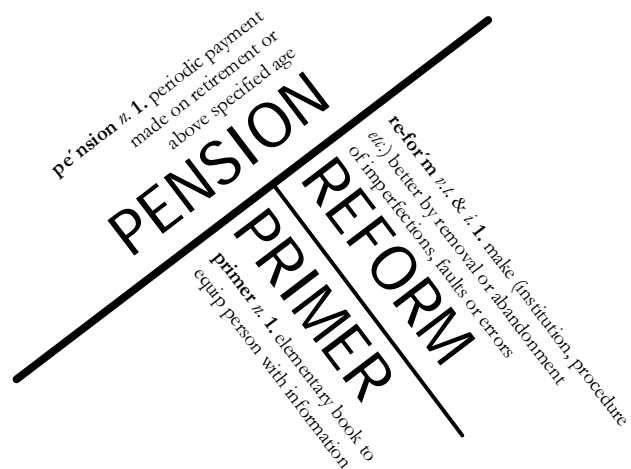


Safety nets for the elderly in poor countries: the case of Nepal

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Abstract

Cash transfer programs specifically targeted toward the elderly can be divided into demogrant and means-tested schemes. The latter apply some test of need while demogrants are paid to all citizens that reach a particular age. While means-tested programs are fairly common, there are only about a dozen examples of the demogrant or universal flat pensions. Nepal is one of the few low income countries and the only South Asian country with a demogrant. In principle, it pays a modest pension to all Nepalese citizens age 75 and over. There is also a means-tested pension for widows over age 60. This paper analyzes the safety net for the elderly in Nepal through its first nine years of operation at the national, regional and local levels. The preliminary conclusions are that (i) current and projected spending is modest due to low benefits and a high eligibility age; (ii) while around three-fourths of the eligible population receives the benefit, there are significant differences across Nepal's 75 districts; (iii) the results of a special (albeit unrepresentative) survey suggest that transaction costs and corruption are minimal and (iv) the reliance on Village Development Committees (VDCs) to administer the scheme may allow for significant variation in the efficacy of implementation. The future role of the demogrant should be determined as part of a coherent overall pension policy.

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I. Overview of paper

Cash transfers to the elderly, separate from general social assistance, exist in a wide variety of countries and can be roughly divided into demogrant and means-tested schemes. Around the world, there are about a dozen examples of the demogrant or ‘universal flat’ schemes that pay benefits to citizens reaching a particular age. Even within this select group of countries, eligibility age and benefit levels vary widely, as does the role of these programs in the overall pension system. Nepal is one of the few low income countries and the only South Asian country with such a program. In principle, it pays a modest pension to all Nepalese citizens age 75 and over. There is also a means-tested pension for widows over age 60. This paper analyzes the safety net for the elderly in Nepal through its first nine years and attempts to draw some general lessons.

The structure of the paper is as follows: Section II provides the context in which these programs exist by looking at the demographic characteristics of the country as well as available data on living arrangements and incomes of elderly households. The third section describes the programs and presents data on key indicators such as coverage and cost at the national level. Next, we look at coverage at the region and district levels. The fifth section reports the results of a special survey conducted in 2001 at the ward level. This survey provides a close up look at how the scheme operates on the ground based on a detailed questionnaire (Annex 2). The last section summarizes the findings and comments on the outlook for the OAP as part of the pension system in Nepal.

II. Context of the elderly in Nepal

Nepal is still at an early stage in its demographic transition. The 2001 census confirms the country is aging, yet the shift is more gradual than in other parts of South Asia due to relatively high fertility rates. Nevertheless, projections show that the share of the population over age 60 will rise from 6 to 12 percent over the next 40 years.¹ The demographic dependency ratio – persons over age 60 divided by persons 20-59 – will double.

¹ World Bank population projections.

Rates of co-residence tend to be high in low income countries and Nepal is no exception. The data presented below are for 1996 and based on a Living Standards Measurement Survey (LSMS). Table 1 shows that roughly 1/3 of Nepalese households have at least one elderly member (where this is defined as age 60 or over). Households with elderly living alone represent a very small fraction of all households. Table 2 shows that only about three percent of the elderly lived alone while another five percent lived with their spouse. In other words, about 93 percent of the elderly lived with others, mostly with their children. These figures resemble those observed in neighboring countries such as India.²

Table 1 Households with and without elderly in Nepal, 1996

	Urban	Rural	All
	<i>percentages</i>		
Single Elderly Man	0.14	0.23	0.21
Single Elderly Woman	0.84	0.90	0.89
Elderly Couple	0.84	1.35	1.25
Elderly Living with Others	29.47	29.39	29.41
Households with No Elderly	68.72	68.12	68.25

Source: LSMS 1996.

