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# The Nepalese Labour Market; Pre & Post Application of Contribution Based Social Security Fund Act

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## **Abstract**

*The aim of this study is to analyze the psychology of workers after applying a defined contribution plan in public and private organizations in Nepal. This study employed quantitative research methodology to quantify the factors affecting the defined contribution plan. In addition, the study used primary and secondary data. The data were collected using the questionnaire method from people working in industries, trade, schools, colleges, hospitals, and other sectors. The hundred responses are from the survey study. The finding of the study depicted that there is a significant difference between the application and non-application of CBSSF. It indicated that the majority of workers perceived that they had received less cash after the use of the CBSSF. In addition, the study revealed that the majority of workers think benefits after retirement are not good after the application of CBSSF. The findings of the study can be used by policymakers, such as the Nepal government and private sector organizations, to improve the well-being of Nepalese workers after their retirement from jobs.*

**Keywords:** *Contribution-based Social Security Fund (CBSSF), Nepal Labour Force Survey (NLFS), Labour Force Participation Rate (LFPR), Social Security Fund (SSF), International Labour Organization (ILO), Employees Provident Fund (EPF), Protection Scheme, Contributors*

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## **Introduction**

Nepal is a Federal Democratic Republic country with rural, multi-ethnic, and multilingual society, with a total of 125 castes and ethnic groups and 123 languages. 17 percent of the population lives in urban areas and 83 percent in rural regions. With an expanding youth population of 30 percent below 14 years of age and 60 percent below 30 years of age, Nepal faces severe employment challenges. A major challenge is how to productively utilize this expanding, mainly rural youth population. The last Nepal Labour Force Survey (NLFS) showed the Labour Force Participation Rate (LFPR) at 83.40 percent: with 87.50 percent for men and 80.10 percent for women. The employment rates were also quite high, 85.5 percent for men and 78.5 percent for women. Women workers were more likely to be employed in agriculture than men. Also, according to the NLFS, wage employment accounted for 16.90 percent of total employment, while self-

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employment accounted for 83.10 percent. Informal employment within non-agricultural employment stood at 69.7 percent; including agriculture.

The informal sector has dominated the labour market. According to NLFS, 96.2 percent of the Nepali populations employed are involved in the informal sector (88.6 percent in urban areas and 97.2 percent in rural areas). The LFPR in urban areas is quite low compared to rural areas (67 percent in urban areas and 84 percent in rural areas). Women consistently fare worse than men in terms of access to quality jobs. 77 percent of the female workforce is involved in agriculture which is considered a low-return employment sector. In the urban areas, women are mostly employed in informal sectors with non-productive, temporary, and low-quality jobs. These differences, along with other different types of historically persisting discrimination, point to the existing challenges women face in achieving equality in employment. The creation of jobs and entrepreneurship opportunities has therefore become crucial in achieving a safe environment for vulnerable groups such as women and poor families. Critical factors currently being discussed in Nepal as a major source of job creations can be summed up as follows: i) a stronger political commitment directed towards targeted job creation; ii) industrial policy to revive the manufacturing sector for job growth, supported by a high investment in infrastructure; iii) better promotion of the tourism sector for employment creation; and (iv) concerted efforts at retaining would-be migrants for jobs at home while attracting skilled Nepali workers from the Gulf Cooperation Council (GCC) countries and Malaysia.

The reduction of labour market friction, the creation of an enabling and conducive environment for business, and a provision for skill trainings for micro and small informal enterprises are some of the needed interventions where ILO can play an important role. The ILO's role in supporting the creation of decent jobs is equally critical. The NLFS estimates the child population between 5 and 17 years of age to be 7.77 million which is about 33 percent of the total population in the country. Important progress has been made in terms of reducing the employment of children in the labour market in Nepal, but an estimated 1.6 million children are still in the market, with 621,000 of them doing hazardous work (NLFS). To address this problem, the Government of Nepal has endorsed the National Master Plan on the elimination of Child Labour, 2018 and developing an action plan for its implementation.

