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Editorial Note

Dear Readers,

The objective of the Nepalese Journal of Insurance and Social Security (NJISS) is to promote the empirical research on the broad area of risk management, insurance and social security. It is an effort to fulfil the scarcity of literature in the above mentioned area particularly in the context of Nepal. The journal aims to encourage the researchers, academicians, practitioners and young scholars to explore the idea, disseminate the findings, and contribute on existing stock of knowledge through the empirical research.

Current issue focuses on the social security. Out of five articles, three are related to social security, one is related to insurance and one is related to the microfinance. The next issue of the journal will be publish in September/October. We are glad to bring the first issue (Volume 1, Issue 1, March 2018 issue) of journal in your hand after long effort of researchers, peer reviewers, and management team. In this auspicious occasion, first of all we would like to thank our contributors who provided their valuable papers free of cost.

I would like to express sincere thanks to contributors from Armenia, Bangladesh, and Nepal. We are obliged with our valued peer reviewers for their valuable times and knowledge to improve the quality of the paper. We are also very much thankful to our esteemed advisors for their encouragement, suggestions and academic supports. The credit also goes to Rajdhani College, Kathmandu and Citizen College, Lalitpur for their generous support on designing and printing of this issue.

The journal provides platform to young researchers to share their empirical findings. Similarly, we have got opportunity to publish the views of well-known and established researchers will be continued in coming issues also. Papers are accepted around the year, across the globe in the discipline mention in Authors guidelines. The journal is also available online to our readers free of cost. We hope readers read the papers and provide the feedback. The healthy criticism on the published paper is mostly welcomed from academia and professional. We believe that these activities may be instrumental to impart the knowledge to both readers and authors. We urge to researchers, academicians and professional to contribute the papers in the area of the journal.

We look forward to work with all of you as we continue to make Nepalese Journal of Insurance and Social Security a success and we welcome your submissions, as well as feedback as authors, readers, and reviewers of the journal.

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A Critical Review of Social Protection Policies, Programs and Their Effectiveness in Nepal

Dilli Raj Khanal, PhD[1]

Abstract

The objective of the paper is to review the existing literature on social security and social protection program in Nepal carried out by Government of Nepal and offered suggestion for the betterment of the program in the line of equality, financial sustainability and economic growth. The paper is prepared based on the desk review of the various scientific articles and report published by the institutions and individual authors. In total 64 papers have been reviewed published during ten years period ranges from 2006 to 2015.

Based on the critical review the paper conclude that Dalits, endangered community, school girls, child and people living in the remote areas such as Karnali have been benefitted from numerous social security related programs. The doubling of social assistance is enhancing social protection of those who are in such nets. However, social security programs lack effectiveness compared to increased budget, scattered programs implemented through different agencies in many instances in an adhoc basis without effective coordinated implementation mechanism has made the outcomes less beneficial and effective from the standpoint of intended beneficiaries. One of the serious challenges in the areas of social security is that still all workers working in the informal economy consisting of more than 96 per cent of the total labor force are outside the purview of social security program. The new Integrated Social Security act has also not covered the workers in the informal sector. Similarly, it encompasses through many ambiguities and overlaps. A big chunk of entitled population is deprived of getting the benefits of such programs. More worryingly, out of them, most deprived are disabled.

Key Words: Social Security, Social Protection, Social Assistance, Deprived and Disabled,

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1. Introduction

1.1 General Background

Social protection is defined as a set of public policies and programs that seek to assure a minimum level of security to the people and support in meeting their needs (ILO, 2010). Social protection is increasingly recognized as a critical component of development discourse as it helps to protect poor people by promoting inclusive growth and reducing inequality simultaneously (EC 2010; Alderman and Yemtsov, 2012). As such, it contributes to reduce inequalities across key population groups by empowering, for instance, women and girls, youth, older persons and persons with disabilities (Townsend, 2009 and ESCAP, 2015).Thus, social protection, if well-designed, not only addresses vulnerabilities, poverty and other related problems but also contributes to equitable, inclusive and sustainable growth and development. This is why social security and protection have received prominence place in the Sustainable Development Goals (SDGs)[2].

Noticeably, Nepal has been in the forefront in introducing social protection program and hence social protection has emerged as one of the important public policy tools. For the first time, the CPN (UML) government initiated universal social pension scheme for the elderly, single women and disabled people in the mid 1990s (Khanal, 2014a). Such schemes have been expanded and scaled up after the political change of 2006 in which post-conflict development and reconstruction programs also received some priorities (Holmes and Uphadya, 2009; Koehler, 2011). The scheme was further extended to endangered races and differently able persons in 2008 through the budget of 2008/09. The budget additionally reduced the eligibility age threshold for Dalits and citizens of the Karnali Zone. In 2016/17, the allowance was doubled at Rs. 2000 per month for the elderly and others who are entitled to get such a pension. In parallel, various grants, scholarships, social insurances and other forms of social assistance programs are also under implementation. Apart from such schemes, social security facility is enjoyed by the retired employees (having pension - all civil services and corporations). Importantly, Nepal's constitution gives highest priority to the social security and protection program which is conceived as one of the pillars of the socialist oriented economy.

As a consequence of early initiation and subsequent expansion, Nepal is now ahead compared to many other South Asian countries in providing one or other form of social protection to the citizens. Despite this, the life of the people is still very difficult owing to limited employment opportunities and limited access to quality basic services and physical infrastructure (Holmes and Uphadya, 2009). Poor growth performance, lack of adequate productive employment, prolonged political instability and social exclusion

2 There is also an argument that social protection should include life security of both individuals and households. Such an argument has received momentum along with increased crime, intimidation and murder in the society amidst inability of the state to protect its citizens.

in the form of gender, caste, ethnicity, language and geography are often cited to be the major sources of vulnerabilities and socio-economic insecurity in Nepal (Koehler, 2011). Because of such numerous reasons, poverty intensity among the most vulnerable population is still very high and also human development remains one of the lowest in South Asian region (UNDP, 2014). Nepal is also prone to natural calamities like flooding, landslides and fire every year leading to aggravation of vulnerabilities of the people. In such a situation, role of social protection to minimize exclusion and poverty intensity led vulnerabilities and narrow down the gap between haves and have-nots becomes very critical and important. This indicates that not only coverage but also effectiveness of social protection program is very crucial in the countries like Nepal.

In this brief paper below, at first, a brief introduction of ongoing policies and programs linked to social protection is made. This is followed by a critical review on the effectiveness of such policies and programs, methodology and major conclusions and suggestions are presented in the last section.

1.2 Overview of Social Protection Policies and Programs

Social protection policies and programs can be grouped into two broad categories: social insurance and social assistance.

1.2.1 Social Insurance

Social insurance comprises of programs that cover the risks associated with unemployment, sickness, maternity, disability, industrial injury and old age (ADB, 2008). It thus includes old-age insurance, health insurance, unemployment insurance and programs for workers with disabilities (ADB, 2011). More specifically, four social insurance programs are in practice in Nepal: (i) Retirement benefits such as pension, gratuities, allowances and medical facilities, (ii) Employees' Provident Fund, (iii) Citizen Investment Trust, and (iv) Social Security Fund.

In terms of government expenditure, social insurance constitutes the largest category of social protection in Nepal at more than 60.0 per cent of annual social security expenditure in FY 2017/18. The formal social insurance programs are targeted at particular employment groups- usually employees in the public sector.

One of the recent programs under social insurance is social security fund. The social protection coverage broadly consistent with social protection floor was first proposed in the budget of 2066/67. For that purpose, one per cent tax in the first slab of taxable income of the salaried people was loosely proposed in the budget. This was followed by the formulation of a Social Security Fund Management and Operation Regulation in 2067. This led to the establishment of Social Security Fund. The main objective of the Fund is to keep record of all the collected contributions into a computerized system and implement various social insurance schemes. Through the budget of 2068/69 it was stated that the collected social security fund will be used to provide insurances for workplace accident, maternity health and health insurance etc. A Board of Trustees formed consisting of 11 members representing the three main partners Government, Employers and Trade Unions is entrusted to make decisions on social protection related schemes. The records as of 14 June 2015 show that altogether 1461 employers (government, non-government and private sector) with a total of 1,049,446 individual workers are registered in the Social Security Fund (ILO, 2015). However, the most disappointing aspect is that hardly any payment has been made by the Fund to the intended beneficiaries. Consequently, billions of Rupees is accumulated in the Fund account. Another feature of such a Fund is that the primary contributors are the government agencies and only a small proportion has been contributed by the formal private sector employers. One of the positive developments in this area is that a comprehensive act has already been enacted in which both social insurance and social assistance programs are included in it. More broadly, the act attempts to include both social security and protection programs that are kept in the constitution.

1.2.2 Social Assistance

Assistance for the elderly, health assistance, child protection, disaster relief assistance and other forms of assistance targeting the poor and vulnerable people come under social assistance program. These are generally targeted towards benefiting entire needy people in one way or the other (Upreti, et al. 2012). In Nepal social assistance programs include senior citizen's allowance, single women allowance, disability allowance, endangered indigenous people's allowance, child grant, scholarships, food for education project, aama or mother program and transportation subsidies on essential foods. Since few years, apart from free health care program, program of distributing essential medicine has also been introduced and extended gradually. After adhoc and approached based financial support practices for long, more system based support for the treatment of costly and dangerous diseases has also been initiated and expanded over the years. Dangerous diseases like cancer, heart and a few others come to such a funding category. Unlike the social insurance program, social assistance programs are non-contributory and hence are directly covered from government's annual budget. People getting pensions and other benefits from the government and formal corporate sector are prevented from receiving these social assistance facilities. Similarly, if an individual falls in different targeted categories, she or he has to choose only one category which provides the higher allowance.

Apart from these, a number of social protection initiatives were taken after 2006 for the conflict victims of 1996 to 2006. The Ministry of Peace and Reconstruction is responsible for such programs and interventions aimed at building social cohesion, restoring peace and reducing vulnerability amongst those affected by the armed conflict. Major conflict related social protection interventions included scholarship for children whose parents are deceased or disappeared, onetime cash grant of NRs. 25000 to widows and families of missing persons, bearing of treatment costs for injuries incurred in conflict, onetime cash grant of NRs. 200000 to persons disabled during conflict, skills training for victims' families and quota seats for victims' families in foreign employment (Upreti, 2012). In addition to these, there are also meso forms of social protection such as poverty alleviation fund, micro-insurance such as crop and livestock insurance, employment schemes, micro finance and various subsidies (Koehler, 2014). Now health insurance has also been introduced and extended. Recent budgets have announced additional assistance programs to the conflict victims apart from extending more targeted social protection programs to the most deprived castes and socio-economic groups.

2. Review of Literature

2.1 Critical Review on the Effectiveness of Policies and Programs of Nepal

As a result of continuous efforts since the mid1990s, Nepal has been able to make steady progresses in the areas of social protection in terms of both coverage and outreach. The latest Social Protection index (SPI)[3]of ADB shows that Nepal scored 0.068 compared to 0.051 by India, 0.047 by Pakistan, 0.043 by Bangladesh, 0.036 by Bhutan and 0.121 by Sri Lanka (ADB, 2013)[4]. The same study points out that despite being a low-income country Nepal spent about 2.1 per cent of GDP on social protection covering 4 million people (15 percent of the population). The 14th Plan (2016/17-2018/19) points out that social protection allowances (excluding social insurance) are benefiting nearly 22 lacks and 65 thousand people. Similarly, a study covering country's social protection expenditures targeted to all potential beneficiaries reveals that about 4.8 percent of per capita poverty line expenditures is spent in social protection" (Upreti, et. al, 2012, p39).

However, despite such a progress at the aggregate level amidst relatively a moderate share of annual budget towards social security compared to many other developing countries, program lacks effective results due to scattered implementation through different agencies (MoF, 2014 and ILO, 2015). Diverse social security protection programs launched in many instances in an adhoc basis with poor and less effective coordinated implementation mechanism have made the outcomes less beneficial from the standpoint of intended beneficiaries. This is corroborated by many studies devoted to assess various components of the social protection programs.

3 The overall SPI is a weighted sum of the SPIs for social insurance, social assistance, and labour market programs (ADB, 2013).

4 When the country's social protection expenditures are averaged over all potential beneficiaries, it allocates 4.8 percent of per capita poverty line expenditures to social protection" (Upreti, et. al, 2012, p39).

Examining the benefit level, Koehler (2014) points that the benefit is in the range of Rs. 200- 500 per month which is far from enough to meet the persisting poverty gap. Many studies point out that not only cash transfers but also both child grants and scholarship schemes are inadequate (DoE, 2010 and ERDCN, 2011). A survey by the NPC(2012) substantiates this. The survey finds that almost 80 per cent respondents feel the allowance insufficient to meet their personal and household expenditure and further indicates that poor, women and Dalits are in need of more allowances than others. KC et al.(2014) also derive the similar conclusions. Studies also point that implementation constraints such as low institutional capacity and funding bottlenecks are obstructing regular and predictable deliveries of cash transfers leading to, among others, exclusion errors and lower benefit levels (Holmes and Uphadya, 2009). This, indeed, applies to all kinds of social protection schemes.

The present system of management of cash transfer by Ministry of Federal Affair and Local Development and distribution through the VDCs has raised a number of issues ranging from inefficiency in delivery of services and mismanagement as well as misappropriation of funds (NPC, 2012). Added by lack of proper record management, some might have received benefits twice at the expense of those who might have been left out of the programs. Such a possibility heightened because of the absence of designated body for coordination, regulation and monitoring (Khanal, 2014). As the same study points out, the cash transfer has been overshadowed by various indicators such as age, single status, ability, caste and region with exclusion of more critical indicators such as poverty and deficiency leading to little improvement in the lives of the poor and weaker groups.

A study by DoE (2010) finds the misuse of scholarship amount due to the lack of fixed and transparent distribution policy and effective mechanism in place in identifying the target group in the schools. Political interference in distributing the scholarship is also identified as one of the major reasons. Another study identifies uncertainties and time lag/delays in disbursement of scholarship as one of the added problems (ERDCN, 2011).

The government data show that number of students getting scholarship has been declining in recent years. In 2010/11, 3.6 million students obtained scholarship which declined to 2.8 million in 2013/14 and 1.7 million up to eight months of FY 2014/15 (MoF, 2015). Although large numbers of girls and Dalit students, district educational offices and schools have found it difficult to cope with the different types of scholarships, identifying the right children, delivering the stipulated scholarship rate at the right time, and ensuring transparency (ADB, 2010). Lack of information about the availability of various kinds of scholarships/incentives and government's inability to provide support to all of the targeted children as announced are some of the pressing problems (Acharya and Luitel, 2006).

A study by the Department of Education in 8 sample districts found that scholarship distribution is not functioning in an integrated way; and dropout still persists because of child marriage in the case of girls students, domestic work after primary education, support for parents' occupation because of poor economic condition and parental preference in sending their grown up children to India for wage labour (DoE, 2010). Scholarship provided to Dalit students at primary level was found to be relatively more successful than secondary and lower secondary levels. While majority of the parents (75 per cent) told that scholarship amount is inadequate, teachers opined that the scholarship is working as a motivation and encouragement factor to the poor, talented, Dalit, marginalized children, and girls to come to schools regularly and raise interest in the study (DoE, 2010). However, a more extensive study indicates that dropout rate in Dalit students remains still high and performance remains less satisfactory partly due to parents feeling fewer obligations to send their kids to schools as many of them are illiterate and consider that grown-up children have to support their families[5].

Another study examining the effectiveness of girl's scholarship program in 7 districts finds that the participation of girls in education due to this program has increased over the years resulting into improved Gender Parity Index (GPI), 1.00 for primary and 0.99 for basic education (grade 1-8) in 2009-10 (ERDCN, 2011). In this study, respondents suggest that girl scholarship should be provided to the students from poor families and low human development index. During the study respondents told that the scholarship received ranging from minimum NRs 50 to maximum NRs 500 was highly insufficient. The study also finds uncertainties and time lag/delays in the disbursement of scholarship.

In the areas of health also, access to free health has been reported to be increasing considerably after the launching of the program (Prasai, 2013). As the study indicates, the proportion of clients receiving free care at public health facilities increased from 29 per cent in 2009 to 82 per cent in 2011. Dalits were also recorded to be benefitting from free outpatient services. The frequency and extent of out-of-pocket payments by clients is also reported to be decreasing- particularly among those with serious illnesses but lacking capacity for the expensive treatment. Another study examining the funds flows indicates that fund flows from Ministry of Health and Population to health facilities have improved significantly since 2010. For instance, in mountain, hill and *Terai* regions 80, 43 and 52 per cents of the Heath Facilities had at least one stock out of the free drug in the last fiscal year (DRC, 2012).

Despite such positive outcomes, more than one third of Nepal's children live below national poverty line and under-five malnutrition stands out 41 per cent at national level

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5 Sunam, N. K., Lamsal, H. B. &Maharjan, S. (nd). *An Assessment of the situation of Dalits in Education Policy Gaps, Challenges and Prospects*. A Report submitted to Dalit NGO Federation (DNF), Kathmandu, Nepal, Retrieved from http://dnfnepal.org/publication_files/0h9yw8x7 An%20Assessment%20of%20the%20situation%20of%20Dalits%20in%20Education.pdf.

(UNICEF, New Era and NPC 2010). The highest rate of malnutrition is observed in five Karnali districts (underweight 42 per cent against 29 per cent national average, stunting 60 per cent against 41 per cent and wasting 13 per cent against 11 per cent) (Rabi, et al. 2015).Among Dalit families, underweight 35 per cent against 29 per cent national average, stunting 47 per cent against 41 per cent national average and wasting 18 per cent against 11 per cent national average (Rabi, et al., 2015). Adhikari et al. (2014) finds that although child grant had some positive impact on access to diversified diet, the value of the Child Grant was too low to buy anything substantial.

Some studies carried out to examine how the old age allowance program is influencing people's views and attitudes states that although old aged people value the recognition of the government by providing allowance, they view that it is too small (KC et al., 2014). Similarly, one of the problems related to the allowance distribution to the disabled is reported to be very poor record keeping. Moreover, because of the quota system not all people with partial disabilities have been able to get allowance from the government (NFDN, 2013). Lack of effective monitoring system is also reported to be encouraging the misuse of funds (NFDN, 2013).One of the serious problems in the areas of social protection is that there are serious lapses in the coordination and monitoring with adverse effect on implementation. This has resulted into less than expected results and outcomes (OPM, 2014).

Although doubling of social assistance has been a right step to cover up basic needs or reduce poverty gap, Nepal at the same time faces serious challenges of extending social security benefits coverage as more than 96 per cent of the total labor force is deprived of social security benefits (CBS, 2009). With very high level of underemployment in general and educated youth underemployment in particular amidst predominance of highly vulnerable informal labor market, social protection is still a major challenge in the context of Nepal (Khanal, 2012). Interestingly, new social security act focuses mainly the formal sector. Apart from continued disproportionate progress in Human Development resulting from, among others, social security gaps, devastating earthquake has increased vulnerabilities. The increased frequency of natural and other forms of disaster and calamities is adding vulnerability of farmers and others.

3. Methodology

The paper is prepared on desk review of various studies on social security and social protection in Nepal. In total, 64 papers published from various institutions viz. National Planning Commission, Asian Development Bank, International Labour Organization, Central Bureau of Statistics, Department of Education, DFID, EC etc. and written by the individual authors have been critically reviewed. The reviewed papers were published during 11 years period from 2006 to 2015.The conclusion is drawn and suggestions is offered synthesizing the large amount of information available in reviewed papers.

4. Conclusions

4.1 Conclusions

Introduction of old age pension and other assistance programs in the mid1990s has been a historically turning event in the areas of social protection in Nepal. The extension of such programs or introduction of some new ones in the aftermath of 2006 has helped to expand the base of the social protection considerably. Both universal and targeted programs have contributed a lot to reduce the vulnerabilities of the intended beneficiaries. The Dalits, endangered community, school girls, child and people living in the remote areas such as Karnali have been benefitted from numerous social security related programs. The doubling of social assistance is enhancing social protection of those who are in such nets.

Despite positive moves and outcomes, , however, there are not only serious gaps in terms of coverage but also implementation problems which, as in the past, may undermine program effectiveness and better outcomes. Unless options are explored, financial sustainability may come to the forefront more pervasively in the coming days. On the other hand, the benefit levels fixed are yet to take into account the extent of vulnerabilities of most disadvantaged vis a vis others for ensuring more equality. As a consequence, for instance, Dalits who are most disadvantaged and poor have less incentive environment to send their child to the schools. Similarly, as studies point out, lack of easy access amidst discriminatory social or institutional structure is also hampering the intended beneficiaries to get the full benefits of the programs. As an offshoot, there is also outreach problem.

Importantly, programs lack effectiveness compared to increased budget. Scattered programs implemented through different agencies in many instances in an adhoc basis without effective coordinated implementation mechanism has made the outcomes less beneficial and effective from the standpoint of intended beneficiaries.

One interrelated problem is associated with equity dimension. Still the allowances to the poor, women and Dalits could be insufficient to meet their daily needs and fulfil expenditure gaps. Amidst such problems, implementation constraints emanating from poor institutional capacity and funding bottlenecks are constantly obstructing regular and predictable deliveries of cash transfers leading to, among others, exclusion errors and lower benefit levels. For instance, inefficiency in delivery of services, mismanagement and misappropriation of funds remains a major problem in the cash transfer program of Ministry of Federal Affair and Local Development involving VDCs at the local level. The cash transfer has been overshadowed by various indicators such as age, single status, ability, caste and region with exclusion of more critical indicators such as poverty and deficiency. Similarly, time lag or delay in disbursement added by misuse of scholarship has been most common in the absence of fixed and transparent distribution policy and effective mechanism in identifying the target group in the schools. This has adversely affected girls and Dalit students. At the same time, in recent year number of students getting scholarship has declined affecting the deprived. Lack of information about the availability of various kinds of scholarships/incentives has also adversely affected the intended beneficiaries to reap the benefits from the different programs. In the health services although free health care and distribution of essential medicine have made some contribution, still malnutrition among children is very high. Such a problem in remote areas such as Karnali and Dalits is very pervasive indicating inadequacy of ongoing efforts. Moreover, majority of disables are prevented from getting the allowance because of the quota system. Lack of proper coordination and effective monitoring system has posed problem of both effective implementation and proper use of funds.

One of the serious challenges in the areas of social security is that still all workers working in the informal economy consisting of more than 96 per cent of the total labor force are outside the purview of social security program. The new Integrated Social Security act has also not covered the workers in the informal sector. Similarly, it encompasses through many ambiguities and overlaps.

Despite extension of programs from one year to another with high propaganda, it is a matter of concern that many of the people entitled to get social security benefits are still deprived. As studies indicate, either due to the ignorance about such a program or in the absence of required documents, a big chunk of entitled population is deprived of getting the benefits of such programs. More worryingly, out of them, most deprived are disabled.

4.2 Suggestions

First of all, as per the new constitution, clear cut integrated policy on right based, universal and targeted social protection programs will be needed. The integrated social security act needs amendment following that approach which is still lacking and also there are many ambiguities in its various clauses. In order to effectively tackle exclusion and inequalities and promote sustainable development, coherent design of social protection systems with priority on implementation related institutional dimensions is essential as a key component of broad social and economic development policies and programs. This, among others, requires harmonization and rationalization of fragmented policies and programs depending on their nature to a greater extent. More broadly, social protection system will need designing in a way that it besides enhancing social security could also equally contribute to growth, equality and sustainable development simultaneously.

While doing so, there is a need of extending and ensuring of social security program among those who are still left out with priority on most vulnerable and deprived population with equal priority on disabled. The farmers and disaster victims also may need brining into the orbit of social protection. Above all, due care has to be given to ensure that the discriminatory practices are fully abolished. The geographical bottlenecks and gaps in terms of delivery among districts have to be taken into special consideration. One of the interrelated issues to be addressed is the issue of enhancing equity dimension in the program. From the sustainability point of view also this may be desirable. This may require selective approach to ensure that the most vulnerable and disadvantaged get benefits more disproportionately. Although this may be difficult politically in the beginning, more robust but targeted approach may help enhancing the acceptability.

For ensuring social protection systems to provide income security and facilitate employability, a transformative approach will be necessary in which focus should be on creating decent jobs and enhancing employability. In this respect, one important pathway could be a mechanism that facilitates a smooth transition between social assistance and social insurance, with a focus on graduation pathways while strengthening or maintaining strong work incentives. Furthermore, linking non-contributory and contributory-based programs may also help improving the quality of social protection delivery services, reducing dependency syndrome and enhancing the sustainability of programs. Needless to add, financial sustainability is gradually emerging a serious problem and hence needs exploration of better alternatives from longer term perspectives. As an offshoot, this, among others, demands a selective and program by program approach as generalization is neither feasible nor possible.

There is an urgency of improving the efficiency of all programs. This implies an emphasis on reforms that reduce administration costs including leakages of different types and increase the share of the budget reaching the hands of intended beneficiaries. Consolidation of small programs into larger ones using a systems approach may help the improvement in performance considerably. More or extensive use of computer and other communication means and enhanced accountability mechanisms should get priorities.

Along with above initiates from medium to long term perspectives, there is a need of priority on bringing about reforms and changes in specific areas immediately. First, a system of timely availability or release of social security funds for distribution is essential. Second, a new system may need introduction in certain targeted schemes for transferring of funds to the neediest. Third, transparency in payment\ distribution to avoid duplication and misuse is a must. Fourth, a system of flow of information on social security related areas by concerned agencies at both central and local level will be necessary. Sixth, as per government announced policy, the service receivers must have bank accounts with priority in their vicinity for easy access. Seventh, timely distribution of assistance on a monthly basis may be essential to ensure that money provided ensures the fulfilment of daily necessities of intended beneficiaries. Eighth, strong coordination among concern bodies and proper monitoring mechanism through new institutional arrangements is a must to ensure program effectiveness and check the misuse of funds.

As the responsibility of distributing social protection funds now comes within the purview of local government, it is necessary that major lapses are addressed by them effectively to ensure that intended beneficiaries are fully advantaged.

It is instructive to add that in some Latin countries, social security program has been quite effective in reducing both poverty and inequality simultaneously. Under such a program, conditional cash transfer scheme has been used linking with health and education among others in which for a cash transfer to the households, households are required to send their children to the school and also need regular check up of entire family in the health centers in a time bound basis. In some cases, creation of productive asset is also linked. Taking other successful country's experience amidst rising financial liability in an un-sustained way due to host of reasons, a new comprehensive approach and strategy may be needed in the Nepalese context as well.

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Causes of Voluntary Dropout of Microfinance Clients in Bangladesh

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Abstract

The study of the causes of the MFI clients' drop-outs conducted through a survey on 30 dropped out clients with the help of structured questionnaire revealed that there are not too many strong reasons for dropout. The clients and their family and relatives are found quite happy with the MFI loan amount, interest rate, and peer guarantee system.

The responses show that clients disinterest to take another loan is the most important cause of dropout. Other significant causes of dropouts are linked with stringent product features, especially the loan repayment procedures, which include no need for another loan, non-negotiable installment size, short repayment intervals, limited grace period, high interest rate, personal solvency, high savings rate, and strict overdue payment policy. On the other hand the least important causes of dropouts are non-beneficial savings scheme, more expensive than traditional money lenders, family or relatives' disapproval, inflexible loan amount to business requirements, more expensive than other MFIs, the peer guarantee system, narrow range of loan packages.

Key Words: Loan Repayment, Microfinance, Microfinance Institutions, Non-negotiable Installment, Solvency

1. Introduction

1.1 Issue

Microfinance[1] has started in Bangladesh in 1976 as solidarity groups guarantee system for the members of the impoverished socio-economic background people. A rapid growth in the microfinance sector was experienced in the mid 1980s when both clients and microfinance institutions (MFI)[2] started entering the sector. By a decade, around 90% of the poor population of Bangladesh was directly or indirectly came under MFIs purview. Now, microfinance is considered one of the most effective tools for poverty reduction

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(Khandker et al. 2010). A longitudinal study (2000 to 2010) noted that microfinance accounts for 9% of the poverty reduction in Bangladesh (Khandker & Samad, 2013). Currently, around 29% of the population lives under poverty which is a significant decrease from 56% in the beginning of the millennium (GDE, 2013). However, a large population is still not positively affected by microfinance. In addition, in recent years, the growth of micro-finance has been decreasing significantly. A significant cause of this decrease in growth is the dropout[3] phenomenon among MFI members. This trend affects not only the profitability and future sustainability of the MFIs, but also the dropped out clients who may have benefited from continued participation with the MFI (Pearlman, 2014).

Irregular participation or complete disengagement of a client from microfinance reduces the possibility of graduation from poverty. Clients who participate on a long-term basis (around 20 years) are more likely to be better off in terms of standard of living (Khandker & Samad, 2013). Length of enrollment period is positively associated with accumulation of household assets which directly correlates with household well being (Barua & Sulaiman, 2007). From an organizational perspective, client retention is a desirable phenomenon as it reduces program inefficiency and ensures stability (Majumder, 2009; Rani, 2012). Various studies have shown that long-term participation is beneficial for both the client and the microfinance institution alike. Despite the positive effects of availing micro-credit[4] services, members are dropping out from MFIs at a considerably rate. BRAC, one of the largest NGO (Non-Government Organization) in Bangladesh, reported a dropout of 15% per year in 2007, while Sajida foundation, a much smaller MFI, reported member discontinuation of 53% in 2008.

As competition or potential competition from mainstream, formal-sector banks appears to steer microfinance institutions toward serving poorer customers, the commercial banks are interested in serving the well to do people, while MFIs have only the lower income people to serve. Despite the fact that MFIs are serving poor households, a substantial share of “non-profits” in fact earns profits, even if they are relatively small (Cull, Demirguc-Kunt, & Morduch 2009). However, most institutions serving the poorest customers earn profits too small to attract investors seeking purely commercial returns (rather than a blend of “social” and financial returns). Hence financial self-sustainability and serving poor households are not, by definition, incompatible. This illustrates the sheer reality of doing business in Bangladesh for the MFIs.

Bangladesh microfinance sector is considered as one of the largest and most efficient in the world (Zaman, 2013). One of the major achievements of the leading MFIs is high recovery rate (97.0% - 99.84%). Among of the major problems faced by these MFIs are overlapping in multiple borrowing, lack of reliable database, lack of trained work force, insufficient repayment time, etc. Gathering information about dropout clients relates both to the performance of the MFI in relation to client needs, and more generally to how an MFI relates to client livelihoods and external conditions which can form a core part of impact understanding (Simanowitz, 2000). Thus, understanding feeds into operational development and leads to changes that better tailor the MFI's services to their target client needs and thus improves the overall impact of the MFIs.

Voluntary member discontinuation or dropout is a concern for all stakeholders involved in the microfinance sector. It is detrimental to not only the clients and the MFIs, but to the overall economic development of the country. The research focused on studying the causes of voluntary client dropout - not expulsions, or involuntary dropout from the MFIs which is a result of failure of loan repayment (defaulting[5]), behavioral misconduct and/or other problematic factors.

Specifically, the study on causes of MFI member dropouts looked into the following objectives:

i. To examine the microfinance organizational procedures
ii. To study the problems faced by clients
iii. To find out the reasons behind client dropouts and
iv. To suggest means to reduce this adverse phenomenon

2. Literature Review

2.1 Product Characteristics

The age old primary cause of client dropouts lies in the fact that organizations go for a product-driven, rather than market-driven approach when it comes to dealing with customers (Wright 1997). More specifically, inappropriately designed loans, poorly designed savings and failure to customize products, lead to client dropouts. Hence MFIs who are willing to develop a sustainable financial institution must make improvements in their services. However, it is to be noted, that MFIs in Bangladesh are now increasingly aware of their customer needs and go a long way to maintain sustainable client relations. They offer various kinds of loans including seasonal loans that come with zero interest. Nevertheless, the savings or deposit services in the MFIs are still rigid and inconvenient for clients (Rahman 2006, Hossain 2003). Many even do not know about the product rules and the MFI personnel intentionally do not update the clients regarding these issues.

As noted by Quayes and Khalily (2013) old and big MFIs are more efficient because of their large size making them operationally more efficient. Larger MFIs, thus, do not require charging a higher interest rate – an important factor of client dissatisfaction and ultimate dropout. Furthermore, as noted by Wright (1997), MFIs used to be very standardized, inflexible and credit driven making the loan less attractive. However, in recent times, it is observed that the efficiency of the MFIs is increasing. MFIs are reported to have psycho-social programs whose primary aim is to provide psychological counseling to both the clients and the loan officers so that more efficient microcredit services can be provided and reduce the frequent resentment that would occur between the parties involved in the weekly installment dealings. For these reasons and more, most of the dropped out clients surveyed, reported that the organizational reasons were not a major cause of dropping out.

Interest rate of MFIs is a much talked about issue. It is claimed that MFIs keep too high interest rates and are very business oriented. However, interest rate of MFIs are below cost recovery levels (Pagura, 2003), if anything. The reason for the presumably high interest rate (as high as 27%) placed on micro loans, is that it is calculated on a declining method[6] and opposed to flat method. The latter method accounts for the interest calculation in commercial banks. The catch is that an interest rate of 30% in the declining method is equivalent to a 15% interest rate in flat method. All MFIs, under Microfinance Regulatory Authority's rules, are bound to charge interest rate of maximum 27% at declining balance method (Khalily et al. 2014). It is prohibited to deduct from principle loan amounts, and this gives the customers to pay interest only on the loan they currently have after having paid the installments and not the loan they initially took.

2.2 Multiple Borrowings

Other organizational reasons like larger loan need, overlapping/alternative loans, no benefit from loan and other factors, play a major role in deciding whether clients will dropout. Among these reasons, multiple borrowing is a phenomenon of rising concern in the society (Rahman, 2006). Even though this cause is not high at the importance scale, it is a common phenomenon now days. Client's requirement for larger loans, insufficient product range in any one MFI, client's need for consumption or crisis loans, complicated interest rates and inflexible repayment in any MFI, all lead to multiple borrowing. Multiple borrowing or overlapping loans by borrowers is a misuse of credit[7] leads to rising mental stress for not being able to pay the multiple loans, delinquency and defaults, leading to dropouts. Rate of multiple borrowing in Bangladesh is between 40 to 60% and the growth has been reported to be around 15% (Khalily & Faruqee, 2011).

Many clients take loans from local money-lenders popularly known as *mohajons*[8] at extremely high interest rates and lose all their properties. These "loan sharks" are believed to have influence over their area of interest. Because of this mixed loan taking many clients cannot actually realize separately the benefits of micro-credit. They blame their misery both on *mohajons* and micro-credit. Clients who take multiple loans have to pay multiple lenders at a time. This overburdens the client and makes him/her mentally stressed out. Even after recovering from this financially feeble state, many clients dropout as they are left with a more negative perception towards any loans.

Information gaps between MFIs leads to this phenomenon of multiple borrowing. Steps by the Microfinance Regulatory Authority would ensure that MFI's selection process is more coordinated through an integrated extranet and instances of multiple borrowing are at a minimum. However, in some cases, it is impossible to identify multiple borrowers as clients may use different spellings or ID cards. Furthermore, MFIs often do not see multiple borrowing as a cause of concern as long as the client is able to pay the weekly instalments.

2.3 Client Dissatisfaction

A number of studies (Barua and Sulaiman, 2007; Rahman, 2006) found that microfinance client dissatisfaction is positively associated with dropout. According to these studies high interest rates, inflexibility in savings withdrawal and inflexibility in repayment are some major areas of client dissatisfaction. The study also concluded that poorer clients are more likely to dropout and that incidence of life cycle events (like marriage, retirement, education enrollment, etc), homogeneity of group members and having alternative services have chances of dropping out.

Some reasons for dissatisfaction of clients include the savings and borrowing procedure (Inez, 2001). The clients are not even aware of product rules. The credit staffs deliberately do not apprise and update the clients. Mostly withdrawal is not allowed from the savings account (79% of the cases). Furthermore, most of the people (72%) are not satisfied with current disbursable loan size. The given loans hardly meet their needs. Consequently, they have to shop around for the additional money from other sources as they cannot do any business or productive work meaningfully with small loans (Rahman, 2006). The study concluded that clients are not happy with current provisions of loans and think that it should increase at least by 50% than what they are getting now. Furthermore, clients demand an increase on the interest rate on savings which is generally 5%.

Hossain (2003) discusses the causes of dropout from various perspectives like - membership process, savings, credit management, etc. His study explored the microfinance dropout and identified the socioeconomic or health crisis from dropout. Other variables included MFI's management problem, overlapping of members, lack of training and dropout among other.

2.4 Competition leading to Better Services

Rahman (2006) found an effect of competition among the MFIs on interest rates. The average interest rate charged by the MFIs ranges from 12-15% with Grameen Bank charging the lowest (10%). Clients seem to be satisfied with this aspect of the MFIs. Furthermore, MFIs make themselves seem like a more lucrative option by providing complementary social services that includes health, children & adult education, sanitation & hygiene, etc. To attract the clients they also hold group meetings with social leaders and explain their products and services and the accompanying benefits.