Table 2 Patterns of residence for elderly in Nepal, 1996

Age	Men			Women			All		
	Single	Living with partner	Living with others	Single	Living with partner	Living with others	Single	Living with partner	Living with others
	<i>percent</i>								
60-64	1.25	5.42	93.33	4.44	5.24	90.32	2.87	5.33	91.80
65-69	1.29	3.87	94.84	4.40	4.40	91.19	2.87	4.14	92.99
70-74	1.56	10.16	88.28	4.50	4.50	90.99	2.93	7.53	89.54
75-79	0.00	4.82	95.18	3.41	0.00	96.59	1.75	2.34	95.91
80+	0.00	5.08	94.92	6.25	3.13	90.63	3.25	4.07	92.68
Total	1.05	5.86	93.08	4.48	4.03	91.49	2.77	4.94	92.28

Source: LSMS 1996.

² See Rajan and Kumar (2003).

These high co-residence rates and the dearth of information on intra-household allocation of resources make it difficult to assess the relative income or consumption situation of the elderly. In Table 3 below, the different household types are shown according to income quintile ranging from the poorest (1) to the richest (5). The largest group of the elderly, namely those living with others, does not appear to be disproportionately represented in the lowest quintile, although they do seem to be underrepresented in the highest quintile. However, single elderly women and elderly couples do appear to be disproportionately represented in the lowest quintile.

Table 3 Distribution of households by type and income quintile, 1996

Income quintile	Single elderly man	Single Elderly Woman	Elderly couple	Elderly Living with others	Households with no elderly
<i>percent</i>					
1	0.30	2.28	1.82	29.89	65.71
2	0.00	0.61	1.67	31.71	66.01
3	0.30	0.46	0.91	28.88	69.45
4	0.30	0.45	1.21	30.00	68.03
5	0.15	0.76	0.61	26.64	71.84
Total	0.21	0.91	1.25	29.43	68.21

Table 4 compares three common poverty indices for different types of households with a focus on the elderly versus non-elderly distinction. The results must be interpreted with caution since the number of observations is low, particularly for single elderly households and are probably not statistically robust.³ Also, no equivalence scales have been applied. Nevertheless, the data suggest that single elderly households are more likely to be poor. On the other hand, elderly living with others exhibit a poverty ratio very similar to households with no elderly and the poverty gap is actually lower for elderly living with others. Since, as we have seen, the vast majority of elderly fall into this category, we do not find strong evidence that households with elderly members are more likely to be poor than those without elderly members, with single women being a clear exception.

³ This small sample problem also prevented further analysis of sub-groups of the elderly such as those over age 75 who represent only around one percent of the population.

Table 4 Selected indicators of poverty in elderly and non-elderly households

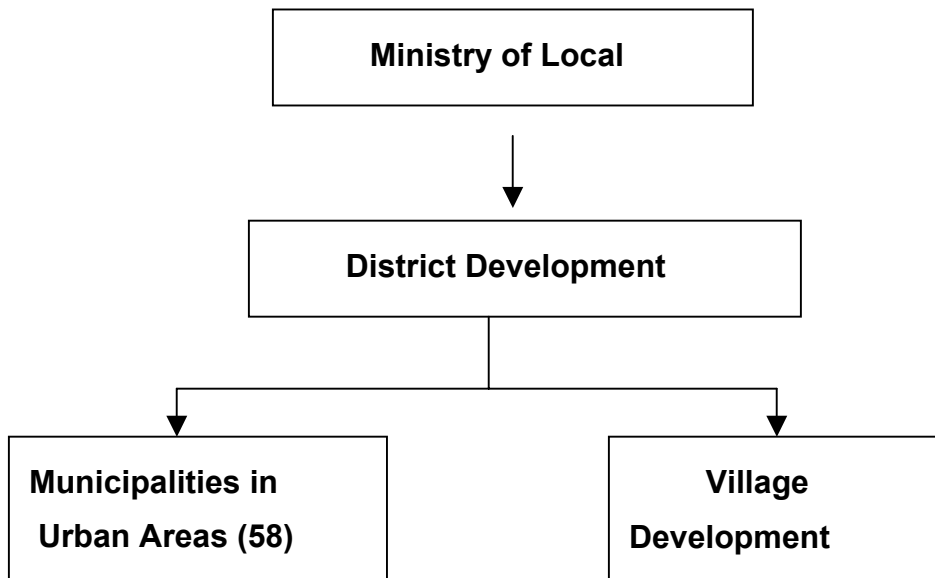
Household Type	Poverty ratio	Poverty gap	FGT index
Single Elderly Man	0.29	0.10	0.04
Single Elderly Woman	0.50	0.30	0.24
Elderly Couple	0.26	0.13	0.09
Elderly Living with Others	0.19	0.12	1.52
Households with No Elderly	0.18	0.35	93.23
Total	0.19	0.27	64.09

III. The Old Age Allowance Program (OAP)

III.1 General description and institutional arrangement

A universal flat pension of Rupees 100 to all persons at least age 75 years was first announced Prime Minister Manmohan Adhikari on 26 December 1994. Five districts from the five development regions of Nepal were selected on a pilot basis and the first disbursement of the Old age Allowance Program (OAP) was made on 2nd July 1995 for a six-month period from January-June. The implementation of the pilot was carried out by the Ministry of Education and Sports and distributed at the grass-roots level by the Village Development Committees. During the financial year, 1995-96, OAP was extended to the entire country and was implemented by the Home Ministry. During 1995-96, an amount of 280 crores of Rupees were released for the implementation of the program. Since 1996-97, the Ministry of Local Development has administered the OAP, and the allowances were distributed by the ward offices in the urban areas and Village Development Committees in the rural areas. (See Figure 1).

Figure 1 Administrative structure for implementation of OAP



When the Nepali Congress came to power in 1996, they introduced two additional social security programs, namely the Helpless Widows Allowance for widows above 60 years of age⁴ and disabled pension⁵, each paying Rupees 100 per month. During the International Year of Elderly Persons (1999), the ruling Nepali Congress raised the Old age allowance from Rupees 100 to 150.

All Nepalese, men and women, who have completed 75 and above are eligible for the Old Age allowance. According to the directives issued by the Ministry of Local Development, the benefit of Old age allowance is strictly based on the age mentioned in the Nepalese Citizenship certificate⁶. A Social Security Program Identity Card will be issued to those who are past the age of 75.

⁴ All Nepalese widows with the following mean-tested criteria: those who have crossed the age of 60 and do not have any economic sources, those who don't get any care from the family members and widows who don't get the pension of their late husbands.

⁵ Disabled Nepalese citizens having the following physical infirmities and at least sixteen years of age; blind, who do not have both hands or who have hands but don't work, who do not have both legs or who have legs but don't work.

⁶ When the program was announced in 1994 and implemented in 1995 throughout the Kingdom, some of the elderly eligible for the allowance did not have a Nepalese identity certificate.

III.2 Benefit levels, coverage and costs

The beneficiaries of the three social security programs for the year 2001-2002 are presented in Table 2. The combined number of beneficiaries exceeded 400,000 individuals or about 1.8 percent of the total population. The disability allowance reaches a very limited number of people being effectively rationed by district. The widow's pension has a much greater impact. We estimate that roughly one third of women over 60 receive this benefit. While we do not have data on the percentage of women that are widows by age, it appears that this benefit is received by a large proportion of Nepali widows and that the means-test is not very strict.

The number of old age allowance recipients was relatively stable until 2001. In the last two fiscal years, the number of recipients has increased by ten percent annually. This may have to do partly with the difficulties many elderly persons experienced in establishing their citizenship and date of birth initially along with delays caused by ignorance about the program, particularly in outlying areas. By 2003, the number of recipients reported for the OAP rose to 211,343 as shown in Table 3.

Table 5 Benefit levels and recipients, 2001-2002

Program	Number of beneficiaries	Amount Released	Annual allowance per person	Monthly allowance per person
(1)	(2)	(3)	(4)	(5)
Old age Allowance Program *	191953	348264000	1814	151
Helpless Widows Assistance #	227694	226760600	995	83
Disabled Pension @	3667	4400400	1200	100

Source: Unpublished data from the Ministry of Local Development, Katmandu, Nepal.

Notes: * Rupees 1800 annually; # Rupees 1200 annually; @ Rupees 1200 annually.

Government requested that the elderly apply for citizenship certificates with supporting documents such as place of birth, father's name, current address and date of birth. The Election Commission of Nepal had issued an identity card for voting in the elections. Among other things, the election identity card included age allowing some to acquire a Nepalese Citizenship certificate. Most of elderly had their horoscopes containing an accurate date of birth. Government allowed the elderly to use their horoscopes to apply for the Nepalese Citizenship card.

Table 6 Old age Allowance Program Beneficiaries, 1996-2003

Year	Number of beneficiaries	Amount Released	Annual allowance per person\$	Implied Monthly allowance per beneficiary\$	Statutory benefit in real terms (<i>index, 1996 = 100</i>)	Statutory benefit as % of per capita income
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1995-96	#	280,000,000	#	#		
1996-97 *	161608	280,000,000	1733	144	100.0	10.1%
1997-98 *	171469	350,000,000	2041	170	96.1	9.2%
1998-99 *	175608	400,000,000	2278	190	87.4	8.8%
1999-2000	175540	309,705,600	1764	147	121.9	11.8%
2000-01	173529	296,469,700	1708	142	119.0	10.9%
2001-02	191953	348,264,000	1814	151	115.9	10.3%
2002-3	195449	351,808,000	1800	150	112.9	10.3%
2003-04	211343	380,417,000	1800	150	n.a.	n.a.

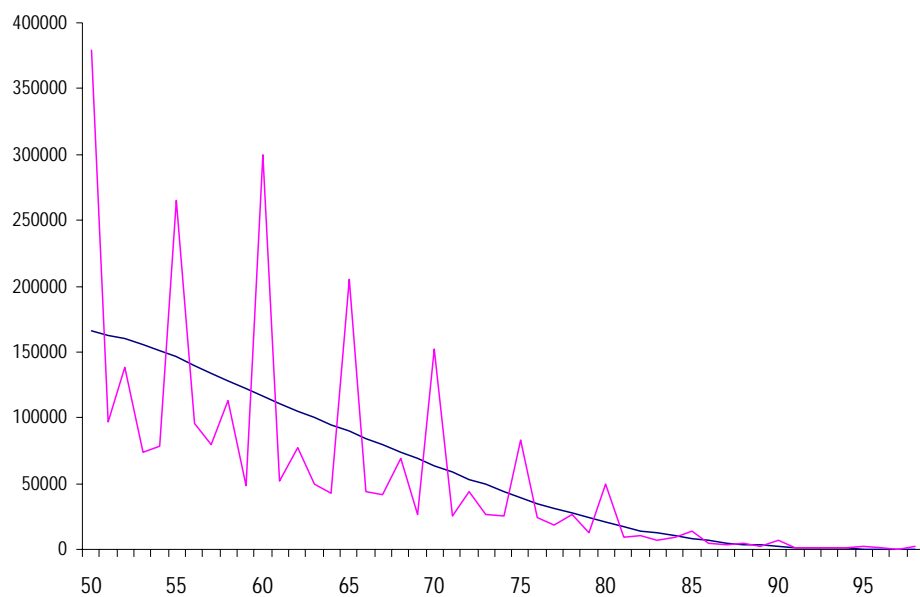
Source: Unpublished data from the Ministry of Local Development, Nepal. Since 1999-2000, the Ministry has compiled the number of beneficiaries separately for the old age allowances. Prior to that, the Ministry provided one figure for all the three programs. * Estimated using the 1999-2000 ratio of old age allowance beneficiaries to total beneficiaries.

The 2001 census reports 295,459 persons 75 years old or over. Since age is the only criterion for receipt of the OAP, in principle, all of these individuals would be eligible. This results in coverage rate of about 65 percent in 2001 and, after adjusting for the two years to 2003, about two thirds of the persons over age 75 in 2003.

Census data generally tend to over report the number of individuals at ages ending with zero or five. This tendency can be seen in Figure 2 below where census data for single year age cohorts between age 50 and 90 are reported. The census line is the one that jumps at every five year age interval. In contrast, the smooth line is generated by the World Bank's population division based on UN estimates where a set of regional life tables are used to smooth out the single year cohort distributions. The smooth line is for 2002 estimates, but nevertheless shows clearly how the potential over-reporting at age 75 could result in lower coverage estimates. Based on the smoothed data and adjusting the 2002 data to 2003 results in a figure of about 275 thousand persons over age 75 in 2003 yielding a ratio of recipients to age-eligible persons of 77 percent. The remaining difference could be explained by several

factors including a lack of take up among the highest income elderly, delays in the processing of applications after persons reach age 75, continued difficulties in establishing proof of age and other factors. For example, if we allow for a one year delay from the time a person reaches the eligibility age of 75 and initial receipt of the pension, the coverage ratio would rise to almost 90 percent. On the other hand, our ward-level results shown below show that at least in some areas, the 75 year age cohort does receive the benefit and in some cases, persons below the official age receive it. In summary, coverage is not universal based on our best estimates, but after taking into account lags in information and registration and based on recent growth trends may soon reach 80 percent of the target population. This is a high figure, given the difficulty of reaching many areas of the country and assuming that some elderly rich do not bother to apply.

Figure 2 Single age cohort reported distribution from Nepal 2001 census



Source: Nepal Census 2001 and World Bank population database.

The high degree of coverage is affordable for two reasons. First, benefits are low (roughly 10 percent of income per capita) and are not indexed.⁷ Second, the target population represents less than two percent of the total population.

⁷ In 2002, the old age allowance was equivalent to two and half days' wages of an agricultural labourer in Nepal (at the rate of Rupees 60 per day) and could purchase approximately 10 kilograms of rice or wheat.

Table 7 shows spending throughout the history of the scheme. Following the 50 percent increase in 1999, OAP spending has fallen as a share of both government spending and GDP which were both growing rapidly in nominal terms. The lack of adjustment of benefit levels through some type of indexation more than compensated for the growth in the number of beneficiaries and resulted in a decline in the spending ratios. This reflects the data in Table 6 that shows that since 1999, the real value of the OAP benefit has fallen almost ten percent. Moreover, it has fallen from about 12 percent of income per capita in 1999 to 10 percent in 2003.

Table 7 Trends in Expenditure on OAP in Nepal
(in Millions)

Year	Expenditure on Old age Allowance Program in millions	Total regular spending of central Government	As share of Government spending	As share of GDP
1995-96	280	21,561.9	1.30%	0.12%
1996-97	280	24,181.1	1.16%	0.11%
1997-98	350	27,174.4	1.29%	0.12%
1998-99	400	31,047.7	1.29%	0.12%
1999-2000	310	34,523.3	0.90%	0.09%
2000-01	296	42,769.2	0.69%	0.07%
2001-02	348	48,590.1	0.72%	0.08%
2002-03	352	57,445.0	0.61%	n.a.
2003-04	380	60,600.0	0.58%	n.a.

Source: Unpublished data provided by the Ministry of Local Development on the expenditure on old age allowance program. Total expenditure of the Government is compiled from budget papers issued by the Ministry of Finance from time to time.

To summarize, the first seven years of the OAP have seen a steady growth in the number of beneficiaries reaching a figure by 2003 that is probably equivalent to more than three-fourths of the population over age 75. This is quite a high proportion of the target population, especially in a country where it is often difficult to reach large parts of the country. Spending has been relatively low and erratic. This is because the benefit is low relative to income per capita – around one tenth – and because the eligible population represents only around 1.3 percent of the total population. Although this proportion will

rise in the future, spending will increase significantly only to the extent that benefit levels track the growth of incomes. Currently, it does not even maintain purchasing power.

IV. Analysis at the regional and district level

Section II suggested that the OAP scheme had achieved relatively high coverage rates at the national level. Table 5 suggests that coverage rates vary slightly across regions, ranging from 62 and 80 percent. The coverage index line shows that coverage relative to the national average lies between 88 percent in the Midwest region to 115 percent in the West. The last two rows show the percentage of the population in each region 75 and over and population density. Although the Midwest has both the lowest population density and coverage ratio, the difference is not great and no clear pattern emerges suggesting that density is closely associated with coverage. The region with the highest proportion of persons 75 and over has the highest coverage while the region with the lowest proportion has the lowest coverage. The lowest density region also has the lowest coverage.

Table 8 Regional distribution of OAP recipients and over 75 population

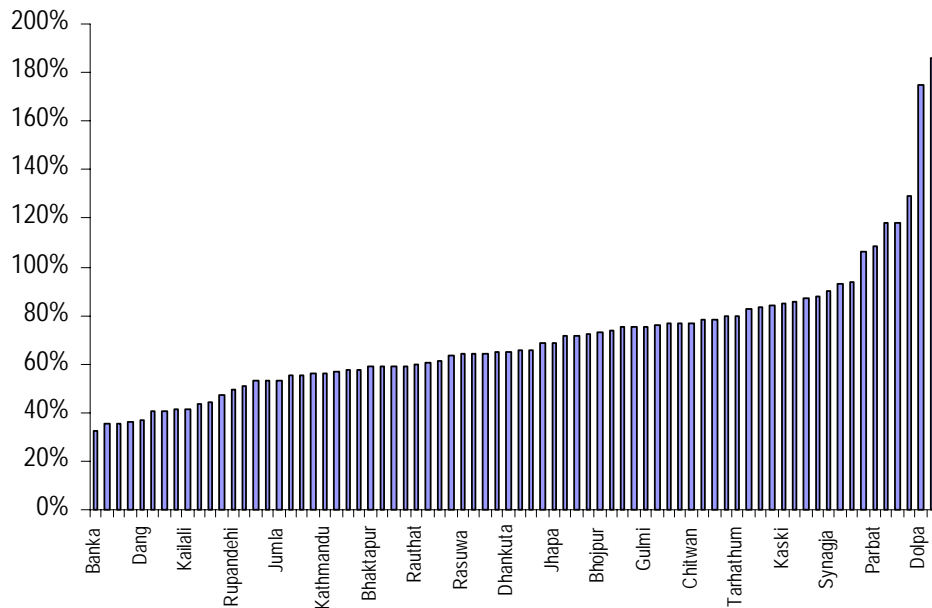
	Total	Eastern	Central	Western	Midwest	Far West
Population 75+	295459	70570	104725	75511	21782	22871
Adjusted population 75+	275000	65785	97625	70392	20305	21320
OAP Recipients	207067	47240	65786	60585	22021	15440
Ratio row (3)/(2)	0.75	0.67	0.67	0.80	0.62	0.68
Regional coverage index	1.00	0.96	0.96	1.15	0.88	0.96
Percentage % over 75	1.30%	1.33%	1.31%	1.65%	0.80%	1.05%
Population density	157	188	293	155	71	112

Source: Nepal Census (2001); Ministry of Local Development.

Demographic data are also available for the 75 districts in Nepal, allowing for a more detailed view of coverage across the country. Figure 3 below reveals an even larger variation in the ratio of OAP beneficiaries to those age 75 and over. In a dozen districts coverage is

below 50 percent while several are above 100 percent.⁸ Between these two extremes lie an almost continuous set of coverage ratios. The source of this variation is unclear however. Possible reasons include (i) differences in access due to geography or security issues related to the Maoist presence (ii) higher awareness and ability to apply or (iii) qualitative differences in the performance of the VDCs responsible for administering the scheme or (iv) the ability of certain districts to lobby more effectively than others for budget resources. Some of these factors can be proxied using data available at the district level.

Figure 3 Coverage rate across Nepal’s 75 districts, 2003



Source: own calculations based on the 2001 Census and data from the Ministry of Local Development.

Several proxies were tested in a series of multiple regressions where the dependent variable was the coverage ratio in each district. Variables attempting to capture factors determining access included the proportion of the population in each district with access to piped water and the adult population having more than a primary school education. Also, a

⁸ Some of the outlier districts at the higher end of the figure are very small and may be subject to larger measurement error.

variable distinguishing for restrictions due to security issues was tested.⁹ Finally, in light of the regional pattern, the proportion of the district over age 75 was included. Different specifications were included but in all cases only the security and elderly proportion variables were found to be statistically significant.¹⁰ Surprisingly, the security variable – a dummy variable taking the value 1 if the district was considered ‘phase 3’ (presumably outside of government control) – was found to have a positive coefficient. This distinction may have been too broad or it may simply mean that VDCs in these areas continue to serve as a conduit for the transfer. The proportion of the population above the eligibility age had a positive impact on coverage as expected. These variables explained less than one third of the observed variation in coverage across districts. In short, the underlying reasons for the variation across districts shown in Figure 4 remain unclear. It should be noted however, that at present, these figures cannot be corroborated through inspection of actual beneficiaries in each district.

V. Analysis at the ward level

V.1 Survey results

The figures presented in Section IV were based on data from the Ministry of Local Development collected from district level officials who in turn are responsible for distributing money to the VDCs or municipalities. These local bodies are the ones responsible for actual day to day administration of the program. To provide a sense of the extent of the decentralization this implies, it should be noted that there are over 3900 VDCs and 58 municipal authorities. These individual implementation units are not linked through any kind of information system that would allow close and frequent monitoring by the central government.

In order to learn about the actual functioning of the OAP, a special ward level survey was conducted in Nepal in 2002. The results are reported in this section. Using the VDC

⁹ This took the form of a dichotomous dummy variable for phase 3 areas as defined by the UN and applied to 26 districts.

¹⁰ The R-squared for the equation with the best fit was 0.28. Details are available from the authors.

and Ward registers, statistics of beneficiaries for each year were compiled. There are generally nine wards in each VDC and 10-35 wards per municipality.

According to the Directives issued by the Ministry, the district development committee is required to submit comprehensive statements regarding the beneficiaries every six months to the Ministry of Local Development. It is also declared policy of the Ministry of Local Development to make a public announcement of the name and address of all recipients of the Old Age pension. According to the norms stipulated by the Government, the Village Development Committee/Municipality shall update all statistics of the social security identity card holders on a tri-annual basis and send them to the district development committee. It also envisages penalty for forged documents¹¹.

Table 9 below shows the age distribution of all OAP recipients in these three wards as of 2002. The data reveal several contradictions. In ward no 10, more older persons were found in the age group 81-85 compared to 76-80 whereas in ward no 34 reports the opposite trend; more persons in the age groups 76-80 and then a dip in 81-85. The Village Development Committee data shows a normal trend of smaller number of beneficiaries as age increases. When we add up all three, we find that the data kept in the ward registers and VDC offices are adequate for use in the analysis, although exceptions did arise during the course of the research.¹²

In order to assess the program at the individual level, a specialized questionnaire was given to 197 OAP recipients in rural and urban areas of Nepal (See, Appendix II for details of the questionnaire). The elderly were selected from both municipalities and village development committees. Kathmandu was selected for urban areas and three wards of Nawalparasi (Amarapuri, Gaindakot and Mukumdhapur) VDC were selected for rural areas.

¹¹ The chairperson of the VDC or mayor of the municipality should be able to penalize the citizens for the deceitful acts like showing fake documents to get the identity card. For instance, if the age has been altered by one year or more, their identity card can be cancelled.

¹² The VDC maintains the record very well and they are ready to share with the researcher. For instance, once the allowance recipient dies, the VDC office makes a note. Our survey of wards in the urban areas indicated some manipulation. For example, one ward office did not want to share the registers with the research team. After some pressure, the ward member shared the register which revealed that several dead individuals were still shown as collecting the benefit. Also, the records in this ward suggested that no recipient died between 1999-2002, a highly unlikely outcome and in sharp contrast to the VDCs.

The addresses of recipients of old age allowances were collected from the respective offices and they were interviewed at their place of residence¹³. Among the 197 elderly, 11 percent surveyed from urban centres and 57 percent were female¹⁴. The age distribution of respondents is shown in the next table. Appendix III shows the age distribution of all OAP recipients in the three wards from which this sample was selected.

Table 9 Age Profile of the Old age Allowance Respondents¹⁵, 2002

	< 75	76-80	81-85	86-90	91-95	96 plus	Total
No	5	93	55	25	14	5	197
Percent	2.54	47.20	27.92	12.69	7.11	2.54	100.00

Source: Survey

Among the elderly surveyed, 35 percent had been receiving the old age allowance for more than 6 years;¹⁶ another 38 percent had been enjoying the allowance for 3-5 years and only 27 percent for less than 2 years. Four percent of the respondents had no children; 23 percent had 1-2 children; 34 had 3-4 children, 23 percent had 5-6 and 16 percent had more than 7 children. Only 3 percent of the elderly lived alone and another three per cent lived with their spouse. An overwhelming majority (94 per cent) lived with their children and grand children. Thirty three percent of this sample lived in households with 3-5 members and another 57 percent lived in households which had 6-9 members and 4 percent lived in 10 member households. This is consistent with the LSMS data presented earlier that suggest

¹³ Surprisingly, among the 197 respondents we have surveyed, one respondent has never informed his son or wife about the receipt of the allowance. The interviewer approached the house with the address given by the ward office, his son, the first class officer of the Government of Nepal told that his father was not a recipient of the allowance. After showing the list of recipients furnished by the ward office, he called his father and asked him about the allowance. He agreed in the presence of his son that he was receiving the allowance for the last 5 years.

¹⁴ As of 2001 census, 14 percent of the Nepal population lived in urban areas; 51 percent of them were females.

¹⁵ Though the old age allowances should be received only by the elderly above age 75, 3 percent of them in our small sample stated that they were just 75. During our survey, many of the respondents were not willing to answer some questions due to some fear that they may lose their old age allowance, if irregularities were reported.

¹⁶ As per the available estimates, on an average an elderly male and female who have completed 75 years of life likely to survive another 6.9 and 7.2 years respectively (Central Bureau of Statistics, 1995)

family support and high coresidence as the main for of old age income security in Nepal today.

Almost 95 percent lived in a permanent house. Only 20% of the surveyed households had toilet facilities inside the house; 94 percent had electricity; 52 percent used gas for cooking and 92 percent had a safe drinking water. Ninety six percent of the sample owned their houses in rural as well as urban areas. One in seven reported working even after completing 75 years. Only 11 percent of the elderly reported that their health was `poor' as against 43 percent who reported that their health condition was `good'. One in four reported that they had no chronic ailment and three out of five were not taking regular medication. One out of three reported that they were currently sick and the same percentage was reported to be sick during the last one year, for more than 60 days. Surprisingly, more than 90 percent had never indulged in any of the following habits (smoking, drinking or chewing tobacco). Half suffered from poor vision and mobility and two out of three had problems with hearing. Nine out of 10 reported having contact with their living children. As in other countries of South Asia, four out of five reported that the best living arrangement for the elderly was to live with their sons.¹⁷

Table 10 Updating the Old age Allowance Program in a Ward in Nepal

Year	Beginning of the fiscal year		Deaths during the fiscal years		Additions during the year		Number of recipients at the end of the year	
	Male	Female	Male	Female	Male	Female	Male	Female
1996-97	-	-	-	-	-	-	39	77
1997-98	39	77	6	13	11	19	44	83
1998-99	44	83	3	7	9	9	50	85
1999-00	50	85	4	6	11	11	57	90
2000-01	59	90	-	-	-	-	-	-

Source: Compiled from the records kept in the ward office.

Among the OAP recipients surveyed, 64 percent reported that their first pension was only rupees 100 and the remaining 36 percent reported that they received Rupees 150. In other words, 36 percent of elderly had joined the allowance program after 1999 when the pension amount was enhanced from rupees 100 to 150. The elderly received the

information about the allowances from the following three major sources: government notification thorough print and visual media (27.9 percent), children (30 percent) and neighbours (27 percent). Own children ranks highest among the informant about the allowance program. Application forms for applying for the allowances are distributed thorough village development committee office or ward office in the municipalities, so every one had to collect the form from this office.

Two out of every five elderly did not themselves collect the application form. Instead they engaged their children who collected the form on behalf of their parents and submitted the form to the authorities for sanction of the allowance with supporting documents. Out of 197 elderly, only 73 had to travel a kilometre to collect the application form. Among them, one-fourth had to travel more than 4 kilometres. As pointed out earlier, application forms were distributed free of cost, however, the elderly needed two passport size photographs and a photocopy of their Nepalese citizenship certificate to be submitted along with the application. The survey reveals that most of the elderly had to spend only very minimal amounts to collect the form (travel expenses). The highest travel expenditure of Rupees 60 was incurred by only one person.

All the elderly surveyed had proven their eligibility for the old age allowance by producing their Nepalese citizen certificate. Though the application form was free, supporting documents did involve out of pocket costs. Two out of five incurred expenditure around rupees 50 and another 40 percent spent around 100 rupees. One out of 10 elderly had to spend an amount equal to one month's allowance (Rupees 150) to acquire the supporting documents to prove their eligibility. As the applicant had to submit the application in the prescribed form along with supporting documents to prove their age, no official from the government ever visited the applicant for any sort of verification. Only applications of 2 percent of the elderly surveyed had been rejected. Whenever the applicant went to collect the application form or to submit the completed application form or to receive the allowances, government officials behaved well with them. Four out of 5 elderly (80%) had Nepalese citizenship certificate in their possession before the introduction of old

¹⁷ Rajan, Perera and Begum (2003).

age allowance program and thus only 20% of them had to apply for the citizenship with necessