Table 5.3. It was not possible to access data for some of the smaller programs, particularly those funded through NGOs, INGOs, bilateral, and multilateral sources. However, information is available or, at least, can be estimated, for all the larger programs. It should be noted that it is not possible to quantify the number of beneficiaries for those programs that deal primarily with capacity-building/training, awareness raising, and institutional/legislative reform.

Table 5.4 provides the basis for deriving the coverage component of the SPI. It establishes the pairings of SP programs and key target groups for SP activities, i.e. those that should be included as part of the SPI. This approach is considered to represent the most logical method for deriving a coverage indicator for SP. This method is preferred for three main reasons:

- (i) It overcomes the problem of different countries having different types of program targeted at identical groups, e.g. pensions and social assistance both targeted towards the elderly; health insurance and health subsidies both targeted to the sick.
- (ii) The coverage rates derived for each target group will be more easily understandable to policy makers in both the national and international context as it would provide an indication of the

Table 5.3. Nepal: Beneficiaries and Target Populations of Major SP Programs, 2002/03

SP Component/Program	Number of Beneficiaries (000s)	Reference Population (Potential Target Group) Definition	Population (000s)	Comments
<b>Labor Market Programs (LMP)</b>				
Training/Employment Promotion	169.0	Unemployed/Underemployed	1,465	Underempl. < 20hrs Underempl.
Public Works/FFW Programs Targeted at the Poor	303.0			<40hrsGovt./ IFI/INGO projects
Other Employment Programs (mostly based on loans, microcredit)	480.0	Total Labor Force	2,911 9,900	
<b>All LMP</b>	<b>952.0</b>			
Social Insurance <sup>b</sup> (pensions)	112.1	Elderly population (60 yrs +)	1,504 <sup>a</sup>	Persons receiving pensions
Microinsurance <sup>c</sup>	448.6	Total poor population	9,000	
All Social Insurance	560.6			
<b>Health Financing</b>				
Health Benefits: Employees Provident Fund	<b>Total coverage: 467.5</b>	Total population	23,000	Scheme membership
Citizens Investment Fund: Senior Citizen Treatment Allowance				
<b>Social Assistance</b>				
Allowances: Senior Citizens/Widows Social Welfare Centers/Old Age Homes		Total Senior Citizens (75+ ) Total elderly people (60+) Widows Bonded labor	301 1,504 308 200	In 2001, the total females (10 <sup>+</sup> ) were 8.4 million of which 308,451 were widows
Allowances to Conflict-Hit Children Under Immediate Relief Program	<b>Total (SA): 430.5</b>			

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Table 5.3. Nepal: Beneficiaries and Target Populations of Major SP Programs, 2002/03 (continued)

SP Component/Program	Number of Beneficiaries (000s)	Reference Population (Potential Target Group) Definition	Population (000s)	Comments
<b>Disability programs</b> Allowances and Training to Persons with Disabilities Government NGOs/INGOs/Other Organizations	5.6	Disabled population	750	
<b>Microcredit</b> All programs	27 236 (households) (1,370 people)	All households	4,000	Govt and NGO programs
<b>Child Protection</b> Educational Assistance Programs Programs to Assist Children with Special Needs (CSWN) Total Child Protection	623.1 100 723.1	All Children (0-14 years) All Children (5-14 years) Total children in pre-primary and primary school/All CSWN <sup>d</sup>	8,949 6,193 4,573 3,760	Govt and NGO programs

<sup>a</sup> Estimated on the basis of the population data of 2001 Census

<sup>b</sup> IIDS 2003

<sup>c</sup> Overview of the Microinsurance Schemes Operational in Asia, Strategies and Tools Against Exclusion and Protection (STEP), ILO, June 2004, Draft.

<sup>d</sup> Includes children not attending school, malnourished, disabled, those in worst forms of child labor (ILO, 2001; NPC/UNICEF 2001; ADB 2004.  
Other sources: Ministry of Labor, Ministry of Health, Ministry of Women, Children and Social Welfare, Social Welfare Council, Employees Provident Fund, Citizens' Investment Trust, Ministry of Education, Ministry of Local Development, Nirdhan Utthan Bank.

**Table 5.4. Social Protection Target Groups, Types of SP Programs, and Reference Populations**

Target Group	Types of SP Program*	Reference Population—** Narrowly Defined	Reference Population— Widely Defined
<b>The Unemployed and Underemployed</b>	All labor market programs (relevant training and job creation through SME support); food for work programs; targeted public works programs	The unemployed and underemployed	Total labor force/active population
<b>The Elderly</b>	Pensions Social assistance to the elderly	Population Aged 60+ years	Population Aged 60+ years
<b>The Sick</b>	Formal health insurance Microinsurance Subsidized health costs or exemptions Senior citizen treatment allowance	Total population	Total population
<b>The Poor (especially the severely poor and disadvantaged)</b>	All recipients of basic social welfare/assistance payments Land tax exemptions Residential care for vulnerable groups Food aid But excluding education and health programs as well as those for the disabled. Microfinance/credit	Poor population	Total population
<b>The Disabled</b>	All forms of assistance programs for the disabled (including recipients of social assistance, training programs)	The disabled population	The disabled population
<b>Children with Special Needs (CWSN)</b>	Educational programs (e.g. fee exemptions, scholarships, school feeding programs, etc.) All other identified child protection programs	Poor children, aged 5-14 years	All children, aged 5-14 years

\* These are generic programs and will vary from country to country.

\*\* Essentially equivalent to the target population.

demand SP, e.g. the number of poor households in a country receiving assistance, the number of disabled people who are/are not receiving assistance.

- (iii) The issue of double counting, which would have arisen if the beneficiaries of all programs had been added up and expressed as a percentage of the overall population,<sup>11</sup> is largely avoided.

Table 5.4 shows the relationship between the categories of SP programs, the corresponding target groups, and the reference population. It also defines the “reference” populations that will be used to derive the coverage indicators. Table 5.4 presents two definitions of the reference population: the “narrow” definition of the reference population attempts to approximate the target population, while the “wide” definition includes the total population who could receive benefits from each category of program.

It should also be noted that there will sometimes be overlaps between both programs and target groups. Social insurance schemes usually provide both health and pension benefits. On the other hand, poor children will be targeted by both education subsidy programs (directly) and microcredit programs (indirectly). With the approach being proposed, beneficiaries of a particular program can be allocated to more than one target group; conversely, overlaps between different programs for the same target group need to be excluded.

The next step is to relate the information on SP programs contained in Table 5.3 to the target groups shown in Table 5.4. The results of this step are presented in Table 5.5. It is important to note that some of the information presented may not be completely accurate, since the exact numbers of program beneficiaries were not always available. In these cases, the authors either used estimates based on discussions with the relevant officials or, especially where no published data existed, derived their own estimates.

As proposed in Table 5.4, coverage rates have been calculated for both the narrowly and widely defined reference populations. In interpreting the information presented in Table 5.5, it should be noted that beneficiaries from some programs could appear in more than one category or target group. It should also be pointed out that in estimating the total number of beneficiaries within each target group, some overlaps are bound to occur. However, given the nature of the programs for each target group, it is considered that these overlaps will not be significant and will have negligible impact on the calculated coverage rates.

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<sup>11</sup> Other reasons for discarding this approach are: (i) the indicator would be dominated by the largest programs (programs targeted at smaller groups, such as children and the disabled, would have minimal impact); and (ii) the resultant indicator would be difficult to interpret.

Table 5.5. Coverage of Major SP Programs by Target Group, 2002-2003

Target Group	Applicable Program	Beneficiaries (000s)			Reference Population <sup>1</sup>		Coverage	
		Program	Total	Narrow	Wide	Narrow	Wide	
The Unemployed/ Underemployed	All labor market programs (training, assisted migration, other relevant programs)	169.0						
	Food for work, public works programs	103.0 <sup>f</sup>	272.0	1,713 <sup>a</sup>	9,900	16.0%	2.7%	
	Pension Recipients in 2002/03 (civil servants and others)	103.0						
The Elderly	Pension (employees provident fund)	8.9	541.0	1,504 <sup>a</sup>	1,504	36.0%	36.0%	
	Allowances to senior citizens and widows	429.0						
	Health Insurance Schemes (EPF)	380.0						
The Sick	Senior citizen treatment allowance	0.5	829.1	23,000	23,000	3.6%	3.6%	
	Microinsurance	448.6 <sup>b</sup>						
The Poor-Social Assistance	Allowances to senior citizens/widows, conflict hit persons	430.5	733.5	9,000	23,000	8.2%	3.2%	
	Food aid (RCIW + W. Terai)	303.0						
	Microcredit programs operated by Government, NGOs, and Banks	870.0						
The Poor-Microcredit	Microcredit programs operated by various INGOs and other organizations (PCFs, national NGOs)	500.0	1,850.0	9,000	23,000	20.5%	8.0%	
	Job creation through microcredit (various rural poverty alleviation programs) <sup>c</sup>	480.0						

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Table 5.5. Coverage of Major SP Programs by Target Group, 2002-2003 (continued)

Target Group	Applicable Program	Beneficiaries (000s)			Reference Population <sup>1</sup>		Coverage	
		Program	Total	Narrow	Narrow	Wide	Narrow	Wide
Disability Programs	Allowances to persons with disabilities	3.7						
	Skill development training for disabled NGOs/INGOs run various support programs to people with disabilities	2.0	32.7	750 <sup>c</sup>	750	4.4%	4.4%	
	Total educational assistance programs	623.1						
Children with Special Needs (CSWN)	Various child welfare schemes run by NGO/INGO/Multilateral/others	100.2	723.3	2,353.5 <sup>d</sup>	6,193.4	30.7%	11.7%	

<sup>1</sup> See Table 5.4 for definition.

<sup>a</sup> Estimated on the basis of the population data of 2001 Census

<sup>b</sup> Overview of the Microinsurance Schemes Operational in Asia, Strategies and Tools Against Exclusion and Protection (STEP), ILO, June 2004, Draft.

<sup>c</sup> Various other poverty alleviation programs with significant microcredit components to increase job creation.

<sup>d</sup> Other sources of various data: Ministry of Labor, Ministry of Health, Ministry of Women, Children and Social Welfare, Social Welfare Council, Employees Provident Fund, Citizens' Investment Trust, Ministry of Education, Ministry of Local Development, Nirdhan Utthan Bank, ILO 2001, ADB 2004.

<sup>e</sup> Of the total children aged 5-14 (6.19 million), 38% are estimated to be poor children of this age group.

Using the narrow definition of the reference population, which more closely approximates the target group, Table 5.5 shows that SP coverage rates vary widely, specifically:

- (i) coverage of the elderly and CSWN exceeding 30%, mainly due to allowances for senior citizens and educational support programs;
- (ii) coverage of microcredit exceeds 20% due to large number of programs focused both on households and on job creation through small businesses;
- (iii) coverage of labor market programs is high due mainly to large number of programs although some of the beneficiaries will not be theoretically un- or underemployed; and
- (iv) very low coverage rates for the sick, the poor (social assistance), and the disabled.

It is interesting to note that the programs providing the highest coverage rates are those that have been developed in recent years as part of the Government's major objective of poverty alleviation, e.g. microfinance, food for work, educational assistance. In general, the older programs, e.g. pensions and provident fund schemes for formal sector employees, have fewer beneficiaries.

In the section Social Protection Index and Multicountry Analysis of this book, the seven indicators of coverage will be combined into a single indicator for the SP coverage component.

## **C. The Distributional Impact of Social Protection Programs**

The third proposed component of the SPI is the Distributional Impact of SP programs in each country. This component of the SPI will be assessed by:

- (i) estimating the proportion of poor people/households benefiting from each type of SP program—poverty-targeting; and
- (ii) examining the amount of income transferred by these programs to the poor in relation to their average household incomes/expenditures—impact on incomes.

### **I. Proportions of Poor Households Benefiting from SP programs: Poverty-Targeting**

The poverty-targeting indicator that has been adopted is the ratio of the number of poor beneficiaries of SP programs to the total poor population. This indicator can be derived from an ad hoc estimation of the proportion of a program's beneficiaries who are poor (using the official poverty line) or through

the analysis of household survey data. The second approach is likely to yield more robust results:

- (i) Institutions responsible for executing the major SP programs rarely maintain data disaggregated by poor and nonpoor households; and
- (ii) Household survey information permits the identification of overlaps between programs (i.e. households receiving benefits from more than one program).

Unfortunately, in Nepal's case, the only national level living standards survey dataset currently available is from 1996 and is, therefore, outdated. Although the second round of the Nepal Living Standard Survey (NLSS) has been completed, the resulting dataset was not available during the timeframe allotted to this study. It should be pointed out, however, that the NLSS dataset has only a limited amount of information on relevant SP programs like incomes received from the Employees Provident Fund, Citizen's Investment Fund; there are few questions on the other targeted programs such as food for work, microcredit and educational subsidies. This study, therefore, has to adopt an ad hoc approach to the poverty-targeting of SP programs in Nepal based on available information, using interviews with both government and nongovernment officials working in these areas and the authors' own estimates.<sup>12</sup>

The source data for estimating the poverty-targeting indicator is the information on coverage of SP programs contained in Tables 5.3 and 5.5. The results are presented in Table 5.6. There were two steps in preparing this table:

- (i) estimating the number of poor beneficiaries for each of the identified SP programs, and
- (ii) estimating the overlaps between schemes.

#### **a. Estimating the Number of Poor Beneficiaries**

Given the unavailability of primary information, the number of poor beneficiaries of the SP programs has been estimated using the following principles:

- (i) if a program can be afforded only by the nonpoor, then 0% of the beneficiaries are assumed to be poor;
- (ii) if the program is exclusively targeted towards identifiable groups of poor, then close to 100% of the beneficiaries are assumed to be poor; and

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<sup>12</sup> Where even qualitative estimates could not be obtained from the responsible agencies.

- (iii) if the program is more general in nature in terms of poverty-targeting, then 38% of the beneficiaries is assumed poor.<sup>13</sup>

The resultant estimated poverty-targeting rates and numbers of poor beneficiaries are given in columns 3 and 5 of Table 5.6.

#### **b. Estimation of Overlaps<sup>14</sup>**

If there are no overlaps between programs, the overall poverty-targeting rate would be obtained by assuming the poor beneficiaries of all programs. On this basis around one-third of the poor population of Nepal is receiving some SP assistance. This is, however, an “upper-bound” as some people will benefit from more than one program.

Conversely, a “lower-bound” can be established by taking the poverty-targeting rate of the program with the highest number of poor beneficiaries, implying that all beneficiaries of all other programs are beneficiaries of this program. In this case, the most pro-poor program is microcredit-operated through government agencies and NGOS; this program is estimated to reach 9% of the poor population.

The actual poverty-targeting rate lies somewhere between these two extremes. In order to obtain the “best estimate” poverty-targeting rate, which allows for overlaps among beneficiaries across programs, the following procedure was adopted:

- (i) column 6% “overlap” was inserted into Table 5.6;
- (ii) programs that either had no poor beneficiaries or were included under more than one target group (e.g. allowances to senior citizens and widows) were assigned 100% overlap;
- (iii) the largest program (microcredit) was assigned a 0% overlap;
- (iv) other programs were then successively compared against this program and estimates of the extent of “overlap” were made;
- (v) these percentages were multiplied with the number of poor beneficiaries to give the number of poor beneficiaries allowing for overlaps (column 8); and
- (vi) the “best estimate” of the overall poverty-targeting rate was obtained by summing this column.

<sup>13</sup> The 38% figure is used because this is the latest official poverty headcount ratio estimate.

<sup>14</sup> This is a necessary step. It is not realistic to derive use poverty-targeting rates for individual SP programs in the construction of an SPI as these will vary considerably from country to country.

Table 5.6. Poverty-Targeting of SP Programs

SP Program	All Beneficiaries (000s)		Poverty-Targeting		Program Overlaps		Net Poor Beneficiaries
	2	3	4	5(2*3)	6	7	
1							8(5*6)
All Labor Market Programs (training, job creation through SME support, assisted migration, other relevant programs)	169.0	50	More than the average poverty rate	85	50	Available to both men and ; women often in urban areas.	42
Food for Work, Public Works Programs	303.0	100	Exclusively targeted to poor	303	10	Primarily very poor participants	273
Pensions (civil servants and others) (No. of people benefited in 2002/03)	103.0	0	Only nonpoor get this benefit	0		No poor beneficiaries	
Pension (employees provident fund)	8.9	0	Only nonpoor get this benefit	0		No poor beneficiaries	
Allowances to Senior Citizens and Widows	429.0	38	Only nonpoor get this benefit	163		Included below	
Health Insurance Schemes (EPF)	380.0	0	Primarily targeted towards the poor	0		No poor beneficiaries	
Senior Citizen Treatment Allowance	0.5	38		0.2		Already included.	
Microinsurance	448.6	90	National poverty rate	404	90	Almost always associated with microcredit programs	40
Allowances to Senior Citizens/Widows, Conflict-Hit Persons	430.5	38		164	10	Target group is economically inactive	147
Microcredit Programs Operated by Government, NGOs, and Banks	870.0	90	Primarily targeted towards the poor	783	0	Largest program (both urban and rural; primarily women)	783

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Table 5.6. Poverty-Targeting of SP Programs (continued)

SP Program	All Beneficiaries (000s)		Poverty-Targeting		Program Overlaps		Net Poor Beneficiaries
	2	3	Comment	4	Beneficiaries (%)	Comments	
1					5(2*3)	6	8(5*6)
Microcredit Programs Operated by Various Ingos/Other Organizations	500.0	90			450	10	405
Microcredit Component of Employment-Creation Programs	480.0	75	National poverty rate		360	10	324
Allowances to Persons/Skills Development, Training for the Disabled.	5.7	38	National poverty rate		2	100	0
NGOs/INGOs Ran Various Support Programs to People with Disabilities	27.0	38	Mostly in rural areas		10	20	8
Total Educational Assistance Programs	623.1	44			274	25	206
Various Child Welfare Schemes Ran by NGO/INGO/Multilateral/Others	100.2	95			95	25	71
	<b>Sum of Poor Beneficiaries</b>				<b>3,093</b>		
	<b>Poor Population</b>				<b>9,000</b>		
	<b>Upper-Bound (with overlaps/double counting)</b>				<b>34%</b>		
	<b>Lower-Bound (largest program only)</b>				<b>9%</b>		
	<b>Best Estimate (excluding overlaps)</b>				<b>26%</b>		

Source: Tables 5.3, 5.5 and authors' estimates.

This resultant “best estimate” poverty-target rate is 26%. This estimate will be retained for the formulation of the SPI. Of all SP beneficiaries, 74% are poor and two thirds of these are recipients of microcredit/finance.

## **2. Impact of SP Programs on Household Income/Expenditures of Poor**

The poverty-targeting rate provides an indication of the distributional impact of SP programs. It, however, gives little indication of the “effectiveness” of the interventions, i.e. what impact these interventions have on the income/expenditure of the poor. The objective is to derive an indicator of SP expenditure to the poor population as a percentage of the poverty line income. Ideally, as with the poverty-targeting rate, this indicator would be derived from household survey data. As previously mentioned, this approach was not possible in Nepal and an ad hoc method had to be adopted.

The computation of this indicator is shown in Table 5.7. The table essentially replicates Table 5.6 with the expenditure data from Table 5.2 being substituted for the beneficiary information. The poverty-targeting rates are the same as those from Table 5.6 and multiplying these by the expenditure on each program gives the amount of SP expenditure going to the poor. There is no need to allow for overlaps between programs other than to exclude those programs which affect more than one target group, e.g. senior citizens’ allowances and food for work.

Table 5.7 shows that, during the fiscal year 2002/03, the total SP expenditure on poor beneficiaries was around NRs3.9 billion, equivalent to around 40% of total SP expenditure; it should be noted that three-quarters of this expenditure results from the microcredit programs.

SP expenditure on the poor was then related to the poverty line income. The results are shown in Table 5.8. Two indicators are presented:

- (i) Per capita SP expenditure on the poor as a percentage of the (estimated) 2002/03 poverty line: 6.8%; and
- (ii) As above but for poor “beneficiaries” only: 28%.

The advantages and disadvantages of each will be discussed in the forthcoming section Social Protection Index and Multicountry Analysis of this book.

Table 5.7. SP Expenditure on the Poor

Target Group	SP Program	SP Expenditure (NRs' 000)	Poverty-Targeting	Expenditure on Beneficiaries
<b>The Unemployed / underemployed</b>	All labor market programs (training, job-creation through SME support, assisted migration, other relevant programs)	86,841	50%	43,421
	Food for work, public works programs	297,026	100%	297,026
<b>The Elderly</b>	Pensions (civil servants and others) (no. of people benefited in 2002/03)	3,521,433	0%	0
	Pension (employees provident fund)	32,000	0%	0
	Allowances to senior citizens and widows	380,930	38%	144,753
<b>The Sick</b>	Health insurance schemes (EPF)	857,181	0%	
	Senior citizen treatment allowance	3,913	38%	1,487
<b>The Poor</b>	Microinsurance	5,400	90%	4,860
	Allowances to senior citizens/widows, conflict-hit persons	56,035	38%	21,293
<b>The Poor/ Microcredit programs</b>	Microcredit programs operated by the Govt, NGOs, and banks	66,852	90%	60,167
	Microcredit programs operated by various INGOs/other organizations	3,084,418	90%	2,775,976
	Microcredit component of employment-creation programs	203,058	75%	152,294
<b>Disability Programs</b>	Allowances to persons with disabilities			
	Skill devt training for disabled NGOs/INGOs run various support programs to people with disabilities	190,465	38%	72,377
<b>Children with Special Needs (CSWN)</b>	Total Educational assistance programs	459,903	44%	202,537
	Various child welfare schemes run by NGO/INGO/multilateral/ others	139,372	95%	132,403
	<b>Total SP Expenditure</b>	<b>9,384,827</b>		<b>3,908,414</b>

Source: Tables 5.2, 5.6.

**Table 5.8. Impact of SP Expenditure on the Income of Poor Households**

Variable	Value
Total SP Expenditure on the Poor (NRs'000)	3,908,414
Poor Population ('000)	9,000
SP Expenditure/Poor Person (NRs/person)	434
Poverty Line Income Per Capita (annual) (NRs/person)*	6,400
Per Capita SP Expenditure As % of Poverty Line Income	6.8%
Percent of Poor Receiving SP Assistance (from Table 5.6)	26%
<b>Per Capita SP Expenditure As % of Income of Poor Beneficiaries</b>	<b>28%</b>

\* No recent poverty line income is available. 2002/03 poverty line has been extrapolated from the 1995/96 poverty line (NRs4,404 per annum per capita) using the annual average rate of inflation—about 6%—for the intervening period;<sup>15</sup> it has also been necessary to assume that the household consumption pattern has not changed significantly.

Source: Tables 5.6, 5.7 and authors' estimates.