2.5 Solvency

Majumder's (2009) study found that 82% of the dropped out clients left voluntarily. In his study, it was concluded that 37% left the MFI because they did not need any loan. Indeed, 65% of the dropped out clients were running their businesses well even after dropping out. However, even if clients graduate from their poor state, member discontinuation is undesirable in the sense that graduates are more affluent and self-confident (Wright, 2000). The graduates who still avail the micro credit services usually take larger loans which benefit the MFIs by expanding their working capital. MFIs, as a result, are able to experience higher profit since cost of administering these loans is same regardless of size. Furthermore, graduates, or larger clients, help to finance smaller loans to poorer clients. Hence, retaining clients, especially if the client is running a sustainable business, is of quintessential importance for MFIs.

2.6 Reasons for Concern

Pagura (2003) study on MFI client dropouts revealed the fact that long-term relationship with MFI and clients are beneficial to both parties is the reason why high dropout rate is a matter of concern. As the relationship matures the lender benefits from lower screening and monitoring costs, increased revenue and improved lending decisions given that risk decreases as more information about the borrower is revealed. Clients benefit from a continued and often expanded access to credit. This is because of the cost reduction in capital as terms and conditions improve over the long run, and an opportunity to establish a valuable reputation as a trustworthy borrower is created. The study identified poor loan products and services, inaccessibility and low interest on savings, the frequency and length of group meetings, the small loan amounts topped with high interest rates, and negligence of staff, overall poor quality service of MFIs, idiosyncratic, and other market driven factors as primary causes of client dropouts.

Pagura's (2003) claim is more reinforced by Khandker and Samad (2013). In their longitudinal study to find out the microfinance growth and poverty reduction in Bangladesh, it was found that clients who participate over the 20 year period since 1991/1992 have consistently done much better than those who have participated in an irregular fashion or on short-term basis. They concluded that poverty reduction impact for continuous participation is higher than it is for participation in general. According to the study, microcredit intervention accounts for over 9% of the total poverty reduction in rural Bangladesh in the ten years of program intervention (from 2000 to 2010).

3. Methodology

The study made use of both primary and secondary data and pertinent literature review. Primary data were collected by means of questionnaire survey. A non-probabilistic convenience sampling technique was followed to get the responses of the drop-outs. The study surveyed 30 dropped-out clients from three types of MFIs: 1) Big (4), 2) Medium

(15) and 3) Small (11). Of these 30 respondents, the mean age was 38.37 years (st. dev. 14.09 years). Of all the respondents 26 were female housewives and the rest 4 were male. All the respondents were married. The mean monthly income found to be $ 325 (st. dev. $ 552). Most respondents had household members of around 4.4 (st. dev. 1.83).

Clients surveyed (30) from these three MFIs may not be true and proportionate representation of the whole dropout client population in Bangladesh. But considering inconvenience and inaccessibility of the dropout clients this study of this 30 clients can be very informative and a way forward. Descriptive statistics (Index number, Mean, Standard deviations, t-test, etc.) is mainly used for data analysis. A 5-point Likert scale (1: least important, 5: Most important) is used to find out causes of clients dropout. Extensive literature review greatly helped in understanding the dynamics of member dropouts. This is supported by a few MFI executives interview regarding their products, conduct with clients, causes of dropouts, retention strategies, etc. Secondary data was the primary basis of pinpointing the possible variables of client dropouts. The variables gathered from relevant literature were used to construct the schema (Appendix 1) and questionnaire.

4. Result and Discussion

The study on causes of dropout of the MFI clients are divided into 3 broad categories: Organizational (Product features), Clientele (Peer/Group/Cooperative) and environmental (Personal/Family). Each of these categories has 16, 15, and 10 simple variables respectively. All these simple variables (41) were carefully chosen from previously done researches, literature review, expert opinion, etc., following the face validity[9]. Respondents were asked to rank these 41 reasons behind dropping out in a scale of 1 to 5 (1 → least important, 5 → most important). A Cronbach's Alpha of 0.715 (> 0.70) indicates that the responses are reliable.

As noted the mean indices of the responses lie mostly between 1 and 2 (Appendix 2). This indicates that there are not too many strong reasons for dropout. The top few causes of dropouts are no need for another loan (3.17), non-negotiable installment size (2.53), short repayment intervals (2.40), limited grace period (1.97), high interest rate (1.93), personal solvency (1.93), high savings rate (1.67), and strict overdue payment policy (1.64). It appears that most of the common causes of dropouts are linked with solvency and stringent product features. On the other hand the least important causes of dropouts are non-beneficial savings scheme (1.07), more expensive than traditional money lenders (1.07), family or relatives disapproval (1.13), inflexible loan amount to business requirements (1.13), more expensive than other MFIs (1.17), the peer guarantee system (1.17), narrow range of loan packages (1.17). The responses indicate that the clients are quite happy with the MFI loan amount and interest rate, peer guarantee system. Also the family and relatives seems to have no-complain against the loan. The study further analyzed category-wise causes of dropout perceived by the respondents are discussed below.

4.1 Organizational Reasons

The organizational reasons of dropout are mainly concerned with product characteristics. The quality, efficiency and variety of services provided by MFIs play a great role in client dropouts. It is of fundamental importance for organizations to continuously come up with customer-driven loan products (Wright 2000) rather than product driven approach to reduce member dropouts. Clients feel dissatisfied with inappropriately designed loans which do not meet their needs. Here 15 causes of dropouts are identified which includes loan procedure, repayment procedure, and savings related issues (Table 1). Overall the respondents noted that none of the loan features were a major reason for dropping out, but there is variation among the responses. The mean (μ) indices of the ratings are found between 1.07 and 2.53.

Table 1: Organizational (Product features) Causes of Dropout

Broad Groups	Simple Variables
1. Loan procedure	1) Increment in loan size was inadequate (1.50)
	2) Waiting time to receive loan was very long (1.47)
	3) Loan application fee was excessive (1.40)
	4) Loan application system was not user-friendly (1.37)
	5) Range of loan packages was narrow (1.17)
2. Rigid instalment	6) Instalment size was not negotiable (2.53)
	7) Repayment intervals were short (2.40)
	8) There was no grace period (1.97)
	9) Interest rate was high (1.93)
	10) The system of paying overdue was strict (1.64)
3. Savings related issues	11) Savings requirement for borrowing was high (1.67)
	12) There was no interest on voluntary savings (1.37)
	13) Terms of savings withdrawal was inflexible (1.33)
	14) Rate of voluntary savings was high (1.30)
	15) The savings scheme of the MFI was not beneficial (1.07)

All the reasons linked in the loan procedure [inadequate increment in loan (1.50), waiting time (1.47), loan application fee (1.40), unfriendly loan application system (1.37), Narrow range of loan packages (1.17)] have low mean values indicating the fact that there is little dissatisfaction in the loan process and they are not a major cause of dropout. While the overall loan features were not a key reason for dropping out, the loan repayment procedures proved to be a moderately important reason for dropping out. These include rigid instalment size (2.53), short repayment intervals (2.40), no grace period (1.97), high interest rate (1.93), and strict overdue payment system (1.64). Hence, inflexibility in instalment size acted as a moderately important reason for client dropouts.

Savings related issues are found to be not so strong reason for dropouts. The savings related factors like high savings requirement (1.67), no interest on voluntary savings[10] (1.37), inflexible terms of savings withdrawal (1.33), high rate of voluntary savings (1.30), non beneficial savings schemes (1.07) are found to be least notable reasons of dropping out. The key reason for this, as reported by the MFI officials, is that females (who make up 90% of the client base) are usually willing to save even if it is just a meager amount ($0.12 per week) for the future benefit of their family members. Most MFIs have inflexible savings procedure (Rahman, 2006). The compulsory savings requirement for loan is also hard for members to meet. Even if the interest rate placed on savings is very low (5% - 8%), has influenced some respondents to discontinue their membership (As they perceive this rate to be high).

4.2 Clientele Reasons behind Client Dropouts

The clientele reasons of MFI dropout include cooperative/group related activities, e.g., group loan[11], group cohesiveness, MFI service to the group. Here 16 variables were identified (Table 2). Overall response of the clients in this area is not found to be very negative and not major causes of dropout (μ = 1.43~1.07). The respondents of different clusters also do not differ that much on their group satisfaction level, as suggested by the low standard deviation. Two notable causes are availability of alternate loans (1.43) and rare inspection of the MFI officials visit to the business (1.40).

Table 2: Clientele (Peer) Causes of Dropout

Broad Groups	Variables
1. Group-based lending	1) Alternative loans were available at that time (1.43)
	2) Maximum loan size was inadequate (1.33)
	3) The business was not making profit (1.30)
	4) The interest amount paid to the MFI was higher than the profit I make (1.23)
	5) The loan from MFI is more expensive than other MFIs (1.17)
	6) The loan amount does not vary according to my business requirements (1.13)
	7) The MFI loan is more expensive than traditional money lenders (1.07)
2. Group cohesiveness	8) The group meetings were long (1.37)
	9) My group members were unfriendly (1.20)
	10) I disliked the peer guarantee system (1.17)
	11) The MFI is located very far from my workplace (1.27)
	12) The MFI is located very far from my residence (1.20)
3. MFI service to groups	13) The loan officers rarely come to inspect my business (1.40)
	14) Officers were not open to suggestions (1.30)
	15) The MFI officials do not provide any advice on how to run my business (1.23)
	16) Loan officers did not behave professionally (1.20)

Regarding group-based lending the study noted that availability of alternate loans (1.43), inadequate maximum loan size (1.33), not so profitable business (1.30), higher interest amount than the business profit (1.23), more expensive loan than other MFIs (1.17), fixed loan amount for varying businesses (1.13), MFI loan is more expensive than traditional money lenders (1.07) are minor reasons for MFI dropout.

Regarding group cohesiveness the frequency and length of group meetings (1.37) along with relation with the fellow group members (1.20) and peer guarantee (1.17) found to have minimal affect on clients' satisfaction that may lead to dropout. In this regard the respondents did not show much dissatisfaction regarding the accessibility and convenience of the MFI location from their work place (1.27) or residence (1.20). It has been found in several studies that majority of respondents across regions do not like peer guarantee system. The new members have to take a disproportionate risk and guarantee the larger sums taken by their fellow group members, adding further stress to the group guarantee. Not only do they dislike paying for others, but also they do not like others paying for them, (Inez, 2001, Wright 1997).

Regarding MFI service to the group the responses were not very negative. The respondents did not strongly agree that the loan officers rarely come to inspect the business (1.40), not open to suggestions (1.30), do not provide any advice on how to run my business (1.23), and do not behave professionally (1.20). Due to various factors, including clients not understanding the risks of borrowing and loan officers' impatience under stress can generate bad interaction/harsh behavior with clients and ultimate discontinuation (CHIP 2002). The frequency of inspection by loan officers and training facilities of the related organizations also affects the perception of the clients regarding the MFI service and can lead to discontinuation. The psycho-social program of MFIs help field officers and clients to deal with stress is showing positive results and is helping in building long-term relationships.

4.3 Environmental Reasons behind Client Dropouts

Environmental Reasons behind Client dropouts mainly considers family or personal reasons that can cause a member dropout from an MFI. In this category 10 variables were identified in 3 sub-groups: 1) Personal solvency, 2) Personal loan related issues, 3) Miscellaneous. (Table 3). Overall response in this area is found to be moderate causes of dropout (μ = 1.13~3.17). The respondents of different clusters also do not differ that much on their group satisfaction level, as suggested by the low standard deviation. The responses show that clients disinterest to take another loan (3.17) is the most important cause of dropout followed by clients' solvency (1.93), and employment opportunity or leading a profitable micro enterprise (1.57).

It is important to note, that most of the dropped out clients surveyed, were at a considerably affluent state at the time. This shows, that major reason for dropping out is not related to the organization but to the fact that clients become most independent as their business starts to give profits and no longer need any loan. This phenomenon of clients graduating and then dropping out is not surprising, given the fact that microfinance has been playing its role in Bangladesh for over 40 years. It is time that MFIs bring about a shift in gear to meet the needs of a more affluent customer base alongside poorer ones. However, MFIs must not lose their micro perspective as there are already banks providing small medium enterprise (SME) loans to less deprived clients.

Table 3: Environmental (Personal/Family) Causes of Drop-out

Broad Groups	Simple Variables
1. Personal solvency	1) I was not interested to take another loan at that time (3.17)
	2) I became solvent enough (1.93)
	3) I found employment/or leading a profitable micro enterprise (1.57)
2. Personal loan related issues	4) I needed a loan larger than what my MFI could provide (1.57)
	5) I have not benefited from the microfinance loan (1.27)
	6) I used the loaned money to meet household expenses (1.34)
	7) I became legally ineligible for loan (1.30)
3. Miscellaneous	8) I migrated to another location (1.47)
	9) Some unexpected events took place (death, illness, etc.) (1.47)
	10) My family or relatives were against the loan (1.13)

As already noted personal solvency is the main important reason for client dropout. Personal loan related less significant issues include: insufficient loan amount (1.57), misuse of loan to meet household expenses (1.34), loan ineligibility, (1.30), and non-beneficial loan (1.27). Insufficient loan amount due to expansion of business to some extent found to be a cause of dropout. It was noted that prospective client often make factual distortion to MFIs and instead of investing in a presumable profitable business, they invest the loans on a risky business. Even other times, clients take loans to spend in non profitable events like daughter's marriage, dowry, house building etc. To address this problem, MFIs now introduced a special product called "consumption loans" which are meant for expenditure rather than business. Such loans are disbursed with special care by MFIs as clients who do not have regular income will be unable to repay the loan, and become defaulters. Too much coercion for repaying poorly handled consumption loans, may lead to permanent dropouts. Loan eligibility refers to the legal competence of a person to take a loan from an organization. The compliancy criteria usually include age, previous loan record, financial condition etc., varying around the organizations.

Other least significant miscellaneous reasons include migration to another location (1.47), unexpected happening, e.g., death, illness, etc., (1.47), and family or relatives unwillingness (1.13). Contrary to our findings, it is evident from the previous researches that a significant number of members have dropped out due to such events. Nevertheless, migration plays an important role in member dropout. It is important to note that many clients, who have migrated from one area and consequently dropped out, often re-join the same MFI at the new location. In most cases health related problems are more acute that requires lots of money to treat and put barrier to their participation in income earning activities.

The minimal dropout due to family disapproval is in contradiction to Karim's (2005) study where he found that 20% of the females dropout for family problems. He perpetuated that because females have to leave household to attend group meetings, it is considered against cultural norms. However, in our study, none of the respondents said that family disapproved was a major cause of dropout. Hence, it can be said, that there has come about a cultural shift in norms, and husbands and other family members, are more comfortable with seeing their female members actively participate in income generating activities.

Contrary to this finding, it must be noted, that most of the female respondents who had taken loans, had done so as per their husband's decision and not their own. This is a worrying fact as most NGOs aim to disburse loans to the females because they are the key driver of socio-economic growth (Cull, Demirguc-Kunt, & Morduch 2009). Hence, while the culture of not letting women be outgoing is slowly shifting, men are still in charge of taking decisions regarding availing credit services and its usage.

5. Conclusions

5.1 Conclusions

The study of the causes of the MFI clients' drop-outs is based on survey of 30 dropped-out clients from different types of MFIs. The small may not be true and proportionate representation of the whole dropout client population in Bangladesh; but considering inconvenience and inaccessibility of the dropout clients this study is very informative and a way forward. Extensive literature review greatly helped in understanding the dynamics of member dropouts. This is supported by a few MFI executives interview regarding their products, conduct with clients, causes of dropouts, retention strategies, etc. Secondary data was the primary basis of pinpointing the possible variables of client dropouts.

The causes of dropout of the MFI clients are divided into 3 broad categories: Organizational, Clientele and environmental. The survey noted that there are not too many strong reasons for dropout. The top few causes of dropouts are no need for another loan, non-negotiable installment size, short repayment intervals, limited grace period, high interest rate, personal solvency, high savings rate, and strict overdue payment policy. It appears that most of the common causes of dropouts are linked with stringent product features. It also appears that unless required the clients are not willing to take MFI loans. On the other hand the least important causes of dropouts are non-beneficial savings scheme, more expensive than traditional money lenders, family or relatives' disapproval, inflexible loan amount to business requirements, more expensive than other MFIs, the peer guarantee system, narrow range of loan packages. The responses indicate that the clients are quite happy with the MFI loan amount and interest rate, peer guarantee system. Also the family and relatives seems to have no-complain against the loan.

The organizational reasons of dropout are mainly concerned with product characteristics. This broadly includes loan procedure, repayment procedure, and savings related issues. Overall the respondents noted that none of the loan features were a major reason for dropping out, but there is variation among the responses. The reasons linked with the loan procedure (inadequate increment in loan, waiting time, loan application fee, unfriendly loan application system, Narrow range of loan packages) are not a major cause of dropout. The loan repayment procedures proved to be a moderately important reason for dropping out. These include rigid instalment size, short repayment intervals, no grace period, high interest rate, and strict overdue payment system. Savings related issues like high savings requirement, no interest on voluntary savings, inflexible terms of savings withdrawal, high rate of voluntary savings, non-beneficial savings schemes are found to be least notable reasons of dropping out. The key reason for this, as reported by the MFI officials, is that females are usually willing to save even if it is just a meagre amount for the future benefit of their family members.

The clientele reasons of MFI dropout are not found to be very negative and not major causes of dropout. Two notable causes are availability of alternate loans and rare inspection of the MFI officials visit to the business. Regarding group-based lending the study noted that availability of alternate loans, inadequate maximum loan size, not so profitable business, higher interest amount than the business profit, more expensive loan than other MFIs, fixed loan amount for varying businesses, MFI loan is more expensive than traditional money lenders are minor reasons for MFI dropout. Group cohesiveness (e.g., frequency and length of group meetings, relation with the fellow group members and peer guarantee) found to have minimal impact on clients' dropout. In this regard the respondents did not show much dissatisfaction regarding the accessibility and convenience of the MFI location from their work place or residence.

MFIs' service to the group was not found very negative. The respondents did not strongly agree that the loan officers rarely come to inspect the business, not open to suggestions, do not provide any advice on how to run my business, and do not behave professionally. Due to various factors, including clients not understanding the risks of borrowing and loan officers' impatience under stress can generate bad interaction/harsh behavior with clients and ultimate discontinuation. The psycho-social program of MFIs help field officers and clients to deal with stress is showing positive results and is helping in building long-term relationships.

Environmental reasons behind client dropouts mainly consider family or personal reasons that can stop a member taking loan from an MFI. The responses show that clients disinterest to take another loan is the most important cause of dropout followed by clients' solvency, employment opportunity or leading a profitable micro enterprise and insufficient loan amount. This shows, that major reason for dropping out is not related to the organization but to the fact that clients become independent as their business starts to give profits and no longer need any loan. Other least significant MFI loan dropout causes include: migration to another location, unexpected happening, e.g., death, illness, etc., misuse of loan to meet household expenses, ineligibility for loan and family or relatives unwillingness. The minimal dropout due to family disapproval indicates that there is a cultural shift in norms and husbands and other family members, are more comfortable with seeing their female members actively participate in income generating activities.

5.2 Recommendations

Based on the conclusions of the study, the following recommendations are made.

1. Increase the loan ceiling so that clients who have a higher loan demand can acquire loans. The lack of a higher loan ceiling may be the key factor in retaining the clients who no longer need a loan.

2. The loan repayment procedure or the loan terms of the MFI must be improved with greater flexibility. The loan terms should be designed in such a way that meets individual clients' needs and is tailored to serve him/her the best way.

3. If MFI is to continue to demand compulsory savings then it should only require a fair minimum, pay reasonable interest on it, and, within limits, it should provide clients with flexibility in access.

4. MFIs should conduct regular market research, and attempt to meet their customer's needs in the best ways possible. The MFIs should shift from a product centric approach to a more market centric one. Taking a market centric approach to product development will ensure higher client satisfaction and warrant a sustainable finance program.

5. Employees and clients must be involved in sessions where they discuss about the values of the MFIs. When the stakeholders' values are in line with that of the MFIs, the whole system takes a more wholesome outlook and is the key to sustainable development for MFI and clients, alike.

END NOTES

1. Microfinance: Practice of providing financial services, such as microcredit, micro-savings or micro-insurance to poor people.

2. Microfinance Institution (MFI): An organization, regulated financial institution or commercial bank that provides microfinance products and services to low-income clients.

3. Dropout: All those who exit a program. In this case, a client who voluntarily decides to not take another loan after repaying the previous one or a client who does not take another loan for a certain number of months.

4. Microcredit: Extension of very small loans to the unemployed, to poor entrepreneurs and to others living in poverty who are not considered bankable

5. Default; The situation that occurs when a borrower cannot or will not repay his/her loan and the MFI no longer expects to receive repayment.

6. Declining Method: An interest rate that is based on the current borrowed amount with the client and not the principle amount.

7. Credit: Borrowed funds with specified repayment terms

8. Mohajons: Local rich money-lenders (Loan sharks) who offer loans to villagers at high interest rates at time of their destitute/need.

9. Face Validity implies that the items chosen to measure a variable are logically related to it.

10. Voluntary Savings: Deposits from general public and members that are not maintained as a condition for accessing a current or future loan and are held with the institution.

11. Group loan or Group-based Lending: Lending involving group formation of people with common interests or occupations or same region.

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Appendix 1

Coordination Schema with Mean Indices- Causes of dropout

Complex Variables	Simple Variables
Organizational (Product features) (1.61)	1) Increment in loan size was inadequate (1.50) 2) Waiting time to receive loan was very long (1.47) 3) Loan application fee was excessive (1.40) 4) Loan application system was not user-friendly (1.37) 5) Range of loan packages was narrow (1.17) 6) Installment size was not negotiable (2.53) 7) Repayment intervals were short (2.40) 8) There was no grace period (1.97) 9) Interest rate was high (1.93) 10) The system of paying overdue was strict (1.64) 11) Savings requirement for borrowing was high (1.67) 12) There was no interest on voluntary savings (1.37) 13) Terms of savings withdrawal was inflexible (1.33) 14) Rate of voluntary savings was high (1.30) 15) The savings scheme of the MFI was not beneficial (1.07)
Clientele (Peer/Group/ Co-operative) (1.25)	16) Alternative loans were available at that time (1.43) 17) Maximum loan size was inadequate (1.33) 18) The business was not making profit (1.30) 19) The interest amount paid to the MFI was higher than the profit I make (1.23) 20) The loan from MFI is more expensive than other MFIs (1.17) 21) The loan amount does not vary according to my business requirements (1.13) 22) The MFI loan is more expensive than traditional money lenders (1.07) 23) The group meetings were long (1.37) 24) My group members were unfriendly (1.20) 25) I disliked the peer guarantee system (1.17) 26) The MFI is located very far from my workplace (1.27) 27) The MFI is located very far from my residence (1.20) 28) The loan officers rarely come to inspect my business (1.40) 29) Officers were not open to suggestions (1.30) 30) The MFI officials do not provide any advice on how to run my business (1.23) 31) Loan officers did not behave professionally (1.20)

Environmental (Personal/ Family) (1.62)	32) I was not interested to take another loan at that time (3.17)
	33) I became solvent enough (1.93)
	34) I found employment/or leading a profitable micro enterprise (1.57)
	35) I needed a loan larger than what my MFI could provide (1.57)
	36) I have not benefited from the microfinance loan (1.27)
	37) I used the loaned money to meet household expenses (1.34)
	38) I became legally ineligible for loan (1.30)
	39) I migrated to another location (1.47)
	40) Some unexpected events took place (death, illness, etc.) (1.47)
	41) My family or relatives were against the loan (1.13)

Appendix 2
Causes of Dropouts

Sl. No.	Causes of Dropout	Mean	St. Dev.
1	Not interested to take another loan at that time	3.17	2.001
2	Instalment size was not negotiable	2.53	1.408
3	Repayment intervals were short	2.40	1.163
4	There was no grace period	1.97	1.474
5	Interest rate was high	1.93	1.258
6	I became solvent enough	1.93	1.552
7	Savings requirement for borrowing was high	1.67	0.994
8	The system of paying overdue was strict	1.64	1.096
9	I needed a loan larger than what my MFI could provide	1.57	1.251
10	I found employment/ or leading a profitable micro enterprise	1.57	1.194
11	Increment in loan size was inadequate	1.50	0.777
12	Waiting time to receive loan was very long	1.47	0.900
13	Some unexpected events took place (death, illness etc.)	1.47	1.167
14	I migrated to another location	1.47	1.224
15	Alternative loans were available at that time	1.43	1.073
16	Loan application fee was excessive	1.40	0.724
17	The loan officers rarely come to inspect my business	1.40	0.770
18	Loan application system was not user-friendly	1.37	0.765
19	There was no interest on voluntary savings	1.37	0.850
20	The group meetings were long	1.37	0.718
21	I used the loaned money to meet household expenses	1.34	0.974
22	Maximum loan size was inadequate	1.33	0.844
23	Terms of savings withdrawal was inflexible	1.33	0.547
24	Rate of voluntary savings was high	1.30	0.702
25	Officers were not open to suggestions	1.30	0.535
26	The business was not making profit	1.30	0.915
27	I became legally ineligible for loan	1.30	1.022
28	The MFI is located very far from my workplace	1.27	0.907
29	I have not benefited from the microfinance loan	1.27	0.691
30	The amount of interest paid to the MFI was higher than the profit I remain with	1.23	0.774
31	The MFI officials do not provide any advice on how to run my business	1.23	0.504
32	My group members were unfriendly	1.20	0.484

Sl. No.	Causes of Dropout	Mean	St. Dev.
33	Loan officers did not behave professionally.	1.20	0.484
34	The MFI is located very far from my residence	1.20	0.761
35	Range of loan packages was narrow	1.17	0.379
36	I disliked the peer guarantee system	1.17	0.592
37	The loan from MFI is more expensive than other financial institutions	1.17	0.592
38	The loan amount does not vary according to my business requirements	1.13	0.346
39	My family or relatives were against the loan	1.13	0.346
40	The loan from MFI is more expensive than traditional money lenders	1.07	0.254
41	The savings scheme of the MFI was not beneficial	1.07	0.254

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Pension Reforms in Commonwealth of Independent States Countries

Lusine Karapetyan, PhD[1]

Abstract

The study aims to observe the pension systems and directions of pension reforms in the 10 member countries of commonwealth independent. Replacement rates for the countries preserving distributive pension system, gross replacement rates amongst countries that introduced cumulative components, average replacement rates, the average index of pension system load, life expectancy at birth, and natural increase in Commonwealth of Independent States (CIS) countrieshave been critically examined. Secondary data of above area have been used for 2000-2016 for 10 countries. Data were obtained from statistical book. Descriptive tools viz mean, standard deviation, growth and trend have been used analyse the data.

The study reveals amongst the countries which preserved the distributive pension system the highest indicator was registered in Belarus (41%), and the lowest was found in Moldova (25%). Armenia had the lowest gross replacement rate (21%) in 2016 while highest indicator was registered in Kazakhstan (38%). All CIS countries except Tajikistan encountered with demographic aging issue. The increase in the number of pensioners in CIS countries resulted in the overload of the employed population, countries with cumulative components, the burden is higher for Armenia it was 2.2 and 1.8 for Russia.only five countries did not encounter natural growth issues amongst the CIS countries in 2016. In Tajikistan the natural growth formed 25 ‰ (promile), which is 1.7 times higher rate compared to 2000.

Key words: Pension, Retirement Age, Senility, Cumulative Elements, *Commonwealth of Independent States (CIS)*

JEL classification: H55, J26, J32

1. Introduction

Social-economical fundamental changes in CIS countries at the end of the 20th century had important impact on different spheres of social life including pension systems that

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act on the principle of generation solidarity. Economic drops, financial crisis evoking in separate countries or regions inevitably acquire global universal essence and no country can solve social-financial issues that they face without adjusting and coordinating its national policy with policies implemented by other countries.Global social risks impact on elderly people's living standards which provide the necessity of having effective pension security system.

Distributive pension system is effective to be used only in those countries where stable economic growth exists. Almost all the countries which have implemented pension amendments had had classic distributive pension system/pay-as-you-go/long before the appearance of demographic, financial, economical, social and other core problems. However, today pension amendments take place not only in the CIS countries but also in a number of different countries around the world as a result of the rise in the average life expectancy, reduction of the working population, lack of financial means in distributive pension systems, growth of elderly people's ratio in the population, pension's amount, the necessity to create immediate link between pension, salary and social payments and long-term financial stability of the pension system. In the CIS countries these issues have rather deep roots.

The study aims to observe the pension systems and directions of pension reforms in the CIS countries, as well as to bring out issues that exist in the system. In order to implement the given aim the solutions of the following issues are of importance: to study the peculiarities of each country's pension system, to carry out an analysis of factors that impact on pension system, to represent the necessity of investment and continuous improvement of multi-pillar pension systems.

2. Literature Review

The main motivation for the countries that have carried out pension reforms is the expectation that pension funds will play a dynamic role in the development of the capital marketas far as pensioners make long-term savings in the mandatory cumulative pension component, it is expected that pension funds (in contrast with other institutions) will be able to provide long-term financial resource offers both for their native corporations and the government (Torre &Schmukler, 2007). In contrast with other institutional investors, pension funds are considered to be institutions which have maximum investments in the development of the native capital markets (Raddatz&Schmukler, 2008). Nowadays it is still debatable what influence the pension funds have on the development of the capital markets and whether pension amendments will provide the pensioners with the long-awaited result.Some authors (Catala'n, 2004; Murphy &Musalem, 2004) insist that pension funds contribute to the development of the native capital markets. Besides, the creation of the new financial tools and diversification of investment portfolio contribute to the reduction of the risks in the cumulative pension component (Mauricio, 2007). If we take into consideration the widespread viewpoint that financial stability has positive association with economic growth, pension funds can stimulate that growth.While in the study by Yermo (2005) pension funds do not contribute to the development of capital markets yet, as far as pensioners' savings are not invested in an optimal way and the transition to the private pension system itself does not result in the elimination of political risks. From this point of view the way of pension system management is not important, but the quality of institutional and macroeconomic environment of that country is of importance. In the study by Barr (2002), cumulative pension systems face the same problems as distributive ones. The only difference is that in the first case possible bad news can be related to market mechanisms and not to political decisions.

2.1 Review of Pension Systems in CIS Countries

2.1.1 Republic of Armenia:

On December 22, 2010 Republic of Armenia adopted the legal package regulating the multipillar pension system, which included the five laws: laws on "State pensions", "Cumulative pensions", "Income tax and embodied registration of mandatory cumulative payment", "Investment funds" and "Income tax". The aim of new pension system is to create insurance mechanisms, that will allow to strengthen the responsibility of the employee towards his future pension and link the pension to the real labour investment. It is the lack of this link that was considered to be the "weak" point of the distributive pension system. Armenian pension system is attached to the existing distributive system, which has been supplemented with two new degrees: mandatory and cumulative[2].

Multi-pillar pension system provides three types of pension. These are social aid, cumulative pension and volunteer cumulative pension. Social aid is for those who have not worked in their life or have worked for less than ten years (is called 0 degree), second is first degree or labour pension which is designed for paying the pension to those who were born before 1974. The labour pension in this degree will consist of two parts- the basic pension and sum paid for work experience. The third pillar is second degree or cumulative pensionto those who were born after January 1, 1974. Pension paid in the second degree will be formed as a result of payment made by the person during his working life and donations by the government. The participants will be allowed to get stable pension for the united taxes paid by them, as well as corresponding compensation for work experience until moving to the cumulative degree. The third degree or voluntary cumulative pension is designed for those who want to participate in various pension cumulative schemes suggested by voluntary financial institutions (insurance companies or pension funds) to get extra pensions.Since 2011 the age for labour pension for both sex is equal i.e. 63 years old with at least 25 years of work experience.

2 http://www.ssss.am/arm/pension-reforms/projects/ [Feb 2, 2018]

2.1.2 Republic of Azerbayjan

The law on “Labour pensions” was enforcedin2006.Man and womanhaving age at least 63 and 60 respectively and at least 12 years of work experience are eligible to get age pension[3]. Some basic problems while implementing the pension systems are to provide reliable social security, long-term stability of pension system, just principle of appointing pension and balance of incomes and expenditures in the pension system.However, global economic crisis and demographic changes have their influence on the implementation of the above-mentioned issues. Taking into account the existing challenges they had to gradually increase retirement age in this country as well. The retirement age started to increase by six months each year and the retirement age will become 65 for man and women in 2021 and 2027 respectively which was effective from July 1, 2017

2.1.3 Belarus

The right to state pension in Belarus is regulated by the law on "Pension Security" and other normative acts. Contemporary Belarus has adopted its pension system form USSR and has made very few changes in the system so far.It has state distributive pension system based on the principle of generation solidarity. In Belarus the amount of the pension is influenced by the work experience and the amount of salary from which social donations are made.There is no mandatory cumulative pension component.Till 2017 60 years old men with at least 25 years’ work experience and 55 years old women with at least 20 years’work experience have the right to receive age pension on general basis. But as a result of new legislative changes since the January 1 in 2017 the retirement age will be gradually raised by six months each year as a result the retirement age for women will reach 58 and 63 for men in 2022[4].

2.1.4 Kazakasthan

In Kazakhstan, unlike the countries that have advanced market economy, the introduction of the pension accumulative component meant to create financial institutions. Three components were included in the pension system viz.a) the state pension component of solidarity, it provides pensions to pensioners and those workers whose pension rights have accumulated in the pension system, b) the second one is the mandatory private pension component.Mandatory pension contributions are accumulated in individual retirement accounts, and c) the third component includes voluntary pension contributions. Thus, in 2017, the 20th anniversary of Kazakhstan's pension system reform is underway, with a gradual transition from a solidarity-based distributive system to a system based on the principle of individual retirement savings.The retirement age for men is 63 and 58

3 http://apsf.ru/Izdaniya/Vestnik_MAPSF_2017(19).pdf, pp 11-12). [Feb 2, 2018]

4 http://soczaschita-volkovysk.gov.by/index.php/ru/otdel-pensij-i-posobij/dokumentatsiya/555-zakon-o-pensionnom-obespechenii-ot-13-yanvarya-2017-goda.

for women, but starting from January 1, 2018, it will increase every year by six months leveling off to the men's retirement age[5].

2.1.5 Kyrgyzstan

Kyrgyzstan has implemented reforms in the pension system for already 25 years. Simultaneously with current pension accounts from January 1, 2010, the cumulative component was introduced at the rate of 2% of the employee's salary. Following the introduction of the cumulative component, Kyrgyzstan's pension system consists of three components: pension component of state compulsory solidarity, mandatory funded component and voluntary individual accumulative component.As a result of legislative changes in 2014, the cumulative component becomes mandatory for all citizens.The retirement age for men is 63 years, with at least 25 years of work experience, and 58 for women with 20 years' work experience. Pension appointment, payment and supervision over them is carried out by the Social Fund[6].

2.1.6 Moldova

In Moldova, citizens' right to pension is regulated by the law on "State Pension System" and other legal acts.According to the changes made in 2016 having been enforced since 2017, the money donated for insurance,carried out during the working activity, is considered to be the basis for defining the amount of pension. The formula for calculating the pension has been changed, the necessary work experience and retirement age for appointing pension is also being gradually increased.The law has also defined the notion of the highest pension, the amount of which cannot exceed the fivefold of the average salary in the country.If the annual consumer price index in the country does not exceed 2%, the pension index is not implemented.From 2017 the retirement age will rise by 4 months for men and by 6 months for women. Currently it is 62 years and 4 months for men and 57 for women. From 2019 the retirement age will be 63 for men and starting from 2028, the retirement age for women will become equal to the men's age. Since 2018, the length of required work experience for men to get age pension ismeant to be 34 years which is set 31 years for women, which will therefore rise by 6 months and reach 34 in 2024[7].

2.1.7 The Russian Federation

Since 1992 non-governmental pension funds have been operating in the Russian Federation, whose activities were regulated only in 1998, when the Law on Non-State Pension Funds was adopted. The new phase of pension reform in Russia began in 2002. The main goal of these reforms was the acquisition of long-term financial balance of the pension system and the formation of a stable source of additional revenues for

5 http://egov.kz/cms/ru/articles/pensionnaya_sistema).

6 http://socfond.kg/ru/citizens/9-Struktura-piensionnoi-sistiemy-KR.html).

7 http://pensionreform.ru/59709).

investment in the pension system. With these reforms, a transition from distributive pension system to distributive-cumulative system was made. The cumulative part of the working pension was formed in 1967 and for the citizens born after that. Since 2002, the state working pension of the citizens is formed in the mandatory pension insurance system and consists of 3 parts: basic, insurance and cumulative. From January 1, 2004, Russian citizens received the opportunity to transfer their cumulative pension to non-state pension funds. In 2017, the minimum work experience required for the retirement pension is 8 years, which will gradually rise to 15 from 2024, and the retirement age is 60 for men and 55 for women[8]

2.1.8 Tajikistan:

The pension reform in the Republic of Tajikistan has been implemented in four stages. In first stage, a personalized accounting system has been introduced since January 1, 1999. In second stage i.e. from July 1, 2009, first accumulative payments have been implemented. Law on Insurance and State Pensions began to be partially applied from January 1, 2013. The fourth stage was started from January 1, 2017 that all types of pensions in the republic are assigned and paid under the Law on Insurance and State Pensions.In 2000 changes in socio-economic relations have led to radical reforms in the pension system, with the aim of fully reducing the size of the pension to individual citizens' contributions and, in some cases, from the social security budget in Tajikistan. In 1994, the Law on Citizens' Retirement Benefit has been effective until January 1, 2017.

According to the new law, men need to have at least 300 months of insurance coverage, and the retirement age is 63 years, and 58 for women and at least 240 months of insurance coverage. However, a person may be assigned a partial retirement pension if he has at least 60 months of insurance experience.[9]

2.1.9 Turkmenistan

In 2012, the Law on State Pension Insurance, adopted in Turkmenistan, introduced a contingent pension system.Contract payment accounts are used to fund current retirees' pensions. The pension fund functions in the new pension system for collecting, distributing, controlling, maintaining personal accounts, appointing and paying pensions. The cumulative pension component has a voluntary nature.Men over the age of 62 and women over 57 have the right to pension if they have at least 5 years of insurance experience. Pension capital depends on the years of the citizen's employment, the size of the salary and the expected average life expectancy[10].

8 (Retrieved from http://www.pfrf.ru/grazdanam/pensions/kak_form_bud_pens/)

9 http://nafaka.tj/ru/qonunho/qonun-19-03-2013-955, http://nafaka.tj/ru/qonunho/qonun-12-01-2010-595).

10 http://turkmenistan.gov.tm/?id=2752).

2.1.10*Ukrine:*In Ukraine, Law on Universal Mandatory State Pension Insurance stipulated three levels of the pension system in 2003. In first level, mandatory state pension insurance based on solidarity principle was applied, in second level, mandatory cumulative pension insurance and in third level non-state pension security based on volunteerism principle was implemented.

The Pension Assignment and Payment function is implemented by the Pension Fund. The right to age pension is defined for at least 15 years of insurance coverage, with the retirement age of men being 60, which was 55 for women in 2011, but the government gradually increases the retirement age, and the retirement age for women will be equal to men starting 2021. However, pension reform is not ending up so now changes are envisaged in the law and if it is accepted, the minimum age for retirement benefits from 2018 will gradually increase from 15 to 25 years, and to 35 starting 2028. Actually, these changes envisage increasing the retirement age, as long as the person does not have an insurance experience, the person will have to work longer to earn the age pension rights. Investment of the mandatory accumulative components was delayed until 1st of January 2019 in Ukraine[11].

2.1.11 *Uzbekistan:*Uzbekistan, unlike other CIS countries, is distinguished by positive trends in the demographic structure of the population, which allows more optimal reforms in the pension system. The Law on Citizens' State Pension Security enforced in 1993 significantly improved the pension system, bolstered the principle of social justice, contributed to the increase of material welfare of the pensioners. However, in the course of these years changes and additions have been made to the law in order to improve the pension system. In 2004, along with other CIS countries, Uzbekistan, adopted a law on mandatory pension accumulation for citizens, which also established a non-state pension security. Starting from 2005, 1% of workers' salaries are directed to individual accounts. 60 years old men with at least 25 years of experience and 55 years old women having at least 20 years of experience have the right to get age pension. People who have at least 7 years of work experience are eligible for a partial retirement pension, and in case of a lower age, a person is entitled to an age benefit. Thus, Uzbekistan's current pension system includes both distributive and accumulative elements[12].

3. Methodology

The information of this study was obtained through various secondary sources like statistic reports, websites and articles. Variables of the study are replacement rates for the countries preserving distributive pension system, gross replacement rates amongst countries that introduced cumulative components, average replacement rates, the average index of pension system load, life expectancy at birth, and natural increase in CIS

11 http://www.pfu.gov.ua/pfu/control/uk/index

12 http://lex.uz/pages/GetAct.aspx?lact_id=112312

countries. The mentioned statistical data are taken from the official statistics yearbooks and reports of CIS countries. Secondary data of above area have been used for the period of 1992-2016 and 2005-2016 for 10 countries. Data were obtained from statistical book. Descriptive tools viz mean, standard deviation, growth and trend have been used analyse the data.

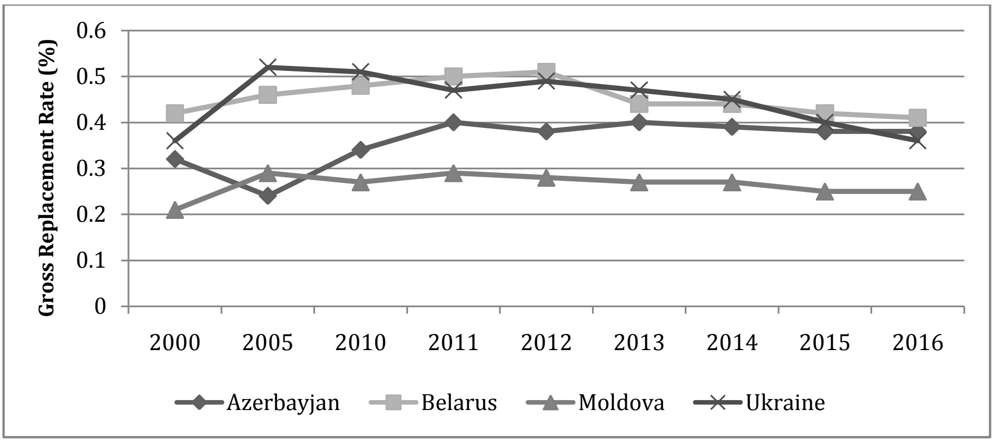
4. Result and Discussion

The CIS countries have implemented pension system reforms and continue to develop the system, trying to overcome the deepening gap between financial stability and maintenance of pension system equivalence. Replacement rate decides degree of pension system equivalence in any country. This is revealed through the ratio between average pensions and average nominal wages.

4.1 Gross Replacement Rates for the Countries Preserving Distributive Pension

According to the International Labor Organization (ILO), the replacement rate for each country must be not lower than 40% [13]. Despite the demographic and financial issues, Azerbaijan, Moldova, Belarus and Ukraine continue to maintain the distributive pension systems, but Armenia, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan introduced cumulative components. The dynamics of gross replacement rates for the CIS countries are shown in Figure 1.

Figure1. Gross Replacement Rates for the Countries Preserving Distributive Pension System in 2000-2016



Source: CIS countries' statistical data: 2000-2016

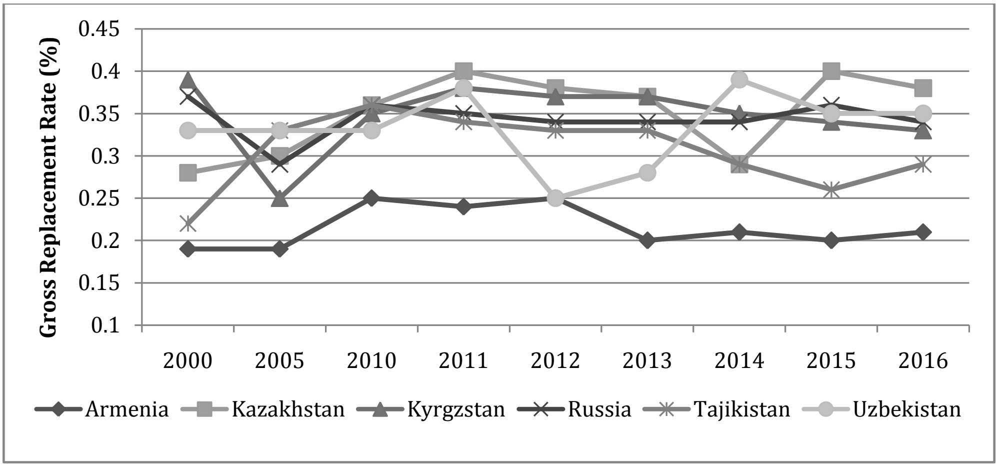
13 http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT _ID:312247.

Amongst the countries which preserved the distributive pension system the highest indicator was registered in Belarus (41%), and the lowest was found in Moldova (25%). The highest rate documented in Ukraine was in 2005 (52%). However, as shown in the figure the number decreased throughout time. So, in Ukraine, in 2016 the gross replacement rate decreased by 16 percentage points forming 36%. The indicator in Azerbaijan was 24% in 2005, however in 2010 it increased by 10 percentage points and formed 38% in 2016.

4.2 Gross Replacement Rates amongst Countries that Introduced Cumulative Components

Gross replacement rates amongst countries that introduced cumulative components has been exhibited in Figure 2.

Figure 2: Gross Replacement Rates amongst Countries that Introduced Cumulative Components in 2000-2016.



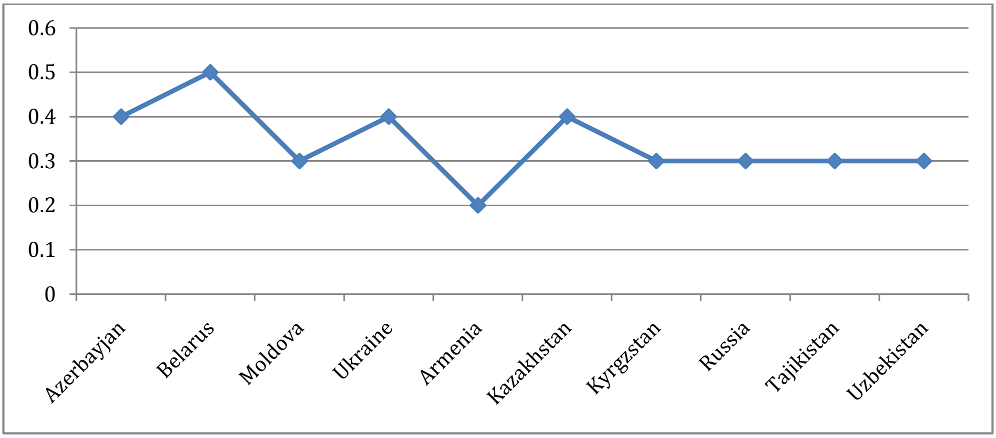
Source: CIS countries' statistical data 2000-2016

Figure 2 showed that Armenia had the lowest gross replacement rate 2016 (21%) while highest indicator was registered in Kazakhstan (38%). The lowest indicator in Uzbekistan was documented in 2012 (25%). In 2013 the latter increased by 3 percentage points. Moreover in 2014 it increased by 11 percentage points and formed 39%. Later, in 2016 the indicator decreased by 4 percentage points and formed 35%. The gross replacement rate was 29% in Tajikistan in 2016, which increased from by 7 percentage points.In Russian Federation, the average replacement rate was 34.7% in 2010-2016. In Kyrgyzstan the rate was 35.6%.

4.3 Average Replacement Rates in the CIS Countries

Average replacement rates in CIS countries during 2000-2016 has been presented in Figure 3.

Figure 3 :Average Replacement Rates in the CIS Countries in 2000-2016



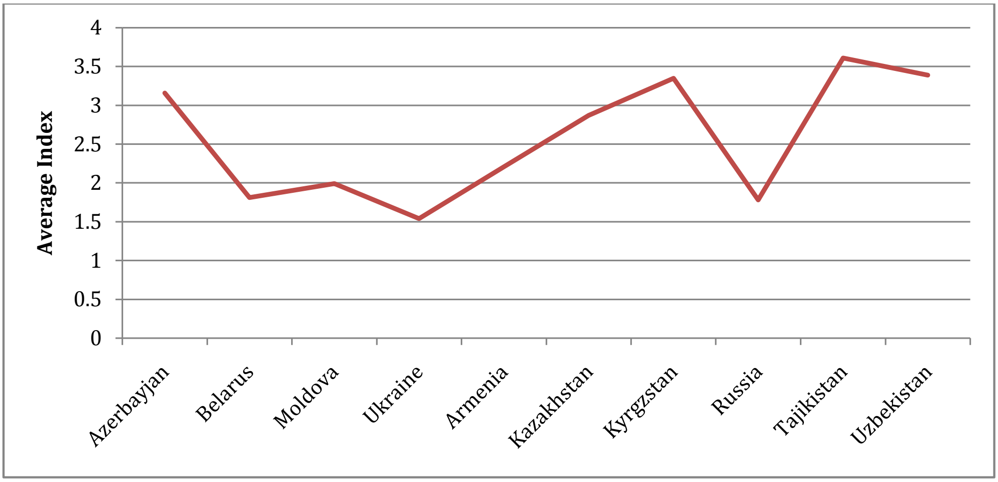
Source: CIS countries' statistical data 2000-2016

Figure 3 shows thatamong the countries which preserved the distributive pension system the highest indicator was registered in Belarus (50%), and the lowest in Moldova (30%). Among the countries that have introduced the mandatory cumulative component, the highest replacement rate was registered in Kazakhstan (40%), and the lowest in Armenia (20%). Consequently, all CIS countries except Tajikistan encounter with demographic aging issue.The increase in the number of pensioners in CIS countries resulted in the overload of the employed population. The second most important indicator for 1992-2016 is the ratio between the number of employed people and the number of pensioners. The indicator of the pension system load of the CIS countries is presented in Annex 2 and it shows that in 2016 only in Azerbaijan 3.6 employed is equal to 1 pensioner. In the rest 3 countries the indicator is 1.7 Belarus, 1.8 Moldova, 1.4 Ukraine. In 2016 1 pensionerwas equal to 4.3 employed in Uzbekistan, 3,8 employed in Kyrgyzstan, 3.7 in Tajikistan and 3.1 in Kazakhstan, whereas in Armenia and Russia this index was 1.9 and 1.7 respectively, so out of 6 countries only the results of 4 countries are optimistic. It should be noted that this ratio should be at least 3:1 for the financial stability of the pension system, but if we take into account that the legislation on employment of CIS countries has categorized that are considered to be occupied, but are exempt from paying social benefits, the financial stability of the pension system becomes more pessimistic, since the load factor is actually in the range between 1 to 1.1. In order to make the situation more realistic it is necessary to take the proportion of performers and pensioners that make the actual social payment, but we have presented the calculation by the number of the employed since we did not have the data released.

4.4 The Average Index of Pension System Load in CIS Countries

The average index of pension system load in CIS countries during 1992-2016 has been presented in Figure 4.

Figure 4: The average Index of Pension System Load in CIS Countries in 1992-2016



Source: CIS countries' statistical data 2000-2016

Figure 4 shows that the average index of pension system load in 1992-2016 was 3,2 in Azerbaijan, 1.8 in Belarus, 2 in Moldova, 1.6 in Ukraine. The countries which preserved distributive pension system the load factor compared to the countries with accumulative component, except Azerbaijan, pension load is redistributed among less number of the employed population. This in its turn predetermines the deterioration of the pension system load ratio. But in countries with cumulative components, the burden is higher for Armenia it was 2.2 and 1.8 for Russia.

4.4 Life Expectancy at Birth in CIS Countries

Life expectancy does matter in pension liability of the country. Higher life expectancy increases the financial burden of the countries with distributive pension systems. The research also studied the life expectancy at birth in CIS countries from 2005 to 2016. Life expectancy in CIS countries has been presented in Table 1.

Table 1: The Life Expectancy at Birth in CIS Countries (2005- 2016)

Figure in years

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Growth (%)
Armenia	73.5	73.3	73	74	74	74	74	74.3	75	75	75	75	2.0
Azerbaijan	72.4	72	73	72	72	72	74	74	74	74	74	74.5	2.9
Belarus	68.8	69	70	70	70	70	71	70	72	73	73	73	6.1
Kazakhstan	65.9	66	67	66	67	69	69	69	69	70	70	72.5	10.0
Kirgizstan	67.9	68	66	66	68	68	69	69	70	70	70	70.5	3.8
Moldova	67.9	68	69	64	69	70	69	69	71	72	72	72	6.0
Russia	65.3	66	66	67	68	68	69	69	70	71	71	71.5	9.5
Tajikistan	63	63	64	67	67	67	72	73	67	67	67	69.5	10.3
Ukraine	68	68	68	68	68	68	69	70	71	71	71	71	4.4
Uzbekistan	67	67	67	67	68	68	70	68	68	68	68	73.5	9.7
Mean	67.97	68.03	68.3	68.1	69.1	69.4	70.6	70.53	70.7	71.1	71.1	72.3	6.4
SD	2.966	2.812	2.83	2.879	2.166	2.059	1.96	2.206	2.369	2.385	2.385	1.661	

Source: CIS countries' statistical data
SD: Standard Deviation, Growth on 2016 over 2005

In 2016, the highest average life expectancy rates were registered in Armenia (75 years) followed by Azerbaijan (74.5) and Belarus (73) and the lowest in Tajikistan (69.5). Over the study period, the life expectancy of Tajikistan increased highest (10.3%) while Armenia lowest (2%). The average growth has been found 6.4 percent. The life expectancy among the countries in 2005 varied most (SD=2.9) and in 2016 varied least (SD=1.7) which showed that the difference on life expectancy among the countries is gradually lowered.

4.5 Natural increase in CIS Countries

The another significant indicator that influence the pension system is coefficient of natural increase, since the latter has its influence on the implementation of reforms of pension system as well. Natural increase is the difference between live births and deaths in a certain year. The natural increase of CIS countries per 1000 population over 2000-2016 has been elucidated in Table 2.

Table 2: Natural increase in CIS Countries in 2000-2016 (per 1,000 population)

Country / Year	Azerbaijan	Belarus	Moldova	Ukraine	Armenia	Kazakhstan	Kirgizstan	Russia	Tajikistan	Uzbekistan
2000	8.9	-4.1	-1.1	-7.5	2.7	4.6	12.8	-6.7	15.1	17
2001	8.1	-4.9	-1	-7.6	2.5	4.8	13.2	-6.5	22.1	15.1
2002	8	-5.9	-1.7	-7.6	2.1	5.3	13.1	-6.5	21.4	15.1
2003	8	-5.5	-1.8	-7.5	3.1	6.2	13.8	-6.2	22	15.5
2004	10	-5.2	-1	-7.5	3.7	8.1	14.7	-5.6	22.4	15.5
2005	10	0.8	-2	-7	5	6	13	-6	23	16
2006	11.6	-4.3	-1.5	-7	3.2	9.4	15.9	-4.8	23	15.5
2007	12	-5	-1	-6.4	4.1	10	16	-5	19	17
2008	12	-3	-1	-6	4.2	11	17	-3	22	17
2009	12	-3	-1	-6	5.2	13	17	-3	23	18
2010	11	-2	-1	-5	5.2	17	17	-2	24	18
2011	11	-2	-4	-4	4.7	14	19	-1	24	19
2012	13	-3	0	-4	4.9	14	20	-1	23	18
2013	13	-1	0	-4	4	15	20	0	25	16
2014	12	0	0	-4	5.1	15	21	0	27	17
2015	12	0	0	-4	4.6	17	21	0	26	18
2016	11	0	0	-4	4.1	15	22	0	25	18
Growth(‰)	1.24	0.00	0.00	0.53	1.52	3.26	1.72	0.00	1.66	1.06

Source: CIS countries' statistical data in 2000-2016

The indicators of natural increase in the CIS countries. As it's in the Annex 4 only five countries did not encounter natural growth issues amongst the CIS countries in 2016. In Tajikistan the natural growth formed 25 ‰ (promile),which is 1.7 times higher rate compared to 2000. Kyrgyzstan had 22‰, with 1.7 increase compared to 2000. Uzbekistan had 18 ‰ with 1.1 increase compared 2000, whereas Kazakhstan had 15 ‰, with 3.2 increase and Azerbaijan had 11 ‰ with 1.2 increase. According to the data of 2016, Armenia registered natural growth but it was only 4.1 ‰, and the growth was 1.5 times more than in 2000. In Belarus, Moldova and Russia the natural growth indicator was zero. In 2000 the mentioned countries had negative indicator (natural decrease) which means that they have a positive change throughout the next years. However, these countries are far from competing with Tajikistan, Kyrgyzstan, Uzbekistan, Kazakhstan and Azerbaijan in terms of natural growth indicators. The lowest results were registered in Ukraine, where the coefficient formed only -4 ‰.

5. CONCLUSIONS

Analyzing the pension systems of CIS countries the study found that even the countries that preferred to preserve the classical distributive pension system had to perform parametric reforms throughout time. Those reforms included raising the retirement age and the number of work experience years, granting the right to pension. However, these are temporary solutions for the existing issues and they cannot prevent the worsening of the situation. The results of the comparative analysis of replacement and load rates of pension systems of the CIS countries display that the replacement rates of the countries preserving the distributive pension system could not reserve the minimum threshold established by ILO and have showed a tendency to decline. The pension system load in the countries preserving distributive pension system has shown tendency to decline besides Azerbaijan. This means that the pension load was distributed to lesser number of employed citizens. Consequently, the current demographic challenges led to parametric reforms in the legislation of the pension system, considering the expected increase in the average life expectancy.

The remaining CIS countries that preferred multi-pillar pension system, meaning they completed the state distributive pension system through mandatory accumulative component, aim to provide pension to elderly people through multiple sources. At the same time they want to increase the compensation indicators and to alleviate the burden on the state budget in the funding of pensions.

There are no apparent positive differences in terms of pension adequacy and system stability in the distributive or pay-as-you-go pension system and cumulative pension system countries, as the countries that introduced cumulative component, except for Kazakhstan, have invested in the second degree in recent years and can assess the effectiveness of the cumulative system only when retirees will get a retirement pension not only from the distribution component, but also from the cumulative component.

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Annex-1

The ratio of numberof pensioners to total population (1992-2016)

Year	Azerbaijan	Belarus	Moldova	Ukraine	Armenia	Kazakh-stan	Kirgizstan	Russia	Tajikistan	Uzbekistan
1992	14.8	24	20.3	27.4	18	17.1	14.2	23.8	9.9	12.5
1993	16.9	24.4	20.8	27.9	18.6	18.4	14.2	24.3	10.9	12.7
1994	19.9	24.6	21.2	28.1	18.7	18	13.6	24.7	10.4	12.3
1995	16.1	24.8	18.2	27.2	19.5	18.2	13.6	25	10.1	12.3
1996	16.2	25	17.6	27.4	19	18.6	13.4	25.5	9.7	12.5
1997	15.5	25.2	17.6	27.8	18.4	18.1	13.3	25.8	9.4	12.5
1998	14.9	25.1	20.9	27.9	18	17.9	13.2	26	9.4	12.5
1999	15.2	25.2	20.7	28.2	17.8	17.5	12.9	26	9.3	12.7
2000	15.2	25	19.9	28.2	17.5	17.3	12.4	26.1	9.2	12.6
2001	15.4	24.9	19.2	28.4	17.3	16.7	12.3	26.4	8.8	12.9
2002	15.7	24.8	18.5	28.6	17	16.3	12.3	26.4	8.6	-
2003	16	24.9	17.8	28.8	17	16.1	11.9	26.3	8.2	-
2004	16.5	25	17.6	28.5	16.9	15.9	11.1	26.5	7.9	12.5
2005	16.7	24.9	17.5	28.6	16.7	15.7	11.6	26.7	7.6	12.4
2006	14.3	25.2	17.5	28.5	16.5	15.5	11.4	26.8	7.6	-
2007	14.4	25.2	17.4	28.4	16.3	15.1	11.3	27.1	7.5	-
2008	14.5	25.2	17.5	28.4	16.4	15	12.2	27.2	7.5	-
2009	14.7	25.8	17.5	28.5	16.3	15	11.9	27.5	7.5	-
2010	14.2	26	17.6	30.1	15.9	14.6	9.7	27.8	7.4	10.4
2011	13.8	26.2	17.9	30.4	15.5	14.5	9.8	28.1	7.6	10
2012	13.6	26.5	18.3	30.1	16.8	14.4	10	28.3	7.5	9.7
2013	13.5	26.8	18.5	29.9	17.1	14.9	10.1	28.6	7.5	9.6
2014	13.5	27	18.8	28.4	17.3	14.9	10	28.3	7.2	9.5
2015	13.4	27.3	19.1	28.9	17.5	15	10	29.2	7.2	9.6
2016	13.4	27.5	19.1	28.1	17.9	15.4	10	29.4	7.4	9.6
Mean	**15.1**	**25.5**	**18.7**	**28.5**	**17.4**	**16.2**	**11.9**	**26.7**	**8.5**	**11.5**
SD	1.4	0.9	1.2	0.8	1.0	1.4	1.4	1.4	1.1	1.4

Source: CIS countries' statistical data 1992-2016

SD: Standard Deviation

Annex-2

The indicator of the pension system load of the CIS countries from 1992-2016

	Azerbaijan	Belarus	Moldova	Ukraine	Armenia	Kazakh-stan	Kirgizstan	Russia	Tajikistan	Uzbekistan	Mean	SD
1992	3.40	2.00	2.30	1.70	2.40	2.70	2.90	2.00	3.50	3.10	2.60	0.59
1993	3.00	1.90	1.80	1.70	2.40	2.30	2.60	1.90	3.00	3.00	2.36	0.50
1994	2.80	1.90	1.80	1.60	2.30	2.20	2.70	1.80	3.20	3.10	2.34	0.55
1995	2.90	1.70	2.10	1.70	2.30	2.20	2.70	1.70	3.30	3.00	2.36	0.56
1996	3.00	1.70	2.20	1.70	2.40	2.20	2.70	1.60	3.10	3.00	2.36	0.55
1997	3.10	1.70	2.20	1.70	2.30	2.30	2.70	1.50	3.30	3.00	2.38	0.60
1998	3.10	1.80	2.10	1.60	2.30	2.30	2.80	1.60	3.10	3.00	2.37	0.57
1999	3.10	1.80	2.00	1.40	2.30	2.30	2.90	1.70	3.10	2.90	2.35	0.59
2000	3.00	1.80	2.10	1.50	2.30	2.40	3.00	1.70	3.30	2.90	2.40	0.59
2001	2.90	1.80	2.20	1.40	2.30	2.70	3.10	1.70	3.40	2.90	2.44	0.63
2002	2.90	1.80	2.30	1.50	2.00	2.80	3.30	1.80	3.40	2.90	2.47	0.64
2003	2.80	1.80	2.10	1.50	2.00	2.90	3.30	1.80	3.50	3.00	2.47	0.67
2004	2.80	1.80	2.10	1.50	2.00	3.00	3.30	1.80	4.00	3.00	2.53	0.77
2005	2.80	1.80	2.10	1.60	2.10	3.10	3.50	1.80	4.10	3.20	2.61	0.81
2006	3.30	1.80	2.00	1.60	2.10	3.20	3.60	1.90	4.10	3.20	2.68	0.84
2007	3.20	1.80	2.00	1.60	2.10	3.30	3.70	1.80	4.10	3.40	2.70	0.88
2008	3.20	1.80	1.90	1.60	2.30	3.40	3.50	1.80	4.00	3.50	2.70	0.86
2009	3.10	1.90	1.90	1.50	2.20	3.30	3.50	1.80	4.00	3.50	2.67	0.85
2010	3.40	1.90	1.80	1.50	2.30	3.40	4.20	1.80	4.00	3.80	2.81	0.99
2011	3.40	1.90	1.80	1.50	2.30	3.40	4.20	1.80	3.80	4.00	2.81	0.99
2012	3.50	1.80	1.80	1.50	2.30	3.40	4.00	1.80	3.80	4.20	2.81	1.01
2013	3.50	1.80	1.80	1.50	2.30	3.30	3.90	1.70	3.80	4.30	2.79	1.02
2014	3.60	1.80	1.80	1.50	2.20	3.30	3.90	1.70	3.90	4.20	2.79	1.03
2015	3.60	1.70	1.80	1.30	2.00	3.20	3.90	1.70	3.80	4.30	2.73	1.07
2016	3.60	1.70	1.80	1.40	1.90	3.10	3.80	1.70	3.70	4.30	2.70	1.04

Source: CIS countries' statistical data 1992-2016

SD: Standard Deviation

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Service Quality in Nepalese Insurance Market

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Abstract

The present study focuses on measurement of customers' satisfaction level in Nepalese insurance market by comparing customers' perceived service quality and expectations. The questionnaire for customers' perceptions and expectations were prepared common for both life and non-life insurance companies. The data is being collected through a framed questionnaire which was totally sculpted based on the SERVQUAL model. For this study, 9 life insurance Companies, 17 non-life insurance companies, and 1 Reinsurance Company were selected for response of customers' satisfaction level.

The five dimensions of SERVQUAL are tangibility, reliability, responsiveness, assurance, and empathy. The customers perceive the service quality to be high if it is perfect on their expectation and it leads to their satisfaction with the related service. In this paper, primary data collected from the Kathmandu valley is the descriptive analysis of the life and non -life insurers in Nepalese insurance market. The study finds the gap between the expectations and perceptions of customers in Nepalese insurance market.

Key words: Service Quality, Customers' Satisfaction, Insurance Companies

1. Introduction

Overview of Nepalese Insurance Market

In Nepalese insurance market consists of 9 life insurance Companies, 17 non-life insurance companies, and 1 Reinsurance Company[3]**.** Besides, there are more than 0.1 million agents, around 300 surveyors, almost 5 million policyholders (Insurance Board,

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3 The data was taken on 2017 May. Currently there are 18 life insurers

2016). The market is regulated by Insurance Board based on Insurance Act, 1992; Insurance Regulation, 1993 and so many Directives and Guidelines.

Table: 1 Ownership Structure of Insurance company

Ownership	Non-Life	Life	Reinsurance	Total
Government	1	1	-	2
Private	13	5	-	18
Foreign	2	1	-	3
Joint	1	2	1	4
Total	**17**	**9**	**1**	**27**

Source: Economic Survey 2015/16

Currently there are 18 life insurance companies in Nepalese insurance market out of which 9 insurance companies were established in 2017. Likewise there are 21 nonlife insurance companies in Nepalese market, but still 3 non-life insurance companies have not received operating licence. There is one reinsurance company i.e. Nepal Reinsurance Company, established in 2014.

Rastriya Beema Sansthan had started to operate life business from 1972 and in the same year LIC of India[4] voluntarily withdrew from the Nepalese market. In 1986, National Life and General Insurance Company Limited (Now operating life and non life business separately) was licensed as the first insurance company in the private sector with minority interest of foreign equity. It began life insurance business in 1988. In 2001, Life Insurance Corporation Nepal (LIC Nepal) was established as a joint venture company. Life insurance companies operating till June 2017 are presented in Table 2:

Table 2: Life Insurance Companies

SN	Company	YOE	SN	Company	YOE
1	Rastriya Beeam Sansthan	1968	6	Asian Life Insurance	2008
2	National Life Insurance	1986	7	Surya Life Insurance	2008
3	Nepal Life Insurance	2001	8	Gurans Life Insurance	2008
4	Life Insurance Corporation (Nepal)	2001	9	Prime Life Insurance	2008
5	Met Life ALICO	2001			

Source: Beema Samiti, 2017

YOE: Year of establishment

4 Indian Life insurer

Currently there are 18 life insurance companies in Nepalese insurance market. 9 insurance companies, established in 2017, have entered as new players in Nepalese insurance market but they during the study period new companies had not operated their business.

Nepal Insurance Company, nonlife insurer, was established in 1947 as the first insurance company in Nepal. Before the establishment of Nepal Insurance Company, Nepalese non life insurance requirement was met mostly by different Indian Insurance Companies. Likewise in 1968, Rastriya Beema Sansthan was established as a government insurance company for the fulfillment of national need under the Rastriya Beema sansthan act 2025 as a composite organization for both businesses i.e.; life and non life. Similarly National Life and General Insurance Company were licensed in 1986 as the Insurance Company in the private sector with partial foreign equity in composite form. In 2005, however, the non-life business of National Life and General Insurance Company was transferred to its subsidiary company – NLG Insurance Company. There are 21 nonlife insurance companies in Nepalese market, but still 3 non-life insurance companies have not received licence. The name of Non-life insurance companies and their establishment year are exhibited in Table 3.

Table 3: Non-Life Insurance Companies

SN	Company	YOE	SN	Company	YOE
1	Nepal Insurance	1947	10	Sagarmatha Insurance	1996
2	The Oriental Insurance	1967	11	Prabhu Insurance	1996
3	Rastriya Beema Company	2014	12	IME General Insurance	2000
4	National Insurance	1973	13	Prudential Insurance	2002
5	Himalayan General Insurance	1993	14	Shikhar Insurance	2004
6	United Insurance	1993	15	Lumbini Insurance	2004
7	Premier Insurance	1994	16	Siddhartha Insurance	2005
8	Everest Insurance	1994	17	NLG Insurance	2005
9	Neco Insurance	1996			

Source: Beema Samiti

YOE: Year of establishment

There is a single Reinsurance Company by the name of Nepal Reinsurance Company, established in 2014 under the Companies Act, 2006. It is the successor of insurance Pool that was set up in 2003 with the aim to cover damages caused by the terrorism. It was established with the vision to provide quality reinsurance service to clients, and to be the professional reinsurer in Asia. The missions of Nepal Reinsurance Company are to become one of the esteemed re-insurer in the region and to be customer-focused and committed to growth profitability and satisfactory returns to stakeholders.

The purpose of this study is to measure the level of satisfaction of customer of Nepalese insurance market by comparing customers' perceived service quality and expectations using the SERVQUAL model widely used by researcher and propounded by Parasuramanet. al.

2. Literature Review

Analyzing consumers' satisfaction and quality in service sector industries is an evolving area of research of particular importance in increasing levels of competition (Johnson, 1988). SERVQUAL is widely used today as a diagnostic tool for uncovering areas of service quality strengths and shortfalls. The practical value of SERVQUAL is twofold. First, SERVQUAL can be used as a benchmarking "best practice" can be drawn by comparing the summary SERVQUAL scores of major "players" within the same industry. Second, SERVQUAL can be used as a diagnostic or prescriptive tool. In this way, periodic measures of dimensional scores can identify problems within specific service processes. SERVQUAL's importance, particularly as a diagnostic tool, is propelling researchers to refine the measure (Lee, 1997).

The service quality is the comparison of perceived service (what customer feel about the service of Nepalese insurance market) with the expected service (what is the performance of the offered service). The customers perceive the service quality to be high if it is perfect on his expectation and it leads to their satisfaction with the related service. Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis(Burböck, 2014).According to Mayer (2009), when the service being delivered it is truly a pure service one requiring high customer contact frequency, having a high degree of service intangibility, and requiring service employees to work interdependently.

Quality has come to be recognized as a strategic tool for attaining operational efficiency and improved business performance. This is true for both the goods and service sectors. However, the problem with management of service quality in service firms is that quality is not easily identifiable and measurable due to inherent characteristics of services which make them different from goods (Gupta, 2016).

The importance of services to overall economies worldwide and the strategic impact of service quality perceptions, the appropriate conceptualization and measurement of the service quality construct represents an important concern for services marketers (Taylor, 1994). Improving the service quality is a key for insurance companies as it is considered a competitive advantage in the market (Burböck, 2014).

Delivering customer satisfaction is at the heart of modern marketing, which is a post-purchase judgment of the consumers. The analysis of responses clearly reveals that there exists a significant perceptual difference among customers regarding overall service quality with their respective insurance companies (Gulati, 2012).

Satisfaction is the consumers' fulfillment response. It is a judgment that a product or service feature of the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under or over fulfillment. Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis (Burböck, 2014).

According to Zeithaml (1988) consumers use five dimensions for evaluating service quality. The five dimensions identified by them included tangibility, reliability, responsiveness, assurance, and empathy.SERVQUAL can fruitfully be supplemented with additional qualitative or quantitative research to uncover the causes underlying the key problem area or gaps identified by a SERVQUAL study (Zeithaml,1991).SERVQUAL is a research instrument consisting of two sections: a) 22 statements designed to ascertain the general expectations of customers concerning a service and b) A matching set of 22 statements intended to measure customers' assessments of a specific firm's service quality. The five dimensions of service quality as hypothesized by Parasuraman, Zeithaml, and Berry (henceforth referred to as PZB) are tangibles, reliability, responsiveness, assurance, and empathy. According to ORWIG(1997), the definitions of these dimensions are as follow:

Dimensions	Definition
Tangibles	Appearance of physical facilities, equipment, personnel, and communication materials.
Reliability	Ability to perform the promised service dependably and accurately.
Responsiveness	Willingness to help customers and provide prompt service.
Assurance	Knowledge and courtesy of employees and their ability to convey trust and confidence.
Empathy	Caring individualized customers.

3. Methodology

According to Zeithaml(1988) consumers use five dimensions for evaluating service quality. The five dimensions identified by them included tangibility, reliability, responsiveness, assurance, and empathy. In this study,descriptive and quantitative research has been chosen. The main objective of this research work is to study to explore the gap between the perception and expectation of customers in Nepalese insurance market. The data is being collected through a framed questionnaire which was totally sculpted based on the SERVQUAL model. The questionnaire has 21 questions which were based on the RATER model (Reliability, Assurance, Tangibility, Empathy and Responsiveness model). Questions were modified after the pilot survey from 10 expert of Nepalese insurance market. Experts represent the personnel who have more than 10 years of experience in this field as executive level and researcher of insurance field. The study was conducted in the period of January 2018 to March 2018 at Kathmandu valley. Respondents were selected for customers' satisfaction level from the companies established before 2017. Sampling technique used for the study was judgmental sampling and 192 responses were taken from staffs, agents and customers.

SERVQUAL questionnaire (22 items) developed by Parasuraman*et al.* (1985) was used for the study. When designing the questionnaire some modifications and adaptations were made to selected questions to make them more relevant to the Life and Non-Life Insurance Company's services at Kathmandu valley. The questionnaires consisted of 22 questions in five dimensions: tangibility, reliability, responsiveness, assurance and empathy. The questionnaire has an 'expectations' section with 21 statements and a 'perceptions' section consisting of a set of matching statements. The statements in both the expectations and perceptions sections were grouped into the five dimensions. A 5-point Likert scale was used for the scoring system with 1 representing Strongly Disagree and 5 representing Strongly Agree.

4. Result and Discussion

4.1 Demographic Profile of Insurers

There are two type of questionnaire. One for insurers which is called experts and other for customers. (Table 4a and 4b)

4.1.1 Profile of Experts

The profile of experts (10) has been presented below in Table 4a.

Table 4a: Profile of Experts

Attribute	**No**	**%**
Types of Company		
Life	3	30
Non Life	6	60
Other	1	10
Total	**10**	**100**
Position of Experts:		
CEO	7	70
Executives	2	20
Researcher	1	10
Total	**10**	**100**

Attribute	**No**	**%**
Qualification of Experts		
PhD	1	10
CA	2	20
Fellowship	1	10
Masters	6	60
Total	**10**	**100**

Source: Field Survey, 2017

Table 4a presents the profile of experts (10) where 3 experts from life insurance company, 6 experts from non-life insurance company and one researcher had given their suggestions for SEROQUEL questionnaire. In this study, experts represent their position as 7 CEOs, 2 Executives and 1 Researcher. Qualification of experts in this research study is 1 PhD holder, 2 chartered accountants, 1 Fellowship and 5 masters' degree holder.

4.1.1 Profile of Customers

The profile of customers (192) has been presented below in Table 4b.

Table 4b: Profile of Customers

Attribute	No	%
Gender		
Female	50	25.5
Male	142	74
Total	192	100
Age		
16 to 30	73	38
31 to 45	85	44
46 to 60	26	13.5
above 60	8	4
Total	192	100
Monthly Income (in Rs)		
Below 10,000	12	6
10000 to 20000	33	17
20000 to 50000	74	39
50000 to 100000	39	20
above 100000	22	12
Student	11	6
Housewife	1	1
Total	**192**	100

Attribute	No	%
Qualification		
Below SLC	10	5
SLC	21	11
Intermediate	42	22
Bachelors	63	33
Masters	55	28.5
PhD	1	0.5
Total	192	100
Profession		
Government Employee	10	5
Semi Government Employee	15	8
Private Organization's Employee	72	37.5
Business Person	61	31.5
Retired Employee	9	5
Student	19	10
House makers (House wife)	6	3
Total	**192**	**100**

Source: Field Survey, 2018

Table 4b presents the profile of customers (192) where 50 customers are female and 142 are male. Monthly income of customers represents maximum 74 customers from Rs.50,000 to 1,00,000, and minimum 14 customers represents below 10,000 and 22 customers represents maximum income group above Rs. 1,00,000 monthly income likewise there are 11 students and 1 housewife who do not have personal monthly income so they did not give information about the monthly income. Qualification of customers represents 63 customers the biggest group has bachelors' degree followed by 55 masters' degree holders' customers, 42 intermediate, 21 SLC and 10 below SLC. Profession of respondents as a customer biggest group represents the 72 private organization's employees, followed by 61 business persons, 19 students, 15 semi government employees, 10 government employees, 9 retired employees and 6 house wife.

4.2 Reliability Analysis

For the measurement of internal consistency in variables, a reliability test has been done. Since the questionnaire was one of the primary concerns to this study, a study can be considered as reliable when the tool used in that study is reliable to the extent that the scores made by the respondents remain approximately the same in repeated measurement. So the measurement of Cronbach's Alpha showed in the table below the value not less than 0.60 in each measurement scale.

The reliability scale was employed to assess the validity of the five dimensions of SERVQUAL. After analyzing all the 21 questions of the structured questionnaire used in this, it has been found that α of the overall questionnaire is 0.942 for P(Perceptions) for E(Expectations) 0.729 (Table:3) and so the result signifies that the structured questionnaire used in this study probably indicates good reliability. Apart from analyzing the overall reliability of the questionnaire, Cronbach's α was also employed to measure the reliability of the underlying dimensions i.e. Tangibles, Reliability, Assurance, Responsiveness, and Empathy in Table 5.

Table 5: Item-Total Statistics (Perception P &Expectation E)

Cronbach's Alpha if Item Deleted		
Dimensions	**Perception**	**Expectation**
Tangibles	0.86	0.75
Reliability	0.839	0.67
Responsiveness	0.843	0.71
Assurance	0.898	0.72
Empathy	0.839	0.76

Source: Field Survey 2018

4.3 Expectations and Perceptions Analysis

The hypothesis, H0: there is no difference between expected and perceived value on service quality of the insurance companies has been tested by the t statistics.

Service quality parameters such as: Reliability, Assurance, Tangibility, Empathy and Responsiveness as well as the SERVQUAL questionnaire that we call them service quality indicators, have been presented in Table 6 in the first column. Customer of Nepalese insurance market perception and expectation are respectively in the second, third, fourth and fifth columns with the mean value and standard deviation for each of them. Mean value for finding gap (P-E) between the perception and expectation have been evaluated in the sixth column, t- value and p value of t statistics (5% significance level) in seventh and eighth columns respectively calculated.

Table 6: Descriptive table of comparison of Expectations and Perceptions

	Mean score of P	SD of P	Mean score of E	SD of E	Gap Score = P-E	t Value	Sig.
Tangibles:	**3.75**	**0.85**	**4.121**	**0.6**	**-0.367**	**-7.51**	**0.01**
Visually appealing physical facilities	3.73	0.82	4.104	0.68	-0.37	-5.21	0.01
Convenient location	3.78	0.92	4.125	0.63	-0.344	-4.81	0.01
Modern and appropriate equipment and technology	3.68	0.85	4.146	0.55	-0.469	-6.48	0.01
Well dressed and neat in appearance	3.82	0.81	4.109	0.54	-0.287	-4.52	0.01
Reliability:	**3.61**	**0.92**	**4.159**	**0.57**	**-0.546**	**-10.7**	**0.01**
Indemnity without hassle	3.33	0.97	4.219	0.61	-0.891	-10.7	0.01
Financially stable	3.86	0.79	4.162	0.54	-0.297	-5.1	0.01
Sincere interest in solving customer's concern	3.67	1.04	4.203	0.57	-0.536	-6.81	0.01
Transact products and services of highest quality	3.59	0.79	4.052	0.54	-0.458	-7.04	0.01
Responsiveness:	**3.69**	**0.91**	**4.085**	**0.58**	**-0.397**	**-8.37**	**0.01**
Happy and willing to serve customers	3.74	0.91	4.13	0.6	-0.385	-5.57	0.01
Employees tell customers exactly when services will be performed	3.63	0.98	4.146	0.57	-0.516	-7.4	0.01
Always be willing to help customers	3.66	0.86	4	0.59	-0.339	-5.71	0.01
Accessible management for customer	3.71	0.9	4.063	0.56	-0.349	-5.32	0.01
Assurance:	**3.74**	**0.87**	**4.076**	**0.57**	**-0.339**	**-4.02**	**0.01**
Skills in providing services	3.58	0.88	4.057	0.56	-0.479	-6.69	0.01
Sufficient knowledge of service information	3.65	0.92	4.021	0.58	-0.375	-5.4	0.01
Courteous with customers	3.91	0.81	4.099	0.58	-0.188	-3.84	0.01
Customers feel safe in their transaction	3.81	0.82	4.125	0.55	-0.313	-4.93	0.01
Empathy:	**3.74**	**0.87**	**4.023**	**0.63**	**-0.286**	**-7946**	**0.01**
Customer's best interest at heart	3.68	0.87	4.089	0.6	-0.406	-5.67	0.01
Efficient distribution outlet- brokers, agents and other intermediaries	3.47	0.84	3.755	0.64	-0.286	-4.83	0.01
Employees give customers individual attention	3.5	0.96	4.073	0.63	-0.573	-7.48	0.01
Integrity and trustworthiness in dealing with customers	3.84	0.77	4.073	0.57	-0.234	-4.39	0.01
Ethical behavior in the work place	3.83	0.82	4.125	0.53	-0.297	-4.99	0.01

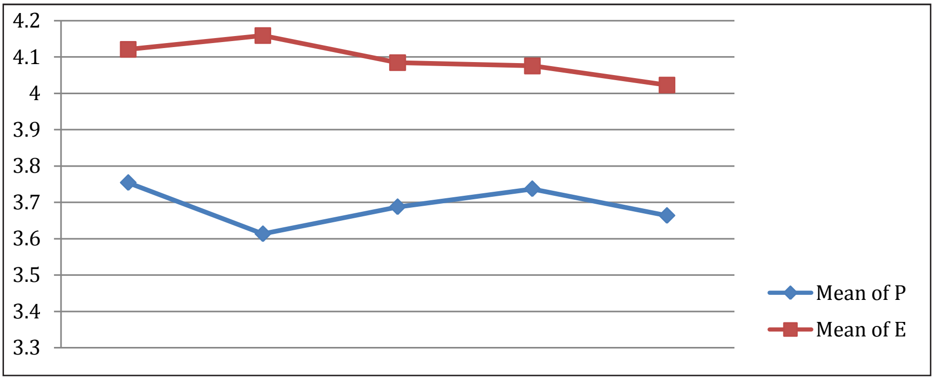
Source: *Field Survey 2018, n= 192, significant at 5%*

P= Perceived, E= Expected

The table 6 shows that the significance value is (0.001) which is less than 0.05, so that null hypothesis is rejected for each dimensions of service quality with overall service quality. The p value of t statistics shows that there is the gap between the perceived and expected value which is significant.

This shows that there is a gap that exists between service quality dimensions of expectation and perception in services of Nepalese insurance market. The difference is more clearly exhibited by Figure 1.

Figure 1: Dimensions of Service quality in Nepalese Market



Source: Prepared by resulted primary data

Figure 1 reveals the levels of service quality in all dimensions in the customer expectations are greater than their perceptions. Therefore, the service quality offered by Nepalese insurance companies at Kathmandu valley is in weak quality through the customer perspective. On the other hand the insurance companies could not satisfy their customer expectations. It shows the bigger gap is in the reliability dimension and the small gap is in the assurance indicator of service quality. A small gap in assurance dimension shows that the customer does not feel negative from the service of employees which consists skillful job, courteous with customer etc. While a change in the dimension 'tangible' would lead to less change in satisfaction. The strategic implications are therefore straightforward: maximization of customers' satisfaction can be achieved not by maximization, but rather by optimization of the service quality (Burböck, 2014).

Firstly, the analysis revealed that most of the empathy items were regarded by customers as least important followed by assurance, responsiveness, tangibles, and reliability. This means that reliability is the most important aspect for customer's expectations. Likewise, empathy doesn't make more sense for them as compared to assurance, responsiveness, and tangibles whereas the personal relationship between the contact person and the customer is often more essential relative to other aspects of the services (Ganesh, 2000). Incorporates empathic sharing, communication of caring, evolving intimacy, and exchange more characteristic of friendship than commercial service. (Price, 1995)

Secondly, the perceptions on five dimensions of highest service quality in tangible dimension (whereas they give it to less importance -see table 4) followed by assurance, responsiveness, empathy, and reliability.

Thirdly, all the difference/gap scores were negative and statistically significant shows there is a perceived service quality gap in the Nepalese insurance market. In general, there will be negative gap between the perceptions and expectations. Only a negative asymmetric relationship between service quality and customer satisfaction can be explained by the prospect theory (Burböck, 2014).

Service organization may anticipate and even lead changes in these expectations, the customer perspective is paramount. Thus, to be service-oriented, organization need to monitor what customers want and identify where gaps exists between customer expectations and the organization delivery of services and products (Bobek, 1998).

Finally, the highest service gap between the perceptions and expectations show in reliability dimension. This means that the customer's level of confidence is low in case of indemnity, financial stability of insurance co., sincere interest in solving problems of customers by employees, and product of high quality provided by insurance company.

5. Conclusion

A small gap in assurance dimension shows that the customers do not feel negative about the service of employees. It indicates that employees in Nepalese insurance sector are able to show skillful job, courteous with customers etc. The skills related to the perception, processing, and the regulation of affective states of persons and others are important factors for determining how services are perceived by customers. When trying to enhance their service quality, service companies may want to focus on improving these skills. (Frese, 2008). Big Gap in reliability dimension emphasizes on the improvement in indemnity process, showing financial stability, sincere interest of employee to solving customer's concern, transact high quality of product and services. This situation indicates that there is room for improvement for reliability dimension in Nepalese insurance market. The balance theory approach might also inform training efforts. When negative relations exist between the organization and the consumer, providers might be instructed in how to assess and meet consumer expectations. And if the organization-provider bond is negative, the enterprise may want to educate employees on the benefit of organizational membership(Carson, 1997). Finally it can be said that Nepalese insurance market should focus on planning and executing their strategies towards increasing customers' satisfaction and loyalty through improved service quality.

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Trends and Prospects of Social Security Program in Nepal

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Abstract

The objective of the paper is to examine the current status, trend and growth of the social security program over the years in Nepal. The secondary data for four years has been used and data were obtained from the websites of the Ministry of Federal Affairs and Local Development. There are ten different categories of beneficiaries viz. senior citizens, senior Dalits, widow, single women, endangered indigenous nationalities, Dalit children, Karnali zone children, severe affected disable, fully disable, Karnali zone senior citizens who are receiving allowances as social security benefits.

The study concludes that during the study period, all allowances except treatment for senior citizens (70 years and above) increased by 100 percent. The rate of allowances was lowest for children (Karnali and Dalit) and highest rate for fully disabled, Endangered Indigenous/ Nationalities. It is seen that the government is more concerned towards the health of the senior citizens 70 years and above. The number of beneficiaries viz. senior citizens all (Dalits, Karnali and others), disable (Fully and severly affected), Endangered ethnic group is in increasing trend while Single/widow and Children (Dalit and Karnali) have been found in decreasing trend. Out of five clusters, the number of elder citizens is highest followed by single widow and children of Dalit and Karnali zone. Disable (Fully and severly affected) and Endangered ethnic group are only 4 percent of total beneficiaries in 2015/16. The growth of the total beneficiaries is less than 1 percent during three year period but number of disabled increased by 95% while widow/single women decreased by 10 percent in three years. Throughout the last three fiscal years, the largest number of beneficiaries were senior citizens followed by Single women/widow and children.

Keywords: *Social Security, Vital Events, Old Citizens, Indigenous Group, Social Security Allowlances*

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1. Introduction

1.1 Overview of Social Security in Nepal

The history of social securitylaw can be tracked in the "English Poor Laws" in 1601 which was the first codification andtells about the liability for the social well-being of English citizens.Germany adopted social security in 1889. Similarly, America in 1935 adopted social insurance for the welfare of its citizens.

The Universal Declaration of Human Rights in Article 22 clearly indicated that everyone has a right to social security and to realise it through national and international cooperation (United Nations, 2014). Furthermore, Article 25 of the same declaration imparts that everyone has the right to live a standard of life for his health or his family and also has the right of social security in the event of unemployment, sickness, widowhood, old age, disability and in difficult conditions beyond his control.

Social security as ''the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner'' (ILO, 2010). Merriam Webster Online Dictionary (2014) indicated Social security as a program or provision from the government for economic security or social welfare of a person or a family who are unable to work because they are old, disabled, or unemployed.

In the recent days along with different and drastic changes in the political situation, Nepal is also creeping ahead to ensure the peopleespecially the vulnerable groups benefitted through the program of socially protection. The first step towards it was initiated in 1994 by the first Nepal communist party UML led government. The communist government made an announcement of monthly one hundred rupees allowance for the senior citizens who fall in the seventy– fiveyears and above group.

The government had allocated 3% of the total budget in the fiscal year 2014/2015 and the total number of beneficiaries in the same year were about 8 % of the total population in the country(GoN, 2014). Certainly, it may be a challenge for a country like Nepal to allocate amount in social security whose economy largely depends on foreign aid. The number of beneficiaries may also differ in future due to demographic changes because the birth rate is decliningand the elderly population is increasing . The Crude Birth Rate is 22.4 per 1000(NDHS, 2016) and life expectancy at birth is increasing (66.6 years) in Nepal according to the census data of Nepal 2011 (CBS, 2014, vol 1).

The first step towards distributing social security allowance to the elderly people (70 years and above) was initiated in 1994 by the Nepal communist party UML led government. But since then, the after formed governments are also adding some more provisions and amenities to make the beneficiaries' lives easier through social protection. At present social security allowance with different rates is being distributed throughout the country in the form of cash to different categories people.

The Constitution of Nepal (2015) clearly states the provision of social security in the section of Fundamental rights and duties. Similarly, the Civil Servant Act (1993), the Children's Act 1992, Senior Citizens Act 2006, the Social Welfare Act 1992, the Labour Law, the Trade Union Act are some existing laws and regulations that address the social security of people in Nepal.

Ministry of Federal Affairs and Local Development Department, Government of Nepal of Vital Registration in its websiteas well as the Social Security Program Operation Procedure, 2012, specifies that at present social security allowance with different rates is being distributed throughout the country in the form of cash to different categories people such as: senior citizen, senior Dalit citizens, senior citizens of Karnali, widow, single women, children of Karnali and Dalit, fully disable, severely affected disable, endangered indigenous nationalities (MOFALD, 2017). The Dalit caste people are the most disadvantaged groups and in the ancient Hindu caste system they fall under the lowest hierarchy and were also considered as untouchable. Similarly, Karnali is the most backward, remote and excluded zone among the 14 zones in Nepal in terms of development and people in the Karnali region are in miserable condition[2].Government started to distribute social security allowances to beneficiaries via branchless banking in three districts namely,Surkhet, Banke and Baglung as a new way in distributing social security allownaces since 2016.Still the branchless banking is limited in three districts.

1.2 Procedure of Distributing Social Security Allowance

First a person should be registered in the Village Development Comittee (VDC) or Municipality office as a permanent residence. If any person migrates from different parts of a country then he/she should bring a migration certificate from the previous VDC or Municipality and should have a citizenship certificate. Then only a person's vital event will be recorded or updated. Besides this, citizens should update any incidents happen in the family like birth, death, migration, marriage and divorce.

Second, the VDCs and Municipalities should also keep their record updated on a regular basis. They should remove the dead and out-migrated people and enter the newborn, newly married and in-migrated people. Still, the registration system is not refreshed and the staffs of the local bodies are using a large paper work which can be shorten through introducing the computers.

The social security allowance has helped a lot to the poor of each category beneficiaries. Dalit children pay school fee, widow used for buying food. The Assessment conducted by Government of Nepal, National Planning Commission on Social Security Allowances Program in Nepal revealed the fact that the beneficiaries spent their allowances in meeting both personal and household expenses. They spent on food, tea and snacks, clothes, festival celebration and transportation.

2 http://docr.gov.np/Home/SocialSecurity).

The Assessment of Social Security Allowance program conducted by National Planning Commission of Nepal in 2012 found that most of the beneficiaries in the survey told the allowance was insufficient to cover their personal and household expenditure (NPC, 2012). Some of the family members misuse their allowances and do not give cash in the hands of the targeted people. Some people are deprived if they do not have documents such as: citizenship certificate, birth certificate and they should apply in their VDCs demanding the benefits.

The main objective of the paper is to examining the social security system of Nepal that has been introduce by the government of Nepal as a social protection tool. The study aims to explore the different forms of social security benefits, it's impacts and effects of branchless banking system in distributing social security allowances. It also discusses the challenges of the social security programs.The rest of the paper is organized as follows. The next section of the study is related with review of literature,third chapter discusses the methodlogyfllowed by result and discussion and lastly concludes based on the findings.

2. Review of Literature

2.1 Review of Existing Regulation and Acts

The Constitution of Nepal (2015) provisioned social security to its citizen under the section of Fundamental rights and duties. Article 41 provisioned rights for senior citizens, Article 42 specified the right to social justice, Article 43 mentioned right to social security. Similarly,there is the provision of making policy in order to protect the single women, orphans, children, disabled, incapacitated and people who are on the verge of extinction. The Civil Servant Act (1993) has some provisions to support the government employees during the period of retirement in different forms. For instance: provident fund, pension, and discount on health services. Likewise, free maternal care in government hospitals and some financial support for delivery women is also a form of social protection. However, the support is not sufficient to the people having lower economic status.

The basis for the distribution of social security allowances discussed above is the record of vital events registered with the local government authorities mainly: Village Development Committee (VDC) and Municipality offices. In the absence of the record, the beneficiaries will be deprived of such social security allowances. According to Birth, Death and Other Personal Events (Registration) Act, 1976, all events including birth, death, migration, divorce and marriage should be registered in the VDC and Municipality within 35 days where a citizen is residing permanently (MoFALD, 2013)[3].

The Children's Act 1992 of Nepal has made provision that the government of Nepal should make arrangement for the health of pregnant mothers and mothers who

3 Now VDCs are changed to Rural Municipality.

recently delivered a child. Similarly, Senior Citizens Act 2006 has stated that it will be a responsibility of the state to provide medical services in concessions for the senior citizens. The Labour Actstates that if a worker is physically wounded, hurt seriously or dies in course of office work, then the family of a worker should be given compensation.

Furthermore, the Social Welfare Act, 1992 imparts that the Government of Nepal could operate a special program to serve interest and provide welfare to the child, old aged people and helpless. Likewise the Civil Service Act, 1993 has made a provision that every government employee is entitled to a monthly pension if he has been in the government service for more than twenty years. The Labour Law, Trade Union Act, Civil Servant Act, Children Act, Senior Citizen Act, the Social Welfare Act has made some provisions regarding to social protection of citizens. There is no effective mechanism to examine whether the laws are implemented or not. Notwithstanding, the laws relating to social security are in practice in and the laws become effective only when citizens of a country are aware and active.

2.2 Emperical Review

There has been a large extension of the social security programs throughout the developing countries in recent times. The role of social security is different and very important in developing countries than in developed countries. In the developing countries, social protection program has a strong focus in reducing poverty and supporting the poorest families. Similarly, in the developing countries social security is a key component of development policy and is expected to increase productive capacity through investing in human and physical effects. On the other hand, in the developed countries it is considered only to protect poor people from the worst effects of deprivation. In other words, income maintence or protecting living standards is considered as social protection in the developed countries. (Barrientos, 2010).

The aim of social protection is to reduce vulnerability and to manage the economic risks of household, individual and community (Johanna et al, 2009). Khanal (2012) in his report argued that Nepal in some extent has provided basic social protection to the people and there are policies and legal provisions for the social protection of general people. However, the programs are not sufficient and the employees in the government sector are more benefitted than in private sectors.

Social Protection helps an individual to get health care; it also gives income security when a person is old, sick, old and unemployed. It provides protection to a household, when a breadwinner is dead. As indicated by International Labour Organization (n.d.) in their report facts on Social Security that one in five people has social security in the world and the condition of social security is also not good in South Asia and Sub-Saharan Africa. Only 5 to 10 percentage of the working population gets social protection in the region. However, it is an important tool for the improvement of a society (ILO, 2010).

Gillion (1994) pointed out that countries are restructuring and expanding their social security system according to the changes in political and economic conditions. The writer further pointed out that the social security should be extended to informal sectors, the government should give high priority by expanding public expenditures on social security programs and the willingness of upper income groups should be increased to support social security schemes.

A report " Social security: Issues, challenges and prospects" presented on International Labor Conference 89th Session published by the International Labor Office, Geneva argued that it is a challenging job to address the issue of social security because more than half of the people are excluded from any forms of social security. The statistics of the report also pointed that social security should also be able to respond to new demographic challenges for example: ageing and changing family structure, with implications of financing in the future (ILO, 2001).

In a case study on the use of smart cards to deliver government benefits in Andhra Pradesh, India the writer argues that, the smart card payment system has made the beneficiaries easier and also has empowered the female beneficiaries. Furthermore, it has also become effective to reduce fraud (Johnson, 2011).

Roth (2013) argued that branchless banking is a strategy for delivering financial services to the clients in the absence of physical bank branches. In the branchless banking, customers do not directly deal with the bank. Instead, customers deal with retail agents, mobile network operator or prepaid card issuer. In this banking, customers could also exchange cash, for value or consumer goods. Similarly, Lyman et. al (2006) further said that the retail agents used Point of Sale (POS) machine to read the card to know the balance of customer and also perform some basic banking functions.

In the developing countries four broad types of institutions such as: the state, private market, civil society and the family provide mainly two types of social security: social assistance and social insurance. Social assistance is in cash or kind financed by the state such as: safety needs for poor people in need as a form of child and family support (ISS, 2008 & PRB, 2009).

Sharma and Arora (2011)stated that in India promotional and protective measures are the two forms of social protection. Promotional social protection measures relied more on social assistance and protective measures mainly available to formal workers. Promotional measures include food and nutrition programs, housing programs for rural areas, self employment programs and wage employment programs.

3. Methodology

The paper is based on secondary sources to examine the social security program of Nepal. Secondary data has been obtained from the official websites of Department of

Vital Registration, Government of Nepal. Three years data of beneficiaries (FY 2012/13 -2014/15) and four years data of rate of Social security allowance (FY 2012/13 -2016/17) have been used to analyse the social security program. Descriptive tools like growth, trend, percentage have been applied to analyse the data.

4. Result and Discussion

4.1 Types of Social Security Programs

Nepal the Government provides social security basd on age, sex, ethnicity and geographical location of citizens. Ministry of Local Development classifies social security in three categories viz. Social assistance, Social Insurance, Social Safety Net as the three different provisions of Social Security (MOLD, 2010). These are :

4.1.1 Social Assistance

a) Monthly allowances in a form of cash to senior citizens, widow, single women, disable, dalitchildren and people of endangered races. B) Health care: Maternity care, free treatment for all disease to the senior citizens having age 70 and above, and heart treatment to children below age of 14. c) Education: Provide uniform to school goers girls to enourage to enroll in school.

4.1.2 .Social Insurance

Provident fund, Civil service pension, Unemployment insurance, Foreign employment insurance.

4.1.3 Social Safety Net

Scholarship and free education for Dalit and endangered indigenous nationalities students, Food program and social security allowances for each family member of endangered indigenous nationalities, Financial assistance for inter-caste marriage.

4.2 Distributionof Social Security Allowances by Branchless Banking

Throughout 77 districts social security allowance for seniorcitizens, widow, single women Dalit children , disabled, and endangered indigenous nationalities was distributed cash through the local government. Cash disbursement system has some weakness that sometimes the cash goes to the family members and sometimes to the wrong persons. It has been realized that the cash payment system is cumbersome and unsecured. To overcome the weakness, payment is made through banks. Since banks are not available in every village, the cash was distributed through the evidence of signature or fingerprint of beneficiaries.

In order to overcome the problems, the government of Nepal took an intiative of branchless banking for the distribution of social security allowances to the beneficiaries.

The government initiated branchless banking in three districts namely: Surkhet, Banke and Baglung with the assistance of the World Bank. Branchless banking is a process of distributing cash to the beneficiaries in villages by the local agents of a commercial bank in 2014.

The process seems to be little long at first, however, it was convenient to the beneficiaries. The local agent first verified the beneficiaries' personal information such as: name, date of birth, address, citizenship number with the VDC or Municipality record. After verification of the recepants, agent takes a photograph, and biometric of the concerned people and hand over cash at the first stage. Through this, it seems that there is less chance of manipulating the benefits of the beneficiaries by their family members.

Similarly, in the branchless banking, the beneficiaries will also be provided a smart card, which contains a chip where the personal detail of a concerned person is enclosed. The branchless banking is easier, faster and convenient. Additionally, the beneficiaries would have their bank account open where they could deposit their amount and also could use banking services. However, it is difficult to become the branchless banking successful until the registration of vital event record is completed and updated. If the vital event record is updated then the branchless banking program would be successful.

4.3 Mode of Payments of Benefits

The social security allowance is distributed throughtout the country three times a year by the local government entities such as Rural municipality or Municipality office. The beneficiary should renew their identity card annualy. With out the identity card no one is eligible to take the allowance and citizenship certificate is necessary to make their social security identity card. If any eligible person does not have citizenship certificate then he/ she won't be benefitted.

Furthermore, the beneficiary should go the place allocated by the local government body to take social security allowTance . The allowance will not be delivered to the houses of beneficiares. In the places where local government distribute social security allowance, there the government authority will deposit the amount in bank account of beneficiary from where the beneficiary could collect cash.

Although the social security program has helped the vulnerable and disadvantaged groups and also have contributed for the social welfare in some extent but still there are some hurdles and obstacles to get access to social security program. First, in order to get access to social securtity citizenship certificate is must. Still some backward and underprivileged people don't have citizenship certificate. Second, some do not have idea when and where the social security allowance will be distributed. So, throughout the districts all over the country the allowance should directly be deposited in the bank account of a beneficiary. However, all the beneficiaries donot have their bank account. Federal system has Federal government, 7 provincial and 753 local government are formed. Social security allowances is distributed through the banking system in 137 municipalities and 285 rural municipalities and remaining bodies still have not used the banking system as the banking services is not reached there[4].

Third, children of dalit community are getting child protection grant but children other than dalit community who are poor and underpreviledged are not entitle to get the support. Some people argue that the children of poor families should also be benefitted by the children protection grant.

4.4 The Trend of the Per Unit Support

At present social security allowances is divided in ten different categories. The monthly allowances rate for FY 2015/16 for Senior citizens aged 70 years is Rs. 1000, senior Dalit citizens 60 years and above is Rs.1000, all senior citizens 60 years and above residing in Karnali zone is Rs.1000. Likewise, Single women and widow is Rs.1000, severly affected disable is Rs. 600 and fully disable is Rs.2000. Accordingly, children (under the age of five years) of dalit caste groups and the children of Karnali zone get Rs 400 per month as child protection grant. Likewise, all the senior citizen above the years of 70 get Rs 1000 monthly as senior citizen treatment expense. The rate of Social security allowance for different citizens, community, locality and status over four fiscal years 2012/13 to 2016/17 has been presented in Table 1.

Table 1. Trend of Social security allowance rate FY 2012/13 -2016/17

Beneficiaries	Monthly Allowance (NRs.)				Growth* (%)
	2012/13	2014/15	2015/16	2016/17	
Senior citizens (Others, Dalit and Karnali)	500	500	1000	1000	100
Single/widow	500	500	1000	1000	100
Fully disable	1000	1000	2000	2000	100
Severly affected disable	300	300	600	600	100
Endangered Indigenous/ Nationalities	1000	1000	2000	2000	100
Children (Karnali and Dalit)	200	200	400	400	100
Treatment for Senior citizens (70 years and above)	2000 per year		500	1000	N/A

Source: http://www.docr.gov.np/Home/SocialSecurity

**Growth in 2015/16 over 2012/14*

N/A: Not applicable

4 http://www.docr.gov.np/, 2017

Table 2 exhibits that during the study period, all allowances except treatment for senior citizens (70 years and above) increased equally i.e. by 100 percent. In FY 2015/16, rate of allowance was lowest for children (Karnali and Dalit) i.e. NRs. 400 and highest rate to fully disabled, Endangered Indigenous / Nationalities i.e. NRs. 2000 per month.

Since, the last three fiscal years, it is seen that the government is more concerned towards the health of the senior citizens 70 years and above. In the year 2014/15, the government provided Rs. 2000 as a one year medical expense to the senior citizens 70 years ago. One year after, the government made a provison to provide Rs. 500 monthly to the target groups. Interestingly, the government again upgraded the allowance rate and made a provisonto providemontlyRs. 1000 as medical expense to the same age group. Finally, endangered indigenous nationalities receive Rs 2000 per month as social security allowance from the government (MoFALD, 2017).

4.5 Trend of Beneficiaries

There were only nine different categories of beneficiaries receiving social security allowances, however the types of beneficiaries have reached ten now by adding the treatment of senior citizens. A new initiative from the fiscal year 2015/2016 the government added a provision of monthly Rs 500 as medical treatment expense for the senior citizens 70 years age and above. However, at present, as mentioned in the website of Department of vital registration, it is known that the medical treatment expense of senior citizen has become doubled and is Rs. 1000 per month[5]. The trend of beneficiaries over the last three years (2012/13, 2013/14 and 2014/15) is exhibited Table 2.

Table 2: Trend of Beneficiaries FY 2012/13 -2014/15

(Figure in '000)

Beneficiaries	2012/13	2013/14	2014/15	Growth* (%)	Trend	Share (%)
1. Senior citizens all (Dalits, Karnali and others)	859	923	952	11	I	44
2. Single/widow	722	655	647	-10	D	30
3. Disable (Fully and severly affected)	29	32	56	95	I	3
4. Endangered ethnic group	19	19	22	18	I	1
5. Children (Dalit and Karnali)	550	537	508	-8	D	23
Total	**2,178**	**2,166**	**2,185**	**0.29**		100

Source: Social Security Program Annual report 2014/2015, Department of vital registration, Ministry of Federal Affairs and Local Development, Kathmandu, Nepal

**Growth in 2015 over 2013, I: Inceraseing, D: Decreasing*

5 http://docr.gov.np/Dashboard

From the above table it is seen the number of other groups is in increasing trend while Single/widow and Children (Dalit and Karnali) have been found in decreasing trend. Out of five clusters, the number of elder citizens is highest (44%) followed by single widow (30%) and children of Dalit and Karnali zone (23%). Disable (Fully and severly affected) and Endangered ethnic group are only 4 percent of total beneficiaries in 2015/16. The growth of the total beneficiaries is less than 1 percent during three year period but number of disabled increased by 95% while widow / single women decreased by 10 percent in three years.

Throughout the last three fiscal years, the largest number of beneficiaries were senior citizens followed by Single women/widow and children. Senior citizens all means male or female citizens above 70 years including Dalit and Karnali senior citizens. The Dalits(traditionally untouchable in the Hindu caste system) and Karnali people also falls on the most disadvantaged group . Social Security program operation procedure, 2012 says if a woman is a divorcee or unmarried and has crossed 60 years of age then only she is eligible to get social security allowance.

The reasons behind the increasing in number of senior citizens improving in health conditions and average age. Likewise, due to the positive change in the norms of the traditional society towards re-marry might be one of the reasons of fall down the number of single/widow over the three fiscal years. Furthermore, it could be argued that the decrease in total fertility rate, increase use of contraceptives and migration of young people to gulf countries might be the reasons for decreasing number of children receiving benefits over the last three fiscal years.

5. Conclusion

Mainly there are three types of social security allowance payments models in Nepal such as: cash distribution in the hand of beneficiaries, payment through banking system and branchless banking. Branchless banking seems to be more convenient to the people of remote areas however, the system is in practice only in three districts. In addition to this, mobile banking could also be an alternative way to provide social protection benefits like in some African countries. Sending vouchers and coupons in the mobile phones of beneficiaries will help them to purchase consumer goods from the retailers.

Ten different categories people (senior citizens, senior Dalits, widow, single women, endangered indigenous nationalities, Dalit children, Karnali zone children, severe affected disable, fully disable, Karnali zone senior citizens) are receiving allowances as social security benefits. The amount differs slightly according to the types of beneficiaries. Fully disable and endangered indigenous nationalities receives more than all the beneficiaries and Dalit children get less.

The study concludes that during the study period, all allowances except treatment for senior citizens (70 years and above) increased by 100 percent. The rate of allowances was lowest for children (Karnali and Dalit) i.e. NRs. 400 and highest rate for fully disabled, Endangered Indigenous / Nationalities. Since, the last three fiscal years, it is seen that the government is more concerned towards the health of the senior citizens 70 years and above. The number of beneficiaries viz. senior citizens all (Dalits, Karnali and others), disable (Fully and severly affected), Endangered ethnic group is in increasing trend while Single/widow and Children (Dalit and Karnali) have been found in decreasing trend. Out of five clusters, the number of elder citizens is highest followed by single widow and children of Dalit and Karnali zone. Disable (Fully and severly affected) and Endangered ethnic group are only 4 percent of total beneficiaries in 2015/16. The growth of the total beneficiaries is less than 1 percent during three year period but number of disabled increased by 95% while widow / single women decreased by 10 percent in three years. Throughout the last three fiscal years, the largest number of beneficiaries were senior citizens followed by Single women/widow and children. Senior citizens all means male or female citizens above 70 years including Dalit and Karnali senior citizens. The Dalits(traditionally untouchable in the Hindu caste system) and Karnali people also falls on the most disadvantaged group . Social Security program operation procedure, 2012 says if a woman is a divorcee or unmarried and has crossed 60 years of age then only she is eligible to get social security allowance.

The social protection program has helped a lot to the needy and economically insecure groups to fulfil their basic needs in some extent and the newly started Branchless Banking (BLB) will help the people living in remote areas get benefits in their own hands if the records in local government are maintained and updated on a regular basis. But, in future it may be a challenging job for the government if it does not become self dependent in accumulating the money by its own internal resources.

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