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COVID-19 and social protection in South Asia: Nepal[1]

Isabela Franciscon and Pedro Arruda, International Policy Centre for Inclusive Growth (IPC-IG)

The COVID-19 pandemic and its ramifications are posing an unprecedented challenge to social safety nets globally. A group at particular risk are informal workers belonging to a 'missing middle' that is covered by neither social assistance nor social insurance. In a recent policy brief, International Policy Centre for Inclusive Growth and the United Nations Children's Fund Regional Office for South Asia (IPC-IG and UNICEF ROSA 2020) analyse the economic fallout from the crisis and the policy measures taken in eight South Asian countries, and offer policy proposals for the inclusion of workers and households in the 'missing middle' in social protection frameworks. This One Pager summarises the study's findings for Nepal.

Nepal was the last country in South Asia to adopt heavy stringency measures. Its infection curve is still the steepest in the region, but since early June it has reduced its stringency by 30 per cent. Nepal's economy has been struggling not only due to domestic supply and demand shocks associated with social isolation measures, but also due to the expected 14 per cent decrease in remittances, which often account for a quarter of the country's gross domestic product (GDP). Moreover, another 3.6 per cent of GDP, originating from tourism, is also at risk. The World Banks's GDP growth forecasts for 2020 and 2021, respectively, have shrunk—from 6.4 per cent and 6.5 per cent in January 2020 to 1.8 per cent and 2.1 per cent in June.

The International Labour Organization estimates that the hardest-hit work sectors comprise 34.4 per cent of all jobs in the country and that almost every informal worker in Nepal (i.e. over 94 per cent of the working population) will suffer significant income losses. According to the International Food Policy Research Institute, the crisis will lead to a 10 per cent increase in the prevalence of extreme poverty—one of the smallest in the region. Nevertheless, before the crisis, Nepal already had a high prevalence of extreme poverty; therefore, the impacts on the poverty gap are likely to be particularly catastrophic. Children, who are dependent on their caregivers, are also at great risk of impoverishment, as the dependency ratio tends to be higher among the poorer consumption quintiles in Nepal. Further, it is estimated that, due to the crisis, around 40 per cent of Nepalese households with children have suffered income losses.

Macroeconomic responses thus far include measures to enhance credit and liquidity, such as determining that banks extend loan deadlines and subsidising interest rates. Further, on 28 May the Budget Speech also promised rolling out credit lines to some critically affected sectors. Nepal remains, however, the sole country in South Asia that did not deploy any sound monetary policy in response to the crisis. Fiscal space efforts thus far consist of mobilising international funds, as illustrated by the fast-tracking of USD29 million granted by the World Bank's Emergency Response and Health Systems Preparedness Project.

Nepal has increased its public health expenditure significantly, announcing stimulus packages for sectors that could lead to rapid job creation—for example, construction, manufacturing and services. There are also electricity subsidies for companies, while individuals will receive subsidies and old-debt waivers on all sorts of public utilities, such as water, electricity, telephone and Internet. Publicly owned food companies are acting to provide price stability and to bring about a 10 per cent discount on basic food items.

In terms of social protection, Nepal has entered the crisis with a regressive contributory pillar, with much space to expand coverage among the poorest quintile, and with no initiatives fit to reach the 'missing middle'. Its contributory social insurance system consists mostly of pension schemes for public employees. Its incipient contributory scheme for the private sector, despite its small coverage, has nevertheless responded to the crisis by subsidising the contributions otherwise meant to be made by employers and employees.

Nepal has not based its social assistance response on adjusting its flagship programmes. The major initiative is the delivery of an in-kind relief package (food items and soap). The Government of Nepal has established a general eligibility criterion (informal workers and deprived people with no caregivers), to be adapted by local governments, which are also responsible for financing and distributing the benefit, and the national government will step up with additional funding when needed. As of 6 May, between 70 per cent and 95 per cent of the households identified as most affected in each province had received the package. This action relieves immediate food needs but, it should be noted, does not cover cash demands.

In view of the above, a few policy recommendations for Nepal could include:

- deploying monetary policies that could enable the expansion of fiscal space to fund health and social protection responses to the crisis;
- deploying the capacity of flagship programmes to deliver the province-level relief packages in a way that could promote the inclusion of vulnerable populations identified by province-level governments in a countrywide, integrated information system;
- topping up province-level relief packages with a horizontal and vertical expansion of cash-based flagship social assistance programmes, aiming to ease financial hardships and, hence, avoid impoverishment of the population. Expanding the Universal Child Grant would be particularly fruitful, as children under 5 years would be explicitly targeted; and
- fast-tracking the development of a multi-tiered social insurance system, including quasi-contributory alternatives for informal workers.

Reference:

IPC-IG and UNICEF ROSA. 2020 (forthcoming). *Socio-economic impacts of COVID-19, policy responses and the missing middle in South Asia.* Research Report. Brasília: International Policy Centre for Inclusive Growth.

Note:

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International Policy Centre for Inclusive Growth
SBS, Quadra 1, Bloco J, Ed. BNDES, 13º andar
70076-900 Brasília, DF - Brazil

ipc@ipcig.org ▪ www.ipcig.org
Telephone: +55 61 2105 5000