**Labour Migration;** Almost one in three working age men in Nepal are employed abroad, with over 3.5 million labour permits issued in nine years since 2007. The fraction of households receiving remittances had increased from 23.4 percent in 1995/96 to 55.8 percent in 2010/11. Men account for the bulk of the labour migrants over the past six years, at 95.1 percent. The number of labour permits issued has decreased in the last three years (NLFS). Given the level of dependence of the population on remittances, it is also not clear how this decrease will affect the Nepali population. The Government of Nepal (GoN) strategies and policies have to be adapted to the changing labour market dynamics abroad in order to ensure the welfare of the population at home. Systematic and/or institutional process for collecting and analyzing information on labour market in destination countries, is needed. Another major issue is the better management of migration process particularly for those women who often choose alternative routes for migration to third country via India. There is need for working towards addressing concerns of women workers, setting up fair recruitment practices, instituting safeguards in countries of destination, and establishing institutional mechanisms to regulate the migration at both federal and local levels within the new decentralized governance system.

## **Literature Review; Social Security Fund**

Firstly, the social security scheme was applied in America in 1935 AD. The President Franklin D. Roosevelt signed the Social Security Act in 1935 and created social security as a federal safety net for elderly, unemployed and disadvantaged Americans. The main stipulation of the original Social Security Act was to pay financial benefits to retirees over age 65 based on lifetime payroll tax contributions.

The provident fund scheme was established in 1944 and subsequently reformed in 1962 by merging the earlier schemes into the Employees Provident Fund to support the retirement needs. Similarly, Citizens Investment Trust was established in 1990 to operate the savings and insurance principles extended the coverage to the other sectors of the economy. Government introduced non-contribution-based allowance for the elderly, disabled, widows and disadvantaged castes and tribes in 1994 and such social protection was further nurtured by the Nepal's constitution 2015.

Earlier Labour Act was replaced by The Labour Act, 2074. The newly introduced labour act makes the foundation of labor rights and comprehensively covers all forms of employment. It provides rights to a range of benefits including occupational health and safety. Similarly, Contribution-based Social Security Act, 2074 and following Social Security Rules, 2075, and Social Security Scheme Operation Procedure, 2075 provided statutory foundation to implement some provisions of Labor Act 2074.

Going further back, the government started the collection of 1% tax from employers and established the Social Security Fund since 2009. Unfortunately, instead of catching the nature and quantum of benefits to the contributors, the fund became a part of general revenue of the government. The fate of the fund just followed snowballed amount garnered under Bonus Act 1974, in which deposits from a portion of profits made by enterprises was tapped into (Bhusal, 2019).

The Contribution based Social Security Act and Rules passed in 2017 AD provided a foundation for The Social Security Fund with the legal authority to register and to collect contributions and administer the payments of benefits for the contingencies of accidents, sickness, maternity, gratuity, medical and old age pension (Singh, 2019).

Although, Social Security Fund has not been fully operationalized following the Procedure of Contribution-based Social Protection Scheme, people are raising eyebrows on its smooth implementation. As argued publicly, scattered programs, empire building efforts by various ministries, parallel welfare funds, and the weak coordination mechanism among them has caused the duplication of similar benefits to a group of employees. For example, government employees are double ensured with medical coverage from Employees Provident Fund and Citizens Investment Trust, while a Health Insurance Board has been established to provide health benefits to all citizens. Ironically, Contribution-based Social Security Rules also provide medical benefits to workers.

Many contributors to Employees Provident Fund and Citizen's Investment Trust are enjoying their saving for advance payments as well as collateral. Receiving a lump-sum payments for accidents and old age is common. The contribution based social security law provides ground for a comprehensive coverage to the private, public and informal sector. Does contribution-based social security scheme provide the similar leverage? Therefore, government contribution rates to be

charged and the benefit structure should be detailed out. At this situation, banks and financial institutions may provide technical feedback in benefit design and eligibility conditions for right to benefits.

A Successful implementation escorted by all stakeholders, social protection schemes work as safety nets for low-income earners as well as exploring avenues to reduce the financial burden of the government and the people once the demographic dividend dries out. Long-term financial viability and success is the crucial part for its sustainability.

In this direction, Social Security Fund has extended the deadline to be enrolled in this scheme by the end of Asoj 2076 taking into account the suggestions from its stakeholders and learning experiences. SSF is coordinating with EPF so that contributors will not be confused for depositing the contribution amount. Employers shall deposit 31 percent (including EPF contribution) of basic remuneration of the worker as stipulated in Social Security Operation Procedure, 2075 (Bhusal, 2019).

The existing government entity namely Employees Provident Fund has been working with 20 percent of basic salary, Citizen Investment Trust has been working with 8.33 percent under the name of Gratuity & Pension Scheme, Inland Revenue Department has been collecting 1 percent and Rastriya Beema Sansthan has been working for the insurance works. So that establishment of Contribution Based Social Security Fund is a financial burden of government.

## Contribution based Social Security Schemes in Nepal

### A. Contributions Vs Schemes

The Employer and the Employees are required to contribute certain amount of the employee's basic salary each month to the Social Security Fund. Employees should contribute each month 11% of their basic salary whereas employer should contribute 20% making a sum of 31% in total. The employers are expected to make their contribution to the fund mandatorily from the first month of fiscal year 2076/77. Contribution based social security schemes will cover the area as:

*Table No. 1 : Employees & Employer Contribution Vs Scheme*

<b>Contributions</b>	<b>%</b>	<b>Schemes</b>	<b>%</b>
<b><i>Employees Contribution:</i></b>			
Employees Provident Fund	10.00%	Old Age Protection Scheme	28.33%
		Accident and Disability Protection Scheme	1.40%
Social Security Tax	1.00%	Dependent Family Protection Scheme	0.27%
<b><i>Employer Contribution:</i></b>			
Employees Provident Fund	10.00%	Medical Treatment, Health and Maternity Protection Scheme	1.00%
Gratuity	8.33%		
Other Protection Scheme (Undefined)	1.67%		
<b>Total</b>	<b>31.00%</b>	<b>Total</b>	<b>31.00%</b>

## **B. Schemes after the amendment of Scheme Operation Guideline, 2075**

### **i. Benefits Enjoying Period**

After the amendment in Social Security Scheme Operation Guideline, 2075 the Cut-off period of enjoying benefits from the contribution will be; “After three months of starting contribution and up to three months of the termination of the contribution”.

### **ii. Health Insurance**

If any contributor had an accident, medical insurance will be effective from the very first day of their contribution. However, health insurance for occupational diseases will be effective after two years of the commencement of the contribution and will be ended up after two years of the termination of contribution. Enjoying health insurance benefit, if covered by other schemes will not be affected due to the provision in this scheme.

### **iii. Accident and Disability**

In case of accident not occurred due to the employment, amount up to Seven Lakhs will be covered as treatment expenses by the Fund. The percentage of disability allowance will be adjusted in accordance with the inflation rate determined by the Governing Committee of the Fund.

### **iv. Dependent Family Protection Scheme**

A lifelong pension amounting to 60 percent of last basic remuneration of the contributor will be provided to the spouse in case of the death of contributor by any cause. If the contributor getting retirement benefit dies within the 180 months after the commencement of getting such benefit, his/her spouse will get 50 percent of such benefit provided that either he/she is not eligible to get any retirement benefit or is unemployed. Once the conjugal relation is terminated, he/she will no more eligible to get such benefit, and the same in case he or she gets married to another person. Children of the deceased will get monthly education support amounting 40 percent of the last remuneration of the contributor till he or she reaches the age of eighteen. If the deceased person is unmarried, his or her parents will get 60 percent amount of the last basic remuneration every month for their entire life.

### **v. Chance of Selection**

If any contributor doesn't choose to transfer the money to Social Security Fund from Employee Provident Fund (EPF), any amount accumulated to EPF prior to the commencement of contributing to Contribution Based Social Security Scheme can be withdrawn totally or let it remain at any legally established retirement fund.

### **vi. Age**

Only the contributor who has contributed at least for 180 months and is over 60 years of age will be entitled to get retirement benefit. While getting such benefit, inflation-adjusted amount will be provided. If someone is still in labor relations even after the age above 60, they shall voluntarily participate to the contribution scheme.

## Objectives of the Study

The basic objective of the study is to analyze the Psychology of Labours after applying contribution based social security fund. Under the guideline of this leading objective, the following specific objectives are set in the study-

- a. To analyze the Happiness of Labours,
- b. To analyze the Cash in Hand Positions,
- c. To find out the Financial Benefits after Retirement,

## Methodology

Quantitative research methodology has been adopted for the study and applied accordingly. This study enumerates the factors identified Pre & Post Application of Contribution Based Social Security Fund Act.

## Data Collection

Primary and secondary data shall be used. The dependency of study shall be on primary data from public sources. The primary data shall be collected from the questionnaire methods and the required secondary data from the web sites. There is variety of labours in Nepal. The Whole Labours who are working in Industries, Trade, Schools, Colleges, Hospitals and Other Service Sectors are the population of the study whereas 100 Labours are randomly taken as sample.

## Formulation of Hypothesis

This study tested the 3 hypothesis mentioned below on the basis of *“There is Significant or Non-significant difference between Application & Non-application of CBSSF”*.

- a) Happiness of Labours
- b) Cash in Hand Realization
- c) Benefits after Retirements

## Data Presentation

Primary data has been collected from the 100 respondents by providing questioners. The answer collected from questioners has been presented below:

- i) Are you happy with the application of Contribution Based Social Security Fund?

*Table No. 2 : Answer of Respondents Regarding Happiness*

Working Sectors	No. of Respondents	Yes	No	Don't Know
Manufacturing Industries	40	10	30	0
Wholesale & Retail Trade	30	0	30	0

Teachers (School & College)	10	0	0	10
Health Workers	10	0	3	7
Hospitality Workers	10	2	5	3
<b>Total</b>	<b>100</b>	<b>12</b>	<b>68</b>	<b>20</b>

- ii) Are you got more or less cash in hand after application of Contribution Based Social Security Fund?

*Table No. 3 : Answer of Respondents Regarding Cash Realization*

<b>Working Sectors</b>	<b>No. of Respondents</b>	<b>More</b>	<b>Less</b>	<b>Equal</b>
Manufacturing Industries	40	10	10	20
Wholesale & Retail Trade	30	0	15	15
Teachers (School & College)	10	0	0	10
Health Workers	10	0	0	10
Hospitality Workers	10	0	5	5
<b>Total</b>	<b>100</b>	<b>10</b>	<b>30</b>	<b>60</b>

- iii) Are you think, Benefits after Retirement is good in Contribution Based Social Security Fund?

*Table No. 4 : Answer of Respondents Regarding Benefits after Retirement*

<b>Working Sectors</b>	<b>No. of Respondents</b>	<b>Good</b>	<b>Bad</b>	<b>Don't Know</b>
Manufacturing Industries	40	15	25	0
Wholesale & Retail Trade	30	0	0	30
Teachers (School & College)	10	0	0	10
Health Workers	10	0	3	7
Hospitality Workers	10	2	5	3
<b>Total</b>	<b>100</b>	<b>17</b>	<b>33</b>	<b>50</b>

## Testing of Hypothesis

The sample size is 100. So, Chi-Square Test is applied for testing the Formulated Hypothesis through the presented data:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where,

c = Degrees of freedom

O = Observed Value

E = Expected Value

### i) Testing of Happiness of Labours Hypothesis

The calculated value of Chi-Square Test regarding happiness of labour is presented below:

*Table No. 5 : Chi-Square Value of First Hypothesis (Happiness of Labour)*

<b>Working Sectors</b>	<b>Yes</b>	<b>No</b>	<b>Don't Know</b>	<b>Chi-Square Value</b>
Manufacturing Industries	5.63	0.29	8.00	13.92
Wholesale & Retail Trade	3.60	4.52	6.00	14.12
Teachers (School & College)	1.20	6.80	32.00	40.00
Health Workers	1.20	2.12	12.50	15.82
Hospitality Workers	0.53	0.48	0.50	1.51
<b>Total</b>	<b>12.17</b>	<b>14.21</b>	<b>59.00</b>	<b>85.37</b>

Tabulated (critical) value of  $X^2$  for 8 d. f. at 5% level of significance is 15.51 and calculated value of  $X^2$  is 85.37. So, the calculated value of chi-square is greater than the tabulated value. So, Null Hypothesis ( $H_0$ ) is rejected. It means there are significant difference between application & non-application of CBSSF. It shows that majority of workers doesn't happy with the application of CBSSF.

### ii) Testing of Cash in Hand Realization Hypothesis

The calculated value of Chi-Square Test regarding realization of cash in hand is presented below:

*Table No. 6 : Chi-Square Value of First Hypothesis (Cash in Hand Realization)*

<b>Working Sectors</b>	<b>More</b>	<b>Less</b>	<b>Equal</b>	<b>Chi-Square Value</b>
Manufacturing Industries	9.00	0.33	0.67	10.00
Wholesale & Retail Trade	3.00	4.00	0.50	7.50
Teachers (School & College)	1.00	3.00	2.67	6.67
Health Workers	1.00	3.00	2.67	6.67
Hospitality Workers	1.00	1.33	0.17	2.50
<b>Total</b>	<b>15.00</b>	<b>11.67</b>	<b>6.67</b>	<b>33.33</b>

Tabulated (critical) value of  $X^2$  for 8 d. f. at 5% level of significance is 15.51 and calculated value of  $X^2$  is 33.33. So, the calculated value of chi-square is greater than the tabulated value. So, Null Hypothesis ( $H_0$ ) is rejected. It means there are significant difference between application & non-application of CBSSF. It shows that majority of workers think that they are received less cash after the application of CBSSF.



### iii) Testing of Hypothesis Benefits after Retirements Hypothesis

The calculated value of Chi-Square Test regarding benefits after retirement is presented below:

*Table No. 7 : Chi-Square Value of First Hypothesis (Benefits after Retirements)*

<b>Working Sectors</b>	<b>Good</b>	<b>Bad</b>	<b>Don't Know</b>	<b>Chi-Square Value</b>
Manufacturing Industries	9.89	10.55	20.00	40.44
Wholesale & Retail Trade	5.10	9.90	15.00	30.00
Teachers (School & College)	1.70	3.30	5.00	10.00
Health Workers	1.70	0.03	0.80	2.53
Hospitality Workers	0.05	0.88	0.80	1.73
<b>Total</b>	<b>18.44</b>	<b>24.65</b>	<b>41.60</b>	<b>84.69</b>

Tabulated (critical) value of  $X^2$  for 8 d. f. at 5% level of significance is 15.51 and calculated value of  $X^2$  is 84.69. So, the calculated value of chi-square is greater than the tabulated value. So, Null Hypothesis ( $H_0$ ) is rejected. It means there are significant difference between application & non-application of CBSSF. It shows that majority of workers think that benefits after retirement is not good after the application of CBSSF.

### Finding & Conclusion

Most of the respondents does not favor the contribution based social security fund. They think, many provisions of Social Security Act, Rules and Procedures are yet to be clear. Monthly cash realization, benefits after retirement and protection schemes are not enough. The foulest provision of social security fund is contributors cannot enjoy the 28.33 percent before the age of 60 years. Loan taking facilities of Employees Provident Fund & Citizen Investment Trust is better than Contribution Based Social Security Fund.

A group of labour has told the existing entity namely Employees Provident Fund, Citizen Investment Trust, Inland Revenue Department and Rastriya Beema Sansthan has been working the same work of Contribution Based Social Security Fund. Authority of Contribution Based Social Security Fund is working for Private Sector Labour only. It is not a subject to Permanent, Temporary and Contract Based Employees of Government of Nepal, Province Government & Local Government, President, Vice President, Prime Minister, Minister, Chief Minister, Local Government Bodies. It means all the responsibility of Social Security depend to the Private Sector Labours. It is recommended to the Authority of Social Security Fund, kindly make the Clear Provisions of Act, Rule and Procedures and gain the trust of private employees as well as government employees too.

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