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# ▶ Extending contribution-based social security schemes for workers in the informal economy and self-employed in Nepal



- ▶ **Extending contribution-based social security schemes for workers in the informal economy and self-employed in Nepal**

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The Brief is designed to be actionable and to focus particularly on the key aspects that needs to be considered during the design and implementation of contribution-based social security for workers in the informal economy and self-employment. Accordingly, it is relevant to a range of different stakeholders involved in extending contribution-based social protection in Nepal, across different areas of government and social partners.

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## ► Abbreviations

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<b>CBS</b>	Central Bureau of Statistics of Nepal
<b>CIT</b>	Citizens Investment Trust
<b>EPF</b>	Employees Provident Fund
<b>GAP</b>	General Average Premium
<b>HIB</b>	Health Insurance Board
<b>ICSE</b>	International Classification of Status in Employment
<b>ILO</b>	International Labour Organization
<b>SMP</b>	Safe Motherhood Programme
<b>SSF</b>	Social Security Fund

**1**

# **Introduction**





## ► Introduction

The Constitution of Nepal recognizes social protection as a fundamental right and the Government of Nepal (GoN) has committed to achieve 60 per cent coverage by 2025. The Contribution-based Social Security Act, 2017 (CBSS Act or 'Act') makes provisions for all “workers” to participate in social security. The Social Security Fund (SSF), Nepal is mandated to implement the provisions of the Act and the schemes cover eight of the nine branches of social security grouped around the four key schemes: (i) Medical care, health, and maternity benefits scheme; (ii) Accidental and disability protection scheme; (iii) Dependent family protection scheme; and (iv) Old age protection scheme.

**However, current regulations are in place only for the workers of the formal sector. The technical team of the SSF has drafted an initial proposal for the design of the schemes for those currently excluded, largely those in the informal sector and the self-employed.**

Based on the initial design of the schemes proposed by the SSF (see Section 2: Scheme design proposed by the SSF), the International Labour Organization (ILO) undertook a review of the proposed design and implementation plan for extending the schemes to workers in informal employment and a preliminary costing of the proposed schemes. Following these assessments, a technical note was prepared with recommendations on the key aspects of scheme design as well as on the processes related to the extension of contribution-based social security to workers in informal employment.

This policy brief builds on these previous exercises and expands on proposing key aspects to be considered during the design and implementation of contribution-based social security schemes for workers in the informal economy and self-employment.

## ▶ Context of informality in Nepal

Nepal's economy is characterized by high levels of informality, which is reflected in the structure of its labour market. In 2018, formal employment accounted for approximately one million jobs, mostly concentrated in larger organizations. On the other hand, about 6 million workers were engaged in **informal employment, amounting to 84.6 per cent of all the employed population.**

These include workers employed as employees, self-employed workers, and contributing family members, mostly concentrated in micro, small and medium-sized organizations, and many in informal enterprises themselves.

▶ **Table 1. Employment in Nepal by type of employment and formality status**

Employment type	No. (000s)	Informal employment %
<b>Informal employees</b>	<b>3260</b>	<b>54.4</b>
Formal sector	1325	22.1
Informal sector	1935	32.3
<b>Self-employed (informal)</b>	<b>1673</b>	<b>27.9</b>
<b>Contributing family worker</b>	<b>947</b>	<b>15.8</b>
Formal sector	257	4.3
Informal sector	690	11.5
<b>Household workers (informal)</b>	<b>114</b>	<b>1.9</b>

Source: CBS and ILO, 2019. Nepal Labour Force Survey 2017/18.

Each of these types of employment have different characteristics, needs and priorities, concerning formalization and social security. The approach to include self-employed workers in social security will need to be different from that used for informal employees in a formal enterprise, or for a contributing family member on a family-run small scale farm.

**It is important to highlight that of the total number of workers in informal employment, about 26.4 per cent (almost 1.6 million workers) work in formal organizations.** There is more informal employment in the formal sector than formal employment itself. This reflects the larger challenge of formalization of jobs in Nepal, and the need to consider the extension of social security through diverse angles and types of interventions.

**There were about 922,000 enterprises in Nepal in 2019 of which 49.9 per cent were not registered.**<sup>1</sup> When observing registration status by enterprise size, the smaller the business, the more likely it is to not be registered. Among enterprises with only one worker, only one third are registered, while for enterprises with ten or more workers, only about five per cent are not registered. Smaller enterprises concentrate informal employment – more than 80 per cent of informal employment is in enterprises with four or fewer workers.

**Different approaches are required to enrol workers in informal employment (in both formal and informal sectors) and those in self-employment.**

<sup>1</sup> CBS, 2019. Analytical Report Informal Sector.

**To extend social security for wage workers in informal enterprises, the first step needs to be to formalize these businesses.** The SSF must work with other entities in the Government to promote the registration of economic units, and subsequently the enrolment of their employees in social security (including contributing family members in formal economic units). This process falls within the established legal framework and should be aligned with broader formalization strategies and plans from the Government. Moreover, enforcement and compliance mechanisms should be in place to ensure the registration of enterprises results in workers benefiting from social security, **and that enterprises that are already registered also enrol their employees in the SSF.**

**To cover the self-employed,** which include own-account workers, home-based workers, employers, individual entrepreneurs, subsistence workers, among others, **the SSF must take a series of actions within a comprehensive strategy to remove barriers preventing these workers from joining the SSF,** starting with the current exclusion of the legal coverage given the lack of regulations for these workers, but also including administrative, financial, information/awareness barriers.

#### ► Box 1: Defining informality in Nepal

**It is important to highlight that there is no official definition of informality by the GoN.** The Labour Act (2017) applies to all workers, without making distinctions, not even referring to informal employment, sectors, or the economy. The CBSS on the other hand, refers to the formal and informal sectors, and workers in self-employment – but it does not establish a definition of the terms. The Central Bureau of Statistics of Nepal (CBS) uses the registration of an enterprise or own-account worker as the starting factor to distinguish if an economic unit is in the formal or informal sector, and subsequently classifies formal employment only for workers in formal economic units, that have access to paid annual leave, paid sick leave, and are registered in social security programmes.<sup>2</sup>

The **SSF must develop, at the least, a working definition of informality for the extension of legal coverage** to workers in the informal sector, preferably aligned with the working definition used in practice by other Government agencies. In producing the definition, it is important to ensure that it is **sufficiently broad to allow it to encompass all workers currently not covered, while making sure it does not allow employers in the informal sector to excuse themselves from their responsibilities** to enrol and contribute on behalf of their employees.

## ► Barriers for workers in the informal economy and self-employment to access social security

There are significant challenges in extending social security to workers in the informal economy and in self-employment and promoting their transition to formal employment due to a number of existing barriers.<sup>3</sup> For example, most workers in self-employment lack an intermediary – such as an employer– that will register and pay contributions on their behalf, while workers in informal businesses need the enterprise to be formalized first, something they have no control of. Challenges resulting from remoteness/isolation, lack of documentation, a complex registration process, low levels of education, etc. also lead to exclusion from coverage. Social security institutions designing schemes for workers in the informal economy and

<sup>2</sup> As per the use in CBS's Analytical Report Informal Sector (2019) and the Nepal Labour Force Survey 2017/18.

<sup>3</sup> ILO, 2021. Extending social security to workers in the informal economy: Lessons from international experience.

self-employment should keep in mind these barriers and work proactively to ensure access to social security for all. Some of these barriers are further discussed below.

## Lack of information, awareness, and trust

Lack of information and awareness on social protection is a very common challenge workers in the informal economy and self-employment face. Remoteness or isolation of the workplace, low levels of literacy, and low degree of organization may result in lack of information and awareness on their right to social protection in general, as well as on how to access them.

Consultations with workers in the informal economy in 2021 showed that they have a very low understanding of their rights to social security.<sup>4</sup> These workers lacked clarity on the functions and mandate of the SSF and their eligibility for enrolment. Similarly, the findings from the visit of the UN Special Rapporteur on extreme poverty and human rights in November 2021, also highlighted that many do not access social protection programmes they are eligible or entitled to, because of poor understanding about their rights and lack of access to information.<sup>5</sup>

Any strategy for expansion should include extensive communication and outreach efforts to inform the population about social security, what it is, how it works and how they can participate in it, either directly or through their employers.

## Benefits not aligned with priorities

It is important to understand workers' knowledge, needs, interests, contributory capacity, and priorities regarding social security. Workers in the informal economy and self-employment are often in precarious employment conditions, with low and irregular disposable income. For workers in informal settings to participate in and contribute to social security schemes, the schemes need to address their needs. If benefit provisions of social security schemes are not aligned to workers' priorities, there will be low adherence to the schemes, leaving many of those that need it the most, unprotected.

## Costs and inadequate financing arrangements

Two key issues that could create a significant barrier to access social security for workers in the informal economy and self-employment are the levels of contributions and financing arrangements. Workers with uncertain or fluctuating incomes, especially those on a low income, can hesitate in participating in social security schemes if contribution rates are too high. Thus, contribution rates must be based on workers' contributory capacity and balanced with attractive benefit levels. The next section discusses costings for the proposed schemes in detail.

It is equally important to consider financing and administrative arrangements for collecting contributions. Fluctuations and uncertainty of income for workers will require adapting contribution schedules to facilitate workers to make regular contributions for social security.

## Complex and burdensome administrative procedures

Complex administrative processes are a significant barrier to access social security. If workers feel that the direct and indirect costs to registration, enrolment, and claims are too burdensome, then there will be low adherence to enrolment. Financial barriers include not only the regular cost of paying contributions, but also indirect costs such as foregone earnings during the time spent on administrative processes.<sup>6</sup>

<sup>4</sup> See summary of findings at ILO, 2021. Challenges and opportunities around contribution-based social security. Available at: [https://www.ilo.org/kathmandu/whatwedo/publications/WCMS\\_823274/lang--en/index.htm](https://www.ilo.org/kathmandu/whatwedo/publications/WCMS_823274/lang--en/index.htm)

<sup>5</sup> UNHCHR, 2021. Statement by Professor Olivier De Schutter, United Nations Special Rapporteur on extreme poverty and human rights, on his visit to Nepal, 29 November – 9 December 2021.

<sup>6</sup> ILO. 2019. Extending Social Security to Workers in the Informal Economy: Lessons from International Experience.

The social security schemes in Nepal were initially designed for workers in the formal sector, and the extension of these schemes to workers in informal employment will require changes and modernization of its administrative procedures to reduce complexity, and the direct and indirect costs of registration and accessing benefits. For example, all registrations to the SSF are done online and initiated by the employers. Benefits and claims processing is done centrally with only one provincial information desk in Province 1. With the concentration of workers in the informal economy and self-employment in rural and remote areas, coupled with the lack of an intermediary to support them, alternative modalities for registration, knowledge sharing, claims, and receiving benefits will need to be considered.

## Lack of representation and organization

International experiences have shown that there is a direct link between the capacity of workers to organize and the ease of their inclusion in contributory schemes.<sup>7</sup> While the degree of organization in the informal sector should not be underestimated in Nepal (for example, in sectors such as construction and transportation), lack of organization of some categories of workers persists, resulting in marginalization of their needs, as well as access to social security. Expansion of social security to workers in the informal economy and self-employment, should consider the various nuances of the degrees of representation and organization for those workers, including workers in informal employment in the formal sector. The problem of representation remains a significant challenge for unpaid family workers, self-employed workers or even employers of micro and small production units.

## ► Administrative challenges in expanding social security to workers in the informal economy and self-employment

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In addition to the barriers workers and the self-employed face have to access social security, social security in the informal economy, institutions also face a number of administrative and operational challenges that results in low coverage. These challenges need to be taken into consideration while designing schemes for workers in the informal economy.

## Lack of enforcement and control and low compliance

The lack of effective enforcement of applicable labour and social security regulations may contribute to a low level of compliance resulting in low coverage. Lack of human resources has been identified as a major constraint in the effective functioning of labour inspection in Nepal.<sup>8</sup> Currently there are only 157 staff and 11 Labour and Employment offices throughout the country under the Department of Labour and Occupational Safety, Ministry of Labour, Employment, and Social Security.<sup>9</sup> The SSF is facing challenges in ensuring compliance from the formal sector, particularly the estimated 1.3 million workers in informal employment in the formal sector. Challenges of compliance for the informal economy are likely to be higher. Low compliance with laws is often related to lack of information or heavy procedures, as previously explained.

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<sup>7</sup> Ibid.

<sup>8</sup> ILO. 2022. DRAFT Assessment of Labour Administration in Nepal.

<sup>9</sup> Ibid.

## Lack of integration and policy coherence

The lack of integration and policy coherence among social protection institutions, often leads to coverage and adequacy gaps, duplication, inefficiencies, and distorted incentive structures.<sup>10</sup> There is a high degree of fragmentation and a lack of coordination between the existing contribution-based social security programmes in Nepal. At present, there are four institutions offering services with significant overlaps between themselves. These include the Employees Provident Fund (EPF), the Health Insurance Board (HIB), the Citizens Investment Trust (CIT), and the SSF. Lack of policy coherence and coordination between the four institutions has resulted in overlap in scheme provisions, confusion among workers and employers, and missed opportunities in service delivery. Policy coherence will also entail improving coordination with government policy aimed at facilitating formalization and promoting employment.

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<sup>10</sup> ILO. 2019. Building Social Protection Systems: International Standards and Human Rights Instruments.

**2**

# **Scheme design proposed by the Social Security Fund**





## ▶ Scheme design proposed by the Social security fund

### ▶ Definition of the target group for the schemes

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The scheme design proposed by the SSF is to cover workers currently without any provision for enrolment in the SSF. The proposal outlines two different schemes, one for “informal workers” and other for the “self-employed. The definitions proposed by the SSF are:

- ▶ **“Informal worker** means those workers who work for oneself or for others without any temporary contractual and social security provisions, in general unorganised and out of the income tax periphery and who are not covered by labour laws. It represents all employments, which are not included in the definition of formal and self-employment, such as other agricultural employment, except operating as a registered firm, wage-based construction workers, domestic workers, transport workers under unions or committees, and persons who perform religious activities.”
- ▶ **“Self-employed** means those workers who work as a director, manager, or proprietor for their own profit - not for a wage or salary, operating a business registered or unregistered in any government agencies. It includes grocery entrepreneurs, doctors, consultants, chartered accountants, etc who work by opening their own firm, directors of a company, insurance agents, brokers, and equity investors.”

There are several issues with SSF’s proposed definitions including conflicts with existing legislation and conceptual issues. Concerning the legal issues of the proposed definitions, the category of “informal worker” legally would not exist in Nepal, since **the Labour Act (2017) covers all workers** irrespective of working in the formal or informal sector – **therefore the condition “who are not covered by labour laws” could not be met by any worker. Moreover, if informal workers** are defined as those not covered by formal arrangements or social security provisions, they **would cease to be “informal workers” once they register with the SSF.**

Conceptually, the two categories proposed include significant overlaps according to the International Classification of Status in Employment (ICSE), at least at a broad level.<sup>11</sup>

<sup>11</sup> For details, see: International Classifications of Status in Employment and Status at Work (ICSE and ICSaW), available at: <https://ilostat.ilo.org/resources/concepts-and-definitions/classification-status-at-work/>

Both categories proposed by the SSF entail workers “who work for oneself or for others without any temporary contractual and social security provisions” and work “not for a wage or salary”, or more simply, not as an “employee”. The first is described as unorganized labour that broadly covers own-account workers (piece-rate workers, casual labourers), and workers on own-use services and goods. The second entails employers (enterprise owners, employers in corporations), independent skilled professionals, and own-account workers in household market enterprises without employees.

The two SSF definitions can be understood as “*independent workers*”, as per the ICSE-18-A: *Status in Employment according to type of authority*. The ICSE-18-A classifies independent workers as “employers” or “independent workers without employees”, while it also provides the classification of “dependent workers” into the “dependent contractors”, “employees” and “contributing family workers” categories.

Conversely, according to the classification of the ICSE-18-R: *Status in employment according to type of economic risk*, which would categorize all workers under SSF’s definitions as “workers in employment for profit”, which it further disaggregates into “independent workers in household market enterprises”, “dependent contractors” and “contributing family workers”.

Considering the ICSE classifications and the CBS definition of formal and informal work, it is **recommended that the SSF uses a single definition for the workers not yet covered by the existing provisions of the CBSS and its regulations**. For clarity of definition and communication, these workers could be categorized as “Independent Workers” as per the ICSE-18-A, or as an expanded interpretation of “Self-Employed” that considers the ICSE-18-R classification of “workers in employment for profit”. In both cases, the classification would be in clear contrast to the group currently covered, which entails basically “dependent workers” or “workers in employment for pay”, or more simply “employees” to an employer (enterprise or individual).

This way the distinction between formal and informal sectors would be less relevant, in turn, reducing the risk of legal exclusion due to the definitions. For example, for workers in salaried work, the employer must be formal to allow their enrolment in the SSF and they would be covered by the existing provisions, while those not in salaried work would be covered by the new provisions and would not depend on definitions of informality.<sup>12</sup>

Given the issues of definition, for the sake of clarity when communicating with national stakeholders, **this report will use the broad designation of “workers in the informal economy and self-employment” or “workers in the informal economy” to refer to the group of workers currently without any provision for enrolment in the SSF.**

## ► Scheme design

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While the schemes under the CBSS Act cover eight branches under C102 - Social Security (Minimum Standards) Convention, 1952 (No. 102) (seven implemented), their categorization and nomenclature are significantly different.

Table 2 shows the corresponding social security branches covered by the SSF schemes, and the corresponding ILO Convention for each branch and corresponding ILO branches and conventions.

<sup>12</sup> Furthermore, the definition of informality must be subjected to broader discussions with a wide range of stakeholders beyond just the SSF.

► **Table 2. Schemes covered by the contribution-based social security**

SSF's schemes	Corresponding ILO branches	Corresponding ILO Conventions
Medical Care, Health, and Maternity Protection Scheme	<ul style="list-style-type: none"> <li>► Medical care</li> <li>► Sickness</li> <li>► Maternity</li> </ul>	<ul style="list-style-type: none"> <li>► Medical Care (C130)</li> <li>► Sickness (C130)</li> <li>► Maternity (C183)</li> <li>► Minimum Standards (C102)</li> <li>► Basic Protection (R202)</li> </ul>
Accident and Disability Protection Scheme	<ul style="list-style-type: none"> <li>► Employment injury</li> <li>► Disability</li> </ul>	<ul style="list-style-type: none"> <li>► Employment Injury (C121)</li> <li>► Invalidity (C128)</li> <li>► Minimum Standards (C102)</li> <li>► Basic Protection (R202)</li> </ul>
Dependent Family Protection Scheme	<ul style="list-style-type: none"> <li>► Survivors</li> </ul>	<ul style="list-style-type: none"> <li>► Survivors (C128)</li> <li>► Basic Protection (R202)</li> </ul>
Old Age Protection Scheme	<ul style="list-style-type: none"> <li>► Old age</li> </ul>	<ul style="list-style-type: none"> <li>► Old Age (C128)</li> </ul>
Not currently implemented	<ul style="list-style-type: none"> <li>► Unemployment</li> </ul>	<ul style="list-style-type: none"> <li>► Unemployment (C168)</li> </ul>
Not covered under CBSS	<ul style="list-style-type: none"> <li>► Family benefits</li> </ul>	<ul style="list-style-type: none"> <li>► Minimum Standards (C102)</li> </ul>

Considering the SSF definitions of informal workers and self-employed, the provisions for the two groups would be different. The “self-employed” would be able to register and contribute to the SSF independently of an employer, to the same schemes that are being implemented for the workers currently covered – with the only difference being that the worker would be responsible for the payment of the total contribution amount (31 per cent of declared earnings), without sharing the payment with an employer.

For the “informal workers” the SSF proposed a similar set of schemes, albeit with some different parameters for eligibility and benefit levels.

**Table 3 details the scheme design proposed by the SSF for these workers in the informal economy – all subsequent discussions on Sections 3 and 4 refer to these schemes.**

► Table 3. Scheme proposal by the SSF for workers in the informal economy

	Medical care, health, and maternity protection scheme	Accidental and disability protection scheme	Dependent family protection scheme	Old age protection scheme
<b>Eligibility</b>	<p><b>Medical care:</b> After 3 consecutive months of contribution and is available up to 3 months after contribution has been discontinued.</p> <p><b>Maternity:</b> After 3 consecutive months of contribution and is available up to 3 months after contribution has been discontinued.</p>	<p><b>Accident:</b> After start of contributions until the contribution has been discontinued.</p> <p><b>Occupational disease:</b> Not specified.</p> <p><b>Disability:</b> After 1 year of contribution.</p>	Contributing at least 1 year prior to the incident.	<p><b>Retirement age:</b> 55 years for single women and those in remote areas. 60 years for others.</p>
<b>Benefit level</b>	<p><b>Medical care:</b> Yearly medical treatment up to NPR 100,000, and up to NPR 25,000 for prescription medication in a year; 45 days of medical expenses for a new-born child and for the spouse of the contributor, with 20% co-payment</p> <p><b>Maternity care:</b> Childcare grant equal to minimum basic remuneration for up to one month from birth; One-month minimum remuneration in the event of miscarriage after 24 weeks or still borne.</p> <p><b>Maternity leave:</b> Not covered.</p>	<p><b>Medical care for accidents:</b> up to NPR 700,000.</p> <p><b>Occupational disease:</b> Not specified.</p> <p><b>Full disability:</b> Monthly allowance equal to 60% of minimum salary.</p> <p><b>Partial disability:</b> Contribution will be based on degree of disability.</p>	<p><b>Lump sum benefit:</b> In old-age, lump sum returns of 12 months deposited amount. If the contributor hasn't contributed to old age protection scheme:</p> <ul style="list-style-type: none"> <li>▶ <b>Dependent spouse:</b> Monthly pension of 60% of minimum remuneration.</li> <li>▶ <b>Dependent children:</b> Monthly pension of 40% of minimum remuneration for children up to 18 years, or 21 years for children for continuation of education. For differently abled children, no age requirement.</li> </ul> <p>If the contributor has contributed to old age protection scheme, then lump sum of her/his total contribution.</p> <p><b>Funeral grant:</b> Up to minimum basic salary stated by the Government of Nepal.</p>	<p><b>Old age pension:</b> Deposited amount + interest divided by 160.</p> <p>In case of death, prior to 15 years of contribution, dependent spouse will be provided 50% of pension for life.</p> <p>If contributor does not reach 15 years of contribution within the age of 60 years, the total deposited amount and interest can be paid as lump sum.</p>

To finance these schemes, the SSF is considering establishing them as separate schemes from the formal sector and would collect contributions from workers directly, for their participation in social security (the implications of this is discussed further below with a set of recommendations based on international standards and best practices.) Moreover, in accordance with the Contribution-based Social Security Act 2017, considerations are being made on a potential subsidy to workers' contributions from the government, as a way to mitigate the lack of an employer to cost share the contributions.

Given the informal nature of the target group, little to no proof of salaries will be available to verify the real income of workers. To work around this, the proposed contributions by workers would be done against a **declared income level**, which they can choose themselves considering their own personal situation. The declared income level would be the direct reference when calculating benefit amounts.

The Government would set minimum and maximum levels for the declared income based on the basic remuneration portion of the minimum wage, to ensure that lower contributions still yield a minimum level of benefits, and to also limit liability from uncapped income levels. As per the SSF's proposal.<sup>13</sup>

The declared incomes would be between:

- Minimum reference earnings 9,385 Nepalese rupees per month.
- Maximum reference earnings 28,155 Nepalese rupees per month.

Since verification will not be feasible in most cases, the assumption is that reference earnings will be in practice **declared earnings**.

These are equivalent to the minimum basic salary, and three times the minimum basic salary, as per the minimum wage set for 2022 (15,000 Nepalese rupees per month).

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<sup>13</sup> Updated to align with the 2022 national minimum wage. The original proposal was based on the 2021 minimum wage of NPR 13,500 per month.



## ► Recommendations on the design of the schemes

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This section will provide analysis and recommendations on the designs of the four schemes proposed by the SSF (discussed in Chapter 2 and detailed in the Appendix). The analysis conducted in this section is mainly based on the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), the Social Protection Floors Recommendation, 2012 (No. 202), and Income Security Recommendation, 1944 (No. 67), and considering the Nepal and SSF context. However, in some cases, the scheme-specific Conventions and standards were also used.

The proposed scheme design for workers in the informal economy has a slightly different set of parameters in comparison to the schemes currently in existence for workers in the formal sector. Most pressingly, **there is a need to implement an integrated scheme for all workers to ensure portability of schemes, preservation of rights to facilitate formalization and labour mobility and support the pooling of risks.**

In designing the rules that govern the eligibility, benefits and contribution rates, policy makers need to be careful about creating **barriers to formalization**. For example, if the design favours the informal, employers and workers may resist formal employment or if already formal, push them back to informality. On the other hand, if design favours the formal sector solely, workers may resist more in participating in the schemes for the informal sector. While favourable schemes for formal workers can be an incentive for formalization, a balanced approach should be taken.

Based on the principles of **labour mobility**, rights acquired in one type of employment should seamlessly be transferred to other types. This includes cases of individuals transitioning from employee to employer, employer to employee, from dependent to self-employment, or vice-versa – ideally, from the private to the public sector and vice versa too. Rights acquired, minimum eligibility conditions (e.g., minimum contribution periods) and benefit calculation formulas should all foresee and define how to handle such transitions.

Therefore, it is imperative that schemes are conceived as one from the start and **effectively work as one General SSF Scheme**, only with different entry points. This is critical for the portability of rights and will facilitate the administration of the schemes. Such an approach will also ensure better compliance with social security standards including ensuring collective financing and solidarity/risk pooling. With that defined, the rest of the section will look at individual schemes.

## ▶ Medical care, health, and maternity protection scheme

The design proposed for the *medical care, health, and maternity protection scheme* is similar to the existing schemes with two important differences. Both maternity cash benefit and sickness cash benefit is excluded from the proposed design. The Labour Act makes provisions for all workers to receive social security benefits and the CBSS Act further creates legal provisions for these benefits. Their exclusion will remove an important mechanism for the protection of workers, particularly women. These benefits are by nature supportive of health outcomes, therefore excluding them may create health complications that will impact costs under the medical care scheme. Moreover, **short-term benefits such as maternity cash benefits and sickness cash benefits can be a powerful attraction for workers to enrol to the schemes** since their benefits can be accessed without requiring many years of contribution and can provide life-changing support at critical points in life. The rest of the section discusses on recommendations to the proposed schemes.

### Health insurance schemes

The main characteristics of the proposed health insurance schemes are the required minimum period of contribution of three months, and the benefits that cover medical treatment costs of the worker up to NPR 100,000 and up to NPR 25,000 for prescription medication in a year, with 20 percent co-payment by the beneficiary. Considering the ILO standards, mainly Convention No. 102, and Medical Care and Sickness Benefits Convention, 1969 (No. 130), there are two key recommendations:

- ▶ It is imperative that **the SSF's health insurance measures be aligned with the Health Insurance Board's** scheme to ensure coordination/articulation and avoid overlap of coverage of those in the informal economy and self-employment. As the SSF extends the coverage of its schemes to all workers, the overlap of the schemes of the two institutions will become more frequent and will lead to a double burden on families being made to contribute to both institutions.

Moreover, increased coordination between the SSF and the HIB can bring gains in operational capacity, extend registered medical care service providers' network, and extend the coverage of both schemes.

Furthermore, the SSF schemes only cover costs of medical treatment for the workers and not for the family of the workers. In line with ILO Convention No. 130, worldwide health insurance is broadly applied on a household basis and the HIB already covers medication treatment costs for the entire family.

- ▶ The ceiling on medical treatment costs is not aligned to the key objective of this type of scheme, which is to prevent financial hardship due to medical care costs, especially catastrophic health expenditures. **The SSF should consider removing this cost cap to protect workers in cases of catastrophic health care costs**, which are low frequency in nature, thus ensuring effective access to essential health care without hardship.

### Sickness benefit

**The SSF should include the sickness cash benefit as an essential part of the schemes for workers currently without not covered by the SSF.** Sickness benefits are designed to replace a portion of lost income for a limited period and protect the household income. For many workers, risk such as sickness or injuries, can threaten their livelihoods and without income replacement by social security, they will either be left without income, or will be forced to continue working to feed their families, putting themselves and others at risk by worsening their health conditions and spreading diseases. Without access to sickness

benefits, workers may be forced to return to work to keep their jobs or maintain their salary which could develop into chronic disease and incapacity to work.<sup>14</sup> Paid sick leave may also enhance productivity. The Covid-19 pandemic has shown how paramount sickness protection is for the wellbeing of workers as well as to public health.

While an initial limited capacity to verify sick leave claims could prevent the effective implementation of the scheme, measures can be put in place to facilitate verification and improve the overall effectiveness of the scheme. In addition to **ensuring sickness benefit is part of the schemes** for workers in the informal economy and self-employment, following are four recommendations in the design of the sickness benefit:

- The **benefit level** is recommended to be at **60 per cent of the declared reference earnings**.
- Considering that workers in the informal economy and self-employment do not enjoy the regular payment of their wages by their employer in the first 12 days of sick leave, the **benefit for these workers should also cover the initial 12 days of leave**, in addition to the 13 weeks – for a total of 103 eligible days of sickness benefits.<sup>15</sup>
- **To facilitate verification processes for the claims related to the sickness benefits, a tiered procedure can be established.** For example, a simplified verification procedure for leaves up to 12 days, with more strict verification periods beyond that duration.

## Maternity care

The design of the maternity care is the same for formal and informal arrangements. In addition to the current design of the maternity grant, there is a recommendation that the SSF should consider:

- It is recommended that the **maternity care benefit is aligned with the Safe Motherhood Programme (SMP) and the Child Grant under the SSA programme**. The SMP programme also offers financial support to mothers and reimburses costs of delivery and medical care for the new-born while the Child Grant offers universal cash transfers for children below age five. This offers an opportunity to explore complementarities and coordination between the programmes, for instance, by automatically registering the new-born child for the Child Grant scheme, while also preventing duplication of benefits (e.g., health facilities requesting reimbursement from the SSF and the SMP for the same procedure).

## Maternity cash benefits

**Maternity cash benefit** is a key provision that replaces the income of women for the period they are unable to work. It ensures that women have the time and resources to stop working when their health requires at during advanced stages of pregnancy, to attend pre- and post-natal care, have adequate nutrition during breastfeeding take-up, and delivery in good conditions. The provision offers essential income protection for women, in turn, promoting women's participation in the labour market and reducing the gender protection gap. Following are some key recommendations for the design of the maternity cash benefits:

- **Maternity leave should be included in the scheme design** for workers in informal employment. A series of consultations with employers, workers, and journalists conducted in 2021 by the SSF showed that workers currently enrolled in the schemes reported maternity protection schemes as being highly valuable. Moreover, the provisions around maternity leave are advised by the ILO Maternity Protection Convention, 2000 (No. 183), and Convention No. 102.
- The **benefit level** should include **60 per cent of the declared reference earnings**.

<sup>14</sup> Review of international experience in social insurance sickness benefits for gig workers.

<sup>15</sup> Informal employees by the fact that their employment relation is either not recognized, not established, or not considered within a standard form of employment, and self-employed by the fact they are their own employer.

- ▶ Considering that workers in the informal economy or self-employment do not enjoy the payment of maternity leave for the first 60 days by their employer the **benefit should cover the total period of 14 weeks** of leave, to equal the total duration of formal sector workers.<sup>16</sup>
- ▶ It is also recommended that the **maternity leave benefit is aligned with the SMP and the Child Grant under the SSA programme**, similarly to the Maternity Care benefit.

Table 4 summarizes the recommendations vis-à-vis the proposed schemes.

▶ **Table 4. Medical care, health and maternity protection scheme**

	Proposed by the SSF	Recommended by the ILO
<b>Eligibility</b>	<p><b>Medical care:</b> After 3 consecutive contribution and available up to 3 months after contribution has been discontinued.</p> <p><b>Maternity care:</b> After 3 consecutive contribution and available up to 3 months after contribution has been discontinued.</p>	<p><b>Medical care:</b> After 3 consecutive contribution and available up to 3 months after contribution has been discontinued.</p> <p><b>Maternity care:</b> After 3 consecutive contribution and available up to 3 months after contribution has been discontinued.</p> <p><b>Sickness benefits:</b> After 3 consecutive contribution and available up to 3 months after contribution has been discontinued.</p>
<b>Benefit levels</b>	<p><b>Medical care:</b> Yearly medical treatment up to NPR 100,000, and up to NPR 25,000 for prescription medication in a year; 45 days of medical expenses for new-born child and for spouse of the contributor, with, 20% co-payment.</p> <p><b>Sickness leave:</b> Not covered.</p> <p><b>Maternity care:</b> Childcare equal to minimum basic remuneration for up to one month of birth; One-month minimum remuneration in the event of miscarriage after 24 weeks or still borne.</p> <p><b>Maternity leave:</b> Not covered.</p>	<p><b>Medical care:</b> Medical treatment costs reimbursed to health facilities for worker and family, and up to NPR 25,000 for prescription medication in a year; 45 days of medical expenses for new-born child and for spouse of the contributor, with, 20% co-payment.</p> <p><b>Sickness leave:</b> 22 days sick leave; 60% of basic salary as sick benefit, up to 13 weeks annually beyond the first 10 days.</p> <p><b>Maternity care:</b> Childcare equal to minimum basic remuneration for up to one month of birth; One-month minimum remuneration in the event of miscarriage after 24 weeks or still borne.</p> <p><b>Maternity cash benefit:</b> 98 days maternity cash benefit at 60% of basic salary.</p>

## ▶ Accident and disability protection scheme

As the proposed benefits closely relate to those offered to currently covered workers, the recommendations proposed for the schemes are on further clarifying some aspects of benefit coverage, eligibility, and benefit calculation. The key recommendations that the SSF should consider in the design of the schemes include the following:

- ▶ **Protection under occupational disease** should be specified, which will be essential to introduce for workers that are currently not covered and are mainly from the informal sector. Additionally, as per the ILO Employment Injury Benefits Convention, 1964 (No. 121), Member States should prescribe a list of diseases, provide a general definition of occupational disease, or an instrument that expands from a

<sup>16</sup> Informal employees by the fact that their employment relation is either not recognized, not established or not considered within a standard form of employment, and self-employed by the fact they are their own employer.

list of diseases using the general definition to establish the occupational origin of diseases.

- ▶ While specifying protection under occupational disease, a **minimal period of exposure may be prescribed**. Nonetheless, in the case of employment injury, the benefits should be granted without a qualifying period.
- ▶ The benefit for temporary incapacity/disability due to occupational accident or disease is only defined as being based on degree of disability. The provision should include a clear working definition of partial disability, especially, to protect vulnerable workers.
- ▶ Based on ILO Conventions Nos 102 and 121, **benefits for occupation diseases should include at a minimum, medical care and related benefits, and cash benefits as income replacement** during the period the worker is incapacitated from labour. These provisions are currently not clear in the definition of the schemes.
- ▶ Similar to health care schemes, the ceiling on medical treatment costs is not aligned to the key objective of this type of benefit – to prevent financial hardship due to medical care costs, especially catastrophic health expenditures. **The SSF should consider removing this cost cap to protect workers in cases of extraordinary health costs due to accidents.**

## Disability protection<sup>17</sup>

The recommendations for protection in case of loss of earning capacity (invalidity) include clarifying elements and ensuring transparency on eligibility and benefit setting, as well as better compliance with international social security standards.

- ▶ The **benefit levels** for temporary disability, permanent full or partial disability should be **60 per cent of the declared reference earnings** considering the level of invalidity for partial loss of earning capacity.
- ▶ The assessment of degree of disability for permanent partial disability benefits should be transparent and clear for workers to understand the benefit level setting. The existing **standard measure of loss of earning capacity levels and categories should be implemented in all cases**, and compliance and quality assessments be conducted.
- ▶ Notwithstanding the benefits for disability resulting from a work accident or occupational disease, **the SSF should consider the introduction of invalidity protection beyond those resulting from work accidents**. Coordination with the Social Security Allowance (SSA) programme's allowance for persons with disabilities should be explored. These benefits should follow a different set of rules for eligibility and benefit calculation formulas, in accordance with ILO's Standards, and in particular Conventions Nos 102 and 121.

Table 5 summarizes the recommendations vis-à-vis the proposed schemes.

<sup>17</sup> The ILO usually refers to the schemes related the loss of earning capacity as “invalidity protection”, however for the sake of alignment to the language being used by the SSF, this paper uses the terms “invalidity” and “disability” interchangeably.

▶ **Table 5. Accidental and disability protection scheme**

	Proposed by the SSF	Recommended by the ILO
<b>Eligibility</b>	<p><b>Accident:</b> After start of contribution until the contribution has been discontinued.</p> <p><b>Occupational disease:</b> Not specified.</p> <p><b>Disability:</b> After 1 year of contribution.</p>	<p><b>Accident:</b> No qualifying period, therefore, after start of contribution until the contribution has been discontinued.</p> <p><b>Occupational disease:</b> No qualifying period. Coverage continues after the contribution has been discontinued if the disease is proven to be related to previous insured employment.</p> <p><b>Temporary disability:</b> After start of contribution until the contribution has been discontinued.</p> <p><b>Permanent disability:</b> After 1 year of contribution.</p>
<b>Benefit level</b>	<p><b>Medical care for accidents:</b> Up to NPR 700,000.</p> <p><b>Occupational disease:</b> Not specified.</p> <p><b>Full disability:</b> Monthly allowance equal to 60% of minimum salary.</p> <p><b>Partial disability:</b> Contribution will be based on the degree of disability.</p>	<p><b>Medical care for accident or occupational disease:</b> Full medical expenses for work-related accidents and occupational diseases.</p> <p><b>Full disability:</b> Monthly allowance equal to 60% of minimum salary.</p> <p><b>Partial disability:</b> A suitable proportion depending on the loss of earning capacity.</p>

## ▶ **Dependent family protection scheme**

The proposed protection under the Dependent Family Protection Scheme refers to the survivor benefits and not the family benefits as defined in C102. The key recommendations in the design of this scheme are on the eligibility criteria and alignment with the survivor's benefits under the Old Age Protection Scheme.

Moreover, there seems to be a conflict between survivors' benefits under the Dependent Family Protection Scheme and under Old Age Protection Scheme.

Below are a set of recommendations on the design of the scheme:

- ▶ **Differentiate eligibility of work-related and non-work-related deaths.** The dependent spouse and children benefit proposed for the scheme are to be paid in case of death from any cause and not just work-related cases. This expands the risk covered by the benefit but results in the scheme having the highest cost in comparison to other insurance-based provisions offered and could challenge the long-term sustainability of the scheme. Adjusting the eligibility of work-related deaths will reduce the scheme's cost dramatically (see next section), while establishing a longer contribution period for non-work-related deaths. To reduce risks of fraudulent claims, verification processes can rely on death certificates and other existing documentation.
- ▶ **Benefit levels could be adjusted proportionally to the length of the contributory career** of the deceased worker, to reduce the overall cost of the scheme and contribute to the financial sustainability of the scheme. ILO Convention No. 102 allows those three years of contribution and can be sufficient for partial benefits and 15 years should pay the full benefit amount. This option, although feasible, can be more complex for communication purposes.
- ▶ The Old Age Protection Scheme also makes provisions in the case of workers' death before old age.

Thus, **the Dependent Family Protection scheme should exclude the proposed payment of a lump-sum of the deposited amount to avoid conflicts with the Old Age Protection scheme.**

- Notwithstanding the benefits for Dependent Family Protection, **the SSF should consider the introduction of a family benefit beyond those resulting from the death of the worker.** These benefits are aimed to support the responsibility for the care of children. This scheme should follow a different set of rules for eligibility and benefit calculation formulas, in accordance with ILO standards.

Table 6 summarizes the recommendations vis-à-vis the proposed schemes.

► **Table 6. Dependent family protection scheme**

	Proposed by the SSF	Recommended by the ILO
<b>Eligibility</b>	At least 1 year of contributions prior to the incident.	For work-related deaths, a minimum contribution period of 1 year prior to the incident.  For non-work-related deaths, a minimum contribution period of 3 years for partial benefits.
<b>Benefit level</b>	<p><b>Lump sum benefit:</b> In old-age, lump sum returns of 12 months deposited amount.</p> <p>If the contributor has not contributed to old age protection scheme:</p> <ul style="list-style-type: none"> <li>► <b>Dependent spouse:</b> Monthly pension of 60 per cent of minimum remuneration.</li> <li>► <b>Dependent children:</b> Monthly pension of 40 per cent of minimum remuneration for children up to 18 years, or 21 years for children for continuation of education. For differently abled children, no age requirement.</li> </ul> <p>If the contributor has contributed to old age protection scheme, then lump sum of her/his total contribution</p> <p><b>Funeral grant:</b> Up to minimum basic salary stated by the Government of Nepal.</p>	<p><b>Dependent spouse:</b> 60 per cent of average monthly contribution. Benefit level proportional to contributory career length for non-work-related deaths.</p> <p><b>Dependent children:</b> 40 per cent of average monthly contribution for children until completion of school. Benefit level proportional to contributory career length for non-work-related deaths.</p> <p><b>Funeral grant:</b> Up to Declared Salary/ Up to minimum basic salary as stated by the Government of Nepal.</p>

## ► Old age protection scheme

The expansion of the old-age benefits to those workers currently not covered by the social security schemes is proposed by the SSF to be on a voluntary basis, with a contribution rate at 20 per cent of their declared earnings into a defined contribution and individual account pension scheme.

Gratuity benefits are not included for workers currently not covered by the social security schemes. Given that this group of workers are those in the informal economy and self-employed, the exclusion of the gratuity scheme could be justified on the informal nature of the workers’ jobs and how to specify the eligibility for the benefit. However, the way the old age pensions are proposed is not adequate for workers in the informal economy and self-employed – especially at lower income levels. Considering the uncertain incomes and prevalence of seasonal and casual work among workers in the informal economy and

self-employed, they are likely to have shorter contributory careers, with several gaps in their periods of contribution which can easily result in lower pension amounts from the SSF than from the universal social pension paid by the Social Security Allowance (SSA) programme, even after many years of contributions. Furthermore, anecdotal evidence suggests that high contribution rates provide disincentives to workers to enrol with the SSF, because pensions are accessible only upon retirement.

A rapid costing assessment showed that after a **period of 30 years of contribution** for workers with the **Minimum Reference Earnings** (contributions would start at about NPR 1,877 per month in 2022 and increase in line with wage growth), it is estimated that a worker would be entitled to a **monthly pension of NPR 5,898 per month**, in present value. For workers in the same scenario but declaring the **maximum reference earnings** (contributions would start at about NPR 5,631 per month in 2022 and increase in line with wage growth), it is estimated that s/he would be entitled to a **monthly pension of NPR 17,395 per month**, in present value. In both cases, the estimated pension replacement rate offered by the Old Age Protection Scheme is **39 per cent of total remuneration after 30 years of contributions – below ILO minimum standards**.

Nepal also has a universal old age social pension as part of the SSA programme that provides old age pensions to all citizens above age 70, and above age 60 to certain groups. The SSA pensions are currently paying NPR 4,000 per month for those aged 70 and above and NPR 2,660 per month for those between 60 and 69 years old. When comparing SSA's social pension to SSF's contributory old age pensions for the informal economy, the **contributory pensions performance after 30 years of contributions may not be considered attractive** for workers at the minimum reference earning level, **since they are entitled to a pension equivalent to about 70 per cent of the contributory old age protection, but without any contributions**. SSF's pensions will be even less attractive to workers with shorter contributory careers – with less than 20 years of contribution at the minimum reference earning, SSA's pensions are likely to be higher than the pension entitlement under the SSF. The main advantage of SSF's old age pension is the lower retirement age.

It is important to **consider options to reform the pension scheme, such as exploring defined benefit pensions, which could allow for predictable benefits, improved redistribution, and solidarity between contributors, as well as reinforcing the long term sustainability of the fund**. A pooled funding mechanism allows for more robust long-term financing, while using the demographic structure of the labour force and the increase of wages over time to keep contribution rates reasonable over an extended period. The ILO has estimated that the General Average Premium (GAP) contribution rate for actuarial balance over 100 years would be around 20 per cent, similar to the proposal by the SSF. This indicates that a staggered contribution rate could be used during the early years, using the principle of scaled average premiums (having contribution rates initially lower than GAP, and increasing in predetermined intervals to reach a state of equilibrium with contribution rates likely higher than GAP in the very long term) to introduce the scheme with lower contribution rates to make it more attractive for workers.

Following are additional recommendations for consideration for the design of the Old Age Protection Scheme:

- **Participation and contribution to pension schemes should be mandatory**, albeit the design of the scheme needs to respond to the needs and priorities of the workers. If the scheme is made voluntary as per SSF's proposal, adherence will likely be marginal. If mandatory coverage is not possible at present, a view to transitioning to mandatory coverage in the future should be included in the provisions.
- The **pension formula proposed (total accumulated contributions plus interest, divided by 160) may lead to a shortfall regarding the full cost of the pensions to the retired worker**. The life expectancy at 60 years old in Nepal was estimated at 17.61 years in 2020, or about 210 months. Considering that the pensions will be adjusted to inflation, the total amount of contributions collected plus interest will likely be depleted in about 13.3 years, leaving the government liable to pay the remaining years.

**It is strongly recommended that the pension formula is reviewed** to ensure that the resulting annuities are aligned with real life expectancy of pensioners and the expected interest rates accrued during the contributory career and the assumed pension adjustments over time.

- The potential deficit caused by the pension formula can be further increased by the provision of pensions to the dependent spouse in the case of death of the worker/pensioner, at 50 per cent of the prescribed pension amount. To mitigate the risks of creating pension obligations beyond the estimated period of payment (e.g., the dependent spouse is significantly younger than the worker/pensioner and would be entitled to receive the pensions for life), **it is recommended that a minimum age for the surviving spouse's eligibility is explored**, while **allowing for dependent spouses to access the benefit also in case of death of the contributor prior to retirement** (in similar conditions to the workers – either in lump sum for short contributory careers, or through a survivors' pension as prescribed above).
- Furthermore, **there is a conflict between the payment of amounts related to old-age benefits to the dependent family of a deceased worker**. Both the Old Age Protection Scheme and the Dependent Family Protection Scheme have provisions on supporting the dependent spouse with pensions and/or lumpsum payments using the deposited amount for old age as the source of resources. In practice, this can lead to the entitlement of two different benefits to be paid for the same purpose, however with only enough resources to pay one – leaving the SSF exposed to actuarial deficits for these schemes.
- The estimated replacement rate at 39 per cent of the basic earnings for the pensions after 30 years of contribution does not meet ILO's standards in relation to minimum pension levels and is only 145 per cent of SSA's non-contributory pensions. **It is recommended that contribution amounts are calculated considering the full salary of workers**. Moreover, it is also recommended that the **SSF and the SSA coordinate to ensure complementarity between the schemes, particularly to balance the incentives to contribute for SSF's pensions vis-à-vis relying on SSA's pensions**.<sup>18</sup>
- Still considering the adequacy of pensions, the use of loans against the contributed amounts should be allowed within reasonable limits, to avoid draining workers' old age accounts and leading to even lower benefit levels. **The SSF should restrict loan facilities completely, but if not possible at least to specific uses only** (e.g., real estate purchase, involuntary unemployment) and **within a safe proportion of the accumulated amount**.

Ideally, this facility should be restricted to gratuity benefits, and not the old age pensions. In that case, gratuity benefits should be treated separately from the Old Age Protection Scheme and its management can be considered under the private and commercial insurances that are likely to offer higher interest rate.

- Considering the minimum contribution period to be eligible to pensions (15 years), **the SSF should consider a transitory period in the introduction of the scheme for workers in later stages of their work life (e.g., aged 50 and above) to make enrolment more attractive to this group**. This would mean providing special conditions to access pensions during a transitory period, either by **reducing minimum contribution period for these workers** – e.g., for workers aged 55 and above, eligibility to pensions would be five years. Or **providing pension credits** – e.g., considering that all workers aged 50 would have already contributed for five years prior to the start of the scheme, so that they can reach the minimum contribution period of 15 years and be eligible for pensions at the retirement age of 60). In both cases, pension amounts would need to be complemented from the general government budget to meet a minimum benefit level – the coordination with SSA pensions could help balance the benefits and budgetary requirements. In either case, **the possibility of retroactive/ complementary contributions should also be explored** – e.g., by allowing workers to make contributions for past periods that they did not contribute.

<sup>18</sup> For instance, to ensure SSF pensions are attractive, a minimum pension amount could be established. The differences between the entitled pension amount according to the pension formula and the minimum pension (if entitled pension is lower) could be subsidized partially by the SSA, thus ensuring higher pensions as a reward for contributions, and potentially reducing tax-financed costs of SSA pension by migrating beneficiaries to the SSF. The modalities for this can be explored by dedicated technical work.



## ► Recommendations on costing and financing mechanisms

### ► Costing of proposed and recommended scheme design

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Considering the distinct design of benefits planned for workers currently not covered, the ILO conducted a rapid costing exercise of schemes as initially proposed by the SSF, based on preliminary costings completed to inform the development of the CBSS Act in 2015, as well as costing based on recommended designs with basic salary and total salary used as a reference.

The costing assessment focused on the three short-term schemes: **(i) Medical Care, Health and Maternity Protection Scheme; (ii) Accidental and Disability Protection Scheme; and (iii) Dependent Family Protection Scheme.** The **Old Age Protection Scheme** was not costed as the scheme relies on the “individual account” model for the financing of the pensions – further discussed in the next section.

These estimates consider a slow take-up rate for the schemes with contribution amounts kept constant to purchasing power.<sup>19</sup> The projections assume that in the **first year of operation about 115,000 workers would enrol and participate** in the schemes. By year five, this would have increased to 910,000, and 1,200,000 workers after ten years. These are conservative assumptions based on international experience – depending on the final design of schemes, their costs, and incentives for joining, Nepal could face a different scenario. The technical note on the *Review of preliminary costings on the extension of social security to the informal economy* details the assumptions, parameters, and analysis on the costing.<sup>20</sup>

Based on the initial design proposed by the SSF, the cost of the three short-terms benefits is estimated to range between **NPR 1,009 and NPR 2,251 per worker per month**, using the 2022 basic salary as a reference, for the first year of operation of the schemes. This includes a 15 per cent of benefit expenditures as provision for administration.<sup>21</sup> **The contribution for the old age protection scheme is estimated to range between NPR 1,877 and NPR 5,631 per worker per month.**

<sup>19</sup> The take-up rates are modelled starting at 2 per cent of informal workers enrolling in the first year and increasing by 2 p.p./year.

<sup>20</sup> For this note, the minimum reference earning was updated to reflect the increase in the minimum wages in effect in 2022, thus the specific results may differ in the amount presented from the original exercise.

<sup>21</sup> This implies the assumption that to manage the schemes proposed, an increase in SSF's administrative requirements would lead to the need for increased budget for the Fund's operations. As per the CBSS Act, contributions can only be used for the purposes of paying benefits to workers and their families.

To compare the costs of the schemes initially proposed by the SSF, the authors costed the additional benefits to the provisions proposed by the SSF for and made the necessary changes in parameters, such as benefits formula and qualifying criteria, for a better compliance with international social security standards. **It is important to note that the authors did not cost the schemes on recommendations related to removal of the minimum ceiling and extension of the health care to the family, nor changes in minimum contribution periods given the limitations of the rapid costing tool.** Nonetheless, these reforms are being costed in the on-going actuarial valuation of the SSF Nepal. Table 7 presents details on the costing of the schemes.

► **Table 7. Costing of proposed schemes and benefits – monthly premium per worker**

Schemes and benefits	SSF proposed design (Basic salary as reference)		Recommended design (Basic salary as reference)		Recommended design (Total salary as reference)	
	Minimum reference earnings	Maximum reference earnings	Minimum reference earnings	Maximum reference earnings	Minimum reference earnings	Maximum reference earnings
	(NPR 9 385)	(NPR 28 155)	(NPR 9 385)	(NPR 28 155)	(NPR 15 000)	(NPR 45 000)
<b>Medical Care, Health, and Maternity Protection Scheme</b>						
Medical care	337.25	337.25	337.25	337.25	337.25	337.25
Sickness benefit	-	-	43.43	127.28	67.81	203.42
Maternity grant	11.93	35.78	11.93	35.78	19.06	57.19
Maternity leave	-	-	23.06	69.17	36.85	110.55
<b>Accident and Disability Protection Scheme</b>						
Health care and rehabilitation	7.00	20.99	7.00	20.99	11.18	33.55
Temporary disability	5.72	17.17	5.72	17.17	9.15	27.45
Permanent partial disability	12.03	36.10	12.03	36.10	19.23	57.70
Permanent full disability	6.94	20.99	6.94	20.99	11.09	33.26
<b>Dependent Family Protection Scheme</b>						
Surviving spouse benefits	310.83	932.49	6.22	18.65	9.94	29.81
Surviving children's benefits	182.44	547.33	3.65	10.95	5.83	17.50
Funeral grant	2.35	7.04	2.35	7.04	3.75	11.25
<b>Administration</b>	<b>132.53</b>	<b>296.43</b>	<b>57.67</b>	<b>71.83</b>	<b>61.90</b>	<b>84.53</b>
<b>Total monthly premium per worker</b>	<b>Rs. 1,009.03</b>	<b>Rs. 2,251.40</b>	<b>Rs. 516.23</b>	<b>Rs. 773.01</b>	<b>Rs. 572.53</b>	<b>Rs. 941.89</b>
<b>Share of reference earnings</b>	<b>10.8%</b>	<b>8.0%</b>	<b>5.5%</b>	<b>2.7%</b>	<b>4.0%</b>	<b>2.2%</b>
<b>Old Age Protection</b>						
<b>Old age pension</b>	<b>1 877</b>	<b>5 631</b>	<b>1 877</b>	<b>5 631</b>	<b>3 000</b>	<b>9 000</b>
<b>Share of reference earnings</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>

Source: Authors' calculation based on ILO, 2021. Review of preliminary costings on the extension of social security to the informal economy.

Based on the recommended design, the estimated contributions for the three short-term schemes for workers at the **minimum reference earnings is NPR 516.23 per month**, while for workers contributing against the **maximum reference earning is NPR 773.01 per month**. For old age protection, contributions would be the same as per SSF's proposal. The contributions were also estimated using the full salary (basic salaries plus allowances) as the reference earnings – for the minimum reference earnings is of NPR 593.05 per month, and NPR 1,003.45 per month the maximum reference earning, with additional **NPR 3,000 to 9,000 per worker per month** to participate in the old age protection scheme.

**All four scenarios have a lower contribution than the estimated contribution of the design proposed by the SSF.** The major differences in the cost of the schemes proposed by the SSF and those adjusted to the recommendations of this paper are on the survivors' benefits. By narrowing the eligibility of the scheme to cover solely work-related deaths on short contribution periods, the average cost of the scheme could be reduced fifty-fold for the same level of earnings – comprehensive coverage for all causes of death should be considered for longer contributory careers, combined with benefit levels proportional to contributory career length. This more than compensates the addition of sickness and maternity leave benefits and keep the estimated contribution relatively low.

## ► Contribution rates and financing

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The contribution rates for the schemes must be set at a level that can be accommodated by the workers' contributory capacity, while providing enough resources to finance adequate benefits. Workers in the informal economy and self-employment often have unpredictable earnings, that can also fluctuate wildly through different times of the year. Thus, flexibility in defining contribution rates and contribution mechanisms is essential.

### Minimum reference earnings

The SSF's proposal to use basic salary as the reference for calculation of benefits could lead to replacement rates below international standards. The basic salary represents about **62 per cent of the total salaries** (estimated from the minimum wage, and as calculated by the ILO in 2016) which in practice reduces all benefits that use the reference earnings to the same proportion.<sup>22</sup>

For instance, the replacement rate offered by the sickness, surviving wife pensions, or disability benefits would be 37.2 per cent, old age scheme would be 39 per cent of total remuneration after 30 years of contributions – **all below the ILO's minimum standards**.<sup>23</sup>

**Consideration should therefore be given to use the total remuneration** (that includes the basic salary plus dearness allowance instead of just the basic salary, as the basis of calculation of contributions and benefits under the envisaged scheme.<sup>24</sup> The use of the basic salary for the determination of contributions and benefits under the pension scheme could also have damaging effects on the whole social security system. It encourages employers to limit future increases of the basic salary and to focus on allowances for granting remuneration increases (to avoid paying contributions on this part of the remuneration).

<sup>22</sup> ILO, 2016. Moving towards a Social Protection Floor in Nepal - An ILO actuarial study for a new pension scheme for all private sector workers and the self-employed.

<sup>23</sup> ILO Convention No. 102 prescribes the minimal replacement rate as 45 percent for sickness benefits, 40 percent for survivor benefit, 50 percent for disability benefits, and 40 percent for old age pensions.

<sup>24</sup> The dearness allowance generally represents a steady proportion of the overall remuneration, at around one-third of the total of basic remuneration plus dearness allowance.

## Maximum reference earnings

According to ILO Convention No. 102, the earnings' ceiling for social security should cover: (i) the average earnings of a skilled manual male employee; (ii) the earnings of at least 75 per cent of all insured persons; and (iii) at least 125 per cent of the average earnings of insured persons.

SSF's proposed maximum reference earnings of NPR 28,155 per month covers all three requirements, as per the 2017 Labour Force Survey. These would amount to (i) Average monthly earnings of skilled agricultural forestry and fishery workers was NPR 13,259; (ii) About 85.3 per cent of workers earned up to NPR 25,000 per month; and (iii) The average earnings in Nepal were of NPR 17,809 per month.

Nonetheless, to make the schemes more attractive for workers with higher earnings, the SSF should consider a higher earnings ceiling, as it would allow for benefits to be more directly linked to the earnings of a larger pool of workers.

## Setting of contribution rates

Independently of the final design of the schemes and the preliminary costing exercised conducted, **the ILO recommends that contribution rates should be defined based on a robust actuarial assessment.** If the schemes are implemented, and contribution rates are set based on other sources of evidence, a complete actuarial valuation of the schemes should be conducted as soon as possible to allow for informed decision making on potential adjustments in contribution rates, benefit levels and minimal contribution periods that may be required.

Moreover, the ILO Convention No. 67 on Income Security prescribes that "Benefits should be related to the previous earnings of the insured person on the basis of which he has contributed". instead of just the basic salary, as the basis of calculation of contributions and benefits under the envisaged scheme. The costing exercise highlights the issue of a fixed nominal amount of contribution (independent of earnings) because the cost per worker varies according to the earnings level for benefits other than medical care. Thus, it is important to establish a clear link between how much a worker contributes to social security, and the level of the benefits he or she will receive. The proposal to establish a nominal contribution rate in Nepali rupees for workers without an explicit link to reference earnings would go against ILO standards.

Thus, the ILO recommends that the SSF establishes the **contribution rate for workers as a percentage of the workers' earnings** – even if for communication purposes and clear messaging, contribution rates are communicated as a fixed amount for different earning brackets.

Following the costing exercise, a preliminary observation of premiums in the first year of the schemes operation as a percentage of earnings shows that an appropriate contribution rate for informal workers would be 5.5 per cent if we assume that all of them declare minimum earnings, and 2.7 per cent if they all declare maximum earnings. Using the full wage as reference earnings, a contribution rate of 4.0 per cent would be adequate if we assume that all workers declare the minimum earnings and 2.2 per cent if they all declare maximum earnings.

**For ease of communication, contribution amounts in rupees can be used to facilitate the understanding by workers and the population in general on how much they need to contribute** to participate in social security, but in terms of contribution management, they should be set as a percentage of the reference earnings. For example, for a contribution rate of ten per cent, communicating to workers the options of contributing NPR 1,000 per month, for the reference earnings of NPR 10,000, or contributing NPR 2,000 per month for reference earnings of NPR 20,000 can make overall understanding of the programme easier.

Moreover, using a contribution rate as a percentage of earnings will also facilitate communication for future adjustments in the minimum reference earnings and provide a straightforward mechanism to process claims of workers with contributory careers that span in both formal and informal sectors.

The SSF should also consider establishing contribution rates for all groups of workers at a similar percentage of the reference earnings. This would reduce the risk of perverse incentives to keep workers in informal arrangements and would facilitate the general understanding on entitlements and rights. **As mentioned in the previous sections, merging all schemes under a general SSF scheme should be explored.**

## Financing and subsidies

There is scarce evidence on the contributory capacity of workers in the informal economy and self-employment, making the exercise of defining the adequate balance between contribution rates and benefit levels a challenge. Considering that the national average wage of workers (NPR 17,809 per month) and the minimum expenditure basket (NPR 17,250 per month for a family of five) are close it can be assumed that the disposable income that workers can dedicate to contribute to social security is limited, particularly for lower income labourers – with the situation being worse for women, given the wide gender pay gap in the country.<sup>25</sup>

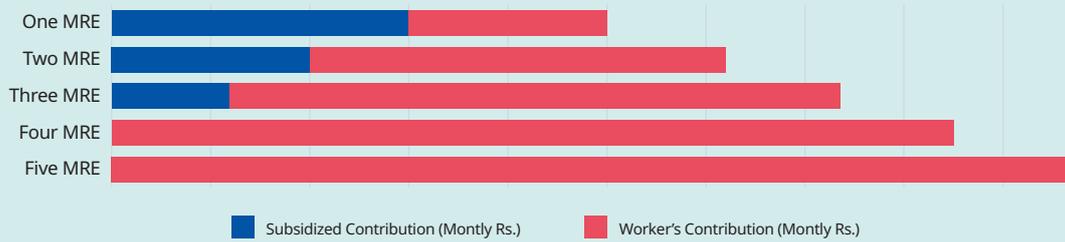
Ensuring that contribution rates are affordable for all workers is essential to extend the protection of social security to all, without risking placing undue financial stress in lower income households. Moreover, lower premium amounts are an incentive for workers to enrol in social security schemes, as the perception of the cost-benefit of participation will be skewed towards the benefits.

A way to ensure contributions for lower income earners is to fully or partially subsidize it through the general government budget. ILO Convention No. 67 on income security explicitly mentions among *“elements of cost which may be charged to the community”* ensuring basic protection for disability, survivors and old age, and those self-employed workers and persons of small means.

**The Government of Nepal should strongly consider subsidizing the contributions of specific categories of workers with low contributory capacities to social security, similar to the subsidy under the HIB for poor households.** Considering the limited enforcement capacity of the government, the low average earnings of workers and the resistance to SSF found in the formal sector, subsidies can act as a powerful driver for registration, and facilitate the positive perception of the population on the introduction of the schemes and the long-term creation of a culture of contribution to social security – at relatively low levels of investment from the government to do it.

Considering equity issues, subsidies can be applied in a progressive manner, where workers with lower earnings receive larger subsidies, and those with higher means would afford the full contribution rate themselves. For example, for workers that declare the minimum reference earnings (MRE) the estimated monthly premium of NPR 516.23, a subsidy of NPR 300 per month would represent an actual monthly contribution of the worker of only about NPR 216, with benefits still linked to the basic salary. For workers declaring two times the MRE, a monthly subsidy of NPR 200 would reduce an estimated monthly premium of NPR 650 to about NPR 450, and for those earning three times the MRE, a subsidy of NPR 100 would lower the NPR 773.01 monthly premium to NPR 673.01. Graph 1 presents a visual representation of the idea.

<sup>25</sup> Average wage reference: CBS & ILO, 2019. Nepal Labour Force Survey 2017/18.; Minimum expenditure basket reference: Cash coordination group, Nepal, 2020.

► **Graph 1 Conceptual representation of progressive subsidies for social security contributions.**

Source: Authors' conceptualization.

In the example presented above, in the first year of the schemes **the aggregated cost of subsidizing contributions of about 115,000 workers would be of about 420 million rupees, or 0.01 per cent of GDP or 0.04 per cent of the total government budget**, assuming all would contribute at the minimum reference earnings and receive the highest amount of subsidy. If kept constant, after ten years of operations the aggregated costs of the subsidies would remain at around 0.07 per cent of GDP or 0.28 per cent of total government budget, however covering about 1.2 million workers enrolled in the schemes.

Moreover, if the SSF decides to implement "age credits" as means to incentivize the participation of older workers into the old age protection scheme, this would effectively mean that some years of workers' contributions would be implicitly subsidized – either through government budget, or through intergenerational redistribution embedded in the determined contribution rates if the scheme is reformed into a defined-benefit pension.

The full costing of different levels of subsidies for the contributions of workers with low contributory capacity, including the use of age credits, can be produced by the ILO as an extension of the costing exercise presented. Social security contribution rates must be sufficient to cover the payment of benefits and related operational expenses, without threatening the long-term sustainability of the schemes. The costing exercise can also include a fiscal space analysis and assessment of financing options.

**5**

## **Recommendations based on international standards and experiences**





## ► Recommendations based on international standards and experiences

This section provides detailed recommendations on the administrative and operational processes as well as implementation modality based on international standards and experiences.

### ► Enrolment in the schemes

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#### Enrolment process and channels

Due to the characteristics of the workers for whom the schemes will be rolled out to, complex and burdensome enrolment processes, including direct and indirect costs, will act as a significant barrier in registering to the social security schemes. It is important for **the SSF to make the registration process quick and simple, while ensuring all required data is collected with quality.**

**Alternative modalities for registration must be made available to provide access to all workers.** While the **online registration process** currently in place allows unfettered access to many, it is important to consider that many of the workers in the informal economy will not have access to the internet (about 73 per cent of the population had access in 2020),<sup>26</sup> many are illiterate (about 32 per cent of the working age population in 2017),<sup>27</sup> and the geography of Nepal poses a general challenge for internet services in mountainous and remote areas.

The SSF will need to consider **establishing registration desks at sub-national levels** (directly or through partnerships with other governmental institutions), **registration channels via mail, SMS or phone.** Automatic registration processes, in the future, via other databases, such as the National ID database, needs to be explored. Automatic mechanisms will require careful consideration and planning to ensure that the right to privacy is respected, where users can opt-out from automatic registration process should they desire, and that follow up to registration is clear and easy for workers.

<sup>26</sup> MoF, 2021. Economic Survey 2020/21.

<sup>27</sup> CBS & ILO, 2019. Nepal Labour Force Survey 2017/2018.

## Enrolment obligation

From the perspective of **international standards, mandatory coverage directly supports the principles of universality, solidarity, generality, and fair competition**, in line with ILO Convention No. 102 and the Social Protection Floors Recommendation, 2012 (No. 202). The ILO Income Security Recommendation, 1944 (No. 67) is explicit:

► Income security should be organised as far as possible on the basis of compulsory social insurance, whereby insured persons fulfilling prescribed qualifying conditions are entitled, in consideration of the contributions they have paid to an insurance institution, to benefits payable at rates, and in contingencies, defined by law.

► ILO Income Security Recommendation, 1944 (No. 67)

While the principle of **mandatory participation for workers in informal economy is important**, during an initial implementation period, **it is recommended that a “grace period” of introduction is purposely applied**, where all workers in the informal economy and self-employment are mandated to register, but with no penalties, fines, or other punishments if they do not. Introducing the grace period would allow workers that are ready to enrol and participate to join, while giving those who need to plan and prepare time to do so.

A number of mechanisms can be adopted to encourage participation. Partnerships with organizations of workers, cooperatives or others will be important, incentives for early adopters can also be used and, sectorial adjustments can be designed to encourage higher enrolment rates during the grace period. Moreover, introducing the scheme in a flexible manner will also help build the operational capacity of the SSF to deliver the schemes to these workers, and allow the institution a learning period on how best to provide its services to this group of workers. **The SSF should consider a grace period of three to five years**, with intermediary milestones in between (e.g., differentiated timeframes for urban or rural areas, sector specific timeframes, different timeframes for enrolment and for contribution). This grace period **needs to be coupled with intense communications and outreach campaigns**.

**Adaptations to facilitate the enrolment of specific categories of workers, such as workers on digital labour platforms or domestic workers, should also be explored.**

## ► Operations design

The way the implementation and operation of the schemes is designed will have profound impact in the success of the provisions. This section provides considerations and recommendations to the SSF on how to plan the roll-out of the schemes to maximize the effectiveness of implementation, while avoiding or surpassing some of the key barriers for the extension of coverage of social security for workers in informal and self-employment.

## Regulations and guidelines

**The implementation of the schemes for informal and self-employed workers must be based in well-defined, predictable, and legally binding regulations and guidelines.** Comprehensive regulations must be established, with clear guidelines and standard operating procedures for effective implementation of schemes well communicated and understood internally, and externally, to ensure equitable and appropriate coverage and protection of all categories of workers and economic units.

While the Labour Act, 2017 does not distinguish between the formal and informal sectors, the CBSS Act does recognize arrangements for formal and informal sectors, but it does not define them. Thus, the effective implementation of the schemes will be dependent on at least a working definition of the target group to ensure clear distinction between the workers and employers covered by which conditions, obligations and rights – independently that registration is proposed to be on the principle of self-declaration.<sup>28</sup> It is also important that the definition of the target group does not allow for the reduction of the responsibility and liability of employers in enrolling workers and making contributions on their behalf, even in the informal sector. **The application of the proposed schemes and the extension of coverage to workers in self-employment is recommended,** while parallel efforts to formalize and register informal enterprises are conducted.

Nonetheless, **the schemes' design should aim to provide as much as possible the same rights and obligations to workers in formal or informal arrangements,** in order to avoid perverse incentives for self-declaration on one or another category irrespective of the real situation of the worker, and to facilitate labour mobility.

## Phased implementation

Given the complexity of implementing social security to workers in the informal economy and self-employment, the many challenges these workers could face to enrol and regularly contribute to the schemes, and the probable initial limitations on SSF's capacities to implement the schemes, **a phased or gradual approach for the implementation of the schemes should be used.** A progressive implementation approach can ultimately lead to the achievement of universal social protection, aligned with ILO Recommendation No. 202 and the Constitution of Nepal.

It is recommended that implementation starts small-scale, with an initial "grace period" for registrations, to allow the SSF to better manage the expectations of workers and social partners' and fine-tune its operations to extend its coverage to all workers. Some of the options to be explored include limiting implementation to a certain geographical area (e.g., a municipality or a district) or to workers of a few specific sectors to allow for better control over operations and allow the SSF to monitor progress and incorporate learnings and best practices as it moves towards the full rollout of the schemes.

Meanwhile, this approach will also allow workers time to prepare to enrol in the schemes – the ones that are ready will be able to join immediately, while others that require preparations and planning to meet contributory obligations or to learn how the system works can do so without severe consequences. Nonetheless, **the registration of workers on voluntary basis should only be temporary, with the clear intention and provisions to make the schemes mandatory once the design is well adapted for the informal economy,** and the SSF has the capacity to enforce compliance to the schemes. Ultimately, **defining a step-by-step plan for the extension of SSF's schemes coverage to gradually scale up to additional sectors and/or geographical areas,** until national implementation is achieved will be essential.

One element that is critical for the success of the implementation are **extensive communication and outreach campaigns** to the target workers. At the start of implementation, the SSF must deploy

<sup>28</sup> Such definition will require further investigation, including exploring also what has been done in other countries. Many countries, rather than opting for dichotomy between "formal/informal" instead opt to ask the worker on whether they have an employer or if they work on their own, with a clear definition of what an employer is.

communication campaigns that inform the workers on the existence of the schemes, why are the provisions good for them, how does social security work and how to enrol and contribute. Communication messages must be clear and simple and tailored to the target audience.

Moreover, outreach campaigns conducted by the SSF and together with social partners are necessary to deliver more detailed information to groups of workers and their networks, while also opening two-ways communication channels for questions and answers.

## Contribution collection

Following the same principle as the enrolment process, the collection of contributions must be flexible and accessible to respond to the needs and limitations of workers currently not covered that are largely in informal employment, given their uncertain and irregular earnings. This is even more important for contribution collection than enrolment, since contributions must be made regularly, and ideally through all the working life of people.

While maintaining online and bank payments as the main channels to collect contributions, workers without access to the internet or living far from banks could face barriers and higher costs to participate in social security. **Alternative channels such as electronic wallets** (e.g., e-Sewa, Khalti, or IME pay) can facilitate the deposit of contributions by workers with access to internet, while **partnerships with telecommunication companies, postal offices, retail chains, or local government service points can offer channels that can help contributors to overcome many of the potential barriers for contribution.** Such efforts should be coordinated with the government's strategy to improve financial inclusion of rural populations and workers of the informal economy.

Moreover, **contribution schedules must be made flexible to allow workers to deposit their contributions at times when their incomes allow.** For instance, workers in agriculture will be in a better position to make their contributions after selling their harvests, which can happen a few times per year at the most. Thus, options for payment of multiple months of contributions must be available (e.g., payment of three, six- or twelve-months' worth of contributions at a time), including retroactive payments (e.g., if a worker skipped a few months of contributions in the past year, he/she could make the back pay to prevent gaps in the contributory career, without the full extent of late fees or penalties).

These types of flexibility can encourage workers to keep on top of their contributory obligations, while allowing those who maybe going through a difficult period in their earnings to continue to be protected within a reasonable arrangement. Furthermore, the flexibility can give workers peace of mind on how they can keep up with their contributions, helping reduce concerns and resistance about enrolling and contributing to the schemes.

Finally, **there is a need to generate evidence on the contributory capacity and priorities of workers** in the different sectors and employment status to ensure even lower income workers can afford participating in the schemes without undergoing financial stress.

## Benefit claims

Finally, **the process of claiming benefits must be made the most accessible of all.** If workers have positive experiences in getting the benefits they are entitled to, the credibility of the schemes will be reinforced and promote a virtuous cycle of contribution to social security – the contrary is also a possibility, a slow, bureaucratic, and cumbersome claim process can have devastating effects on the SSF's credibility and public trust.

**Multiple channels for workers to claim benefits must be available,** including through SSF's online platform. Other electronic channels can include call centres, instant messaging apps (e.g., Viber or WhatsApp), and e-mail, while accessible offline options must also exist (e.g., at SSF's offices, through trade unions, or local government service points). Similarly, channels for making appeals on decisions regarding

claims, or placing grievances must be as easily available – and swiftly addressed and resolved. Electronic wallets could also offer an alternative for benefit payments, and other similar digital channels that allow beneficiaries to convert their benefits into cash or make payments directly. For beneficiaries that do not have a bank account, digital wallet, or other electronic means to receive the benefits, the SSF should work in partnership with the service providers to facilitate the access of the workers to their preferred options (e.g., creating a bank account for the beneficiary).

## Enforcement and compliance

**As the participation of workers in the SSF schemes should be mandatory, it is essential that effective enforcement and compliance mechanisms, combined with incentive measures, are put in place.** Compliance mechanisms for all workers need to be developed and implemented at all levels that will also facilitate formalization of informal employment. Effective accountability systems contribute to public's trust in the SSF and an improved perception towards it.

The **different types of employment require different approaches to enforcement.** While identifying workers in self-employment, home-based workers, and those in occupations with little visibility can be a challenge, workers in informal employment relations with formal and informal enterprises are easier to find and hold workers and employers accountable to their contributory responsibilities. The schemes' design should follow the principles of equity, whereby contributions need to be fair and equivalent between sectors to avoid creating “two systems” or stimulating informalization of jobs. For instance, employers in the informal sector should be made liable for contributing on behalf of employees – even if under specific conditions to support the transition of such enterprises into formality and not only punish them for non-compliance. Studies have shown the positive return of the social insurance affiliation on the performance of the small and medium enterprises.<sup>29</sup>

To extend the SSF's capacities to monitor and enforce compliance, partnerships with other government entities (e.g., the Labour Inspectorate, Tax authorities, enterprise registration bodies), social partners (trade unions and employers associations), as well as civil society and member-based organizations, should be explored.

Nonetheless, a balanced approach between incentives and enforcement must be pursued – particularly in the initial stages of implementation.

## Collaboration with sub-national governments

**There is a need to clearly define the functions and roles of sub-national governments** in the implementation of the social security system and ensure that effective vertical and horizontal coordination mechanisms are in place. The systematic engagement of provincial and local governments is imperative to ensure benefits vis-a-vis the contributions are paid in line with the proposed schemes; claim verification process is simple and efficient; and payment of contributions are made in a timely manner.

**Provincial and municipal governments can play important roles in extending coverage and delivering social security benefits to all.** For instance, local government service points could support communications, outreach, and enrolment processes, while also contributing as an entry point for workers to claim benefits or make contribution deposits. Provincial government can facilitate coordination between sub-national initiatives, and lead campaigns for increasing coverage. Moreover, within the Federalization process, provincial and municipal governments can contribute to financing the schemes by providing incentives or subsidies to sectors or to workers they want to ensure participate in social security, while keeping in line with the SSF's operations. Possibilities for collaboration are enormous.

<sup>29</sup> For instance, in Viet Nam: ILO, 2019. *Social Protection Among Vietnamese SMEs: Implications For Firm Performance, 2012–16.* Available at: [https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS\\_721947/lang--en/index.htm](https://www.ilo.org/hanoi/Whatwedo/Publications/WCMS_721947/lang--en/index.htm)

## Coordination with the social protection sector

Coordination is particularly critical with other contributory schemes, such as the Health Insurance Board and Employee Provident Fund Schemes, to ensure complementarity and reduce uncertainty and duplications between programmes.

However, coordination with non-contributory programmes is also essential to ensure equitable access to social protection rights. Clear cases for coordination include the old-age pensions provided by the Social Security Allowance (SSA) schemes and the Safe Motherhood Programme. SSF's pensions should not duplicate SSA's, nor should SSF's measures leave workers worse off by participating in its pensions schemes than not contributing and benefiting from SSA (see section 3 on the Old Age Protection Scheme for the need for coordination and linkage between the two programmes). Regarding the Safe Motherhood programme, alignment of processes should facilitate maternity protection independently of women's labour or contributory status, and at the same time stimulate working women to join the SSF and contribute for social security.

**6**

# **Summary of recommendations**





## ▶ Summary of recommendations

Considering the complexity of introducing social security schemes for workers in the informal economy and the self-employed, this section summarizes the main recommendations presented in this study, as to facilitate the identification priorities and support the SSF in outlining a plan for the design and launch of the schemes.

### ▶ Tacking informality in all its diversity

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- ▶ The design and implementation of the social security schemes for workers currently not covered and are mainly in the informal economy **should be framed within a broad strategy of extending the coverage of SSF's schemes to ensure coverage for all workers, and potentially also part of an integrated strategy to promote formalization in Nepal.**
- ▶ Different approaches are required to cover workers in informal employment (in both formal and informal sectors) and those in self-employment. **To extend social security for wage workers in informal enterprises, the first step needs to be to formalize these businesses.**
- ▶ **To cover the self-employed**, which include own-account workers, home-based workers, employers, individual entrepreneurs, subsistence workers, and others, **the SSF must take series of actions within a comprehensive strategy to remove barriers preventing these workers from joining the SSF.**

### ▶ Overall scheme design

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- ▶ **It is imperative that schemes are conceived as one from the start and effectively work as one general SSF scheme**, only with different entry points for different types of employment. A single and integrated scheme for all workers will help to ensure portability of schemes, the preservation of rights obtained, will facilitate formalization and labour mobility, and support the pooling of risks.
- ▶ **The SSF should use a single definition for the workers not yet covered by the existing provisions of the CBSS and its regulations.** These workers could be categorized as "Independent Workers" or as "Self-Employed", in contrast to the group currently covered, which entails "dependent workers" or more simply "employees" to an employer.

- ▶ **The implementation and the design of the schemes must be based in well-defined, predictable, and legally binding regulations and guidelines.** And to the extent possible, the schemes should aim to provide the same rights and obligations to workers in formal or informal arrangements.
- ▶ All the recommended **processes must be based on comprehensive tripartite engagement**, to ensure the voices and views of workers and employers are considered, including workers in the informal and rural economy, and that the schemes are designed with the beneficiaries' needs in mind.

## ▶ Specific schemes design

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### Health insurance

- ▶ **The SSF's health insurance measures be aligned with the Health Insurance Board's scheme** – including extending the scheme coverage to the protect the workers' family – to ensure articulation of policy and operation design, avoid overlaps of coverage, and explore operational synergies.
- ▶ **The SSF should consider removing the Health Insurance protection cost cap to protect workers in cases of catastrophic health care costs**, which are low frequency in nature, thus ensuring effective access to essential health care without hardship.

### Sickness benefits

- ▶ **Sickness benefit should be part of the schemes offered for workers in the informal economy and self-employment**, with a recommended benefit level of at 60 percent of the declared reference earnings, and a total of 103 eligible days of sickness benefits (covering also the period equivalent to what would be covered by employer liability for depended employment).

### Maternity care

- ▶ **The maternity care benefit should be aligned with the Safe Motherhood programme (SMP) and the Child Grant under the SSA programme**, as the SMP programme also offers financial support to mothers and reimburses costs of delivery and medical care for the new-born, while the child grant offers universal cash transfers for children below age.

### Maternity leave

- ▶ **Maternity leave should be included in the scheme design for workers in informal employment.** Research showed that workers currently enrolled in the schemes reported maternity protection schemes as being highly valuable, and it is an essential element for the protection of women workers.
- ▶ The scheme should provide a **benefit level** of at least **60 per cent of the declared reference earnings**, and the **benefit should cover the total period of 14 weeks** of leave, to equal the total duration of formal sector workers (also covering the period equivalent to what would be covered by employer liability for dependent employment).

### Accident protection scheme

- ▶ **Protection under occupational disease should be specified for workers that are currently not covered**, including at a minimum, medical care and related benefits, and cash benefits as income replacement during the period the worker is incapacitated from labour.

## Disability protection scheme

- **Benefit levels for temporary disability, permanent full or partial disability should be at least 60 per cent of the declared reference earnings** considering the level of invalidity for partial loss of earning capacity.
- **The assessment of degree of disability for permanent partial disability benefits should be transparent and clear for workers to understand** the benefit level setting. The existing standard measure of loss of earning capacity levels and categories should be implemented in all cases, and compliance and quality assessments be conducted.

## Dependent family protection scheme

- **Explore differentiating the eligibility of work-related and non-work-related deaths, and adjusting benefit levels proportionally to the length of the contributory career of the deceased worker.**
- **Exclude the payment of a lump-sum of the deposited amount to survivors**, to avoid conflicts with the Old Age Protection scheme, which provides for a similar provision.

## Old age protection scheme

- It is important to **consider options to reform the pension scheme, such as exploring defined benefit pensions, which could allow for predictable benefits, improved redistribution, and solidarity between contributors, as well as reinforcing the long term sustainability of the fund.**
- **Participation and contribution to pension schemes should be mandatory**, albeit the design of the scheme needs to respond to the needs and priorities of the workers.
- **It is strongly recommended that the pension formula is reviewed** to ensure that the resulting annuities are aligned with real life expectancy of pensioners and the expected interest rates accrued during the contributory career and the assumed pension adjustments over time.
- **The SSF should restrict loan facilities completely**, but if not possible at least to specific uses only (e.g., real estate purchase, involuntary unemployment) and within a safe proportion of the accumulated amount.
- **The SSF should consider a transitory period in the introduction of the scheme for workers in later stages of their work life**, by reducing minimum contribution period for these workers, providing pension credits or a combination of both.

## ► Costing and financing

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- **Contribution rates should be defined based on a robust actuarial assessment**, independently of the final design of the schemes and the preliminary costing exercised conducted.
- Based on the initial design **proposed by the SSF, the cost of the three short-term benefits is estimated to range between NPR 1,009 and NPR 2,251 per worker per month**, using 2022 basic salary as reference, for the first year of operation of the schemes. The contribution for **the old age protection scheme is estimated to range between NPR 1,877 and NPR 5,631 per worker per month.**
- Based on the design **recommended by the ILO, the cost of the three short-term benefits are estimated to range between NPR 516.23 and NPR 773.01 per worker per month.** For old age protection, contributions would be the same as per SSF's proposal.

- ▶ **Contribution rate should be established as a percentage of the workers' earnings** – even if for communication purposes, contribution rates are communicated as a fixed amount in Nepali rupees.
- ▶ **Contribution amounts should be calculated considering the full salary of workers**, because using just the basic salary, all benefit levels fall below ILO's minimum standards.
- ▶ **The Government of Nepal should consider subsidizing the contributions of specific categories of workers with low contributory capacities to social security** - these can be a powerful driver for registration and facilitate the positive perception of the population on the introduction of the schemes and the long-term creation of a culture of contribution to social security.

## ▶ Operations design

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### Phased implementation

- ▶ **Implementation should be planned in a phased/gradual small-scale manner**, to allow time for workers to prepare to enrol and regularly contribute to the schemes, and allow the SSF to incorporate learnings and best practices as it moves towards a larger roll-out of the schemes.
- ▶ **Extensive communication and outreach campaigns** to inform workers about the new schemes are an essential element for the success of the implementation.

### Enrolment

- ▶ **Registration processes should be made quick and simple**, while ensuring all required data is collected with quality. The SSF should also **establish registration desks at sub-national levels, and alternative registration channels** via mail, SMS or phone. Automatic registration processes.
- ▶ **Enrolment to the schemes should be mandatory**. Compulsory coverage directly supports the principles of universality, solidarity, generality, and fair competition, in line with ILO Convention No. 102 and the Social Protection Floors Recommendation, 2012 (No. 202).
- ▶ **At the start of implementation, it is recommended that a limited "grace period" is applied**, where all workers in the informal economy and self-employment are mandated to register, but with no penalties, fines, or other punishments if they do not. Introducing the grace period would allow workers that are ready to enrol and participate to join, while giving those who need to plan and prepare time to do so, **but it needs to be coupled with intense communications and outreach campaigns**.

### Contribution collection

- ▶ **The process of collection of contributions must be flexible and accessible to respond to the needs and limitations of workers** currently not covered, given uncertain and irregular earnings. This includes the implementation of alternative channels for contribution collection, and flexible schedules for contributions that enable workers to make deposits at times when their incomes allow.
- ▶ **Generate evidence on the contributory capacity and priorities of workers** in the different sectors and employment status to ensure even lower income workers can afford participating in the schemes without undergoing financial stress.

## Benefit claims

- ▶ **Claim processes must be made the most accessible and efficient of all.** Multiple channels for workers to claim benefits must be available, including through SSF's online platform. Other electronic channels can include call centres, instant messaging apps.

## Enforcement and compliance

- ▶ **Effective enforcement and compliance mechanisms, combined with incentive measures, should be put in place,** since participation of workers in the schemes should be mandatory. The different types of employment and informal arrangements require different approaches to enforcement.

## Coordination

- ▶ **There is a need to clearly define the functions and roles of sub-national governments** in the implementation of the social security system and ensure that effective vertical and horizontal coordination mechanisms are in place.
- ▶ **Coordination with other social security schemes is essential to ensure complementarity, and reduce uncertainty and duplications between programmes,** including with the Health Insurance Board, Employee Provident Fund Schemes, and the Social Security Allowances.

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This Policy Brief was prepared by André F. Bongestabs and Suravi Bhandary based on the technical note produced by Pierre Plamondon, Senior Actuary, with the support of ILO's Actuarial Services Unit, as part of the technical support provided by the ILO to the Social Security Fund of Nepal. The Brief discusses various considerations that needs to be placed during the design and implementation of contribution-based social security for workers in the informal economy and self-employment. It is designed to be actionable and is relevant to a range of different stakeholders involved in extending contribution-based social protection in Nepal, across different areas of government and social partners.



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**ILO Country Office for Nepal**

Dhobighat-Nayabato, Lalitpur, Kathmandu, Nepal

T: +977 1 5555 777

F: +977 1 5550 714

E: [Kathmandu@ilo.org](mailto:Kathmandu@ilo.org)

W: [ilo.org/Nepal](http://ilo.org/Nepal)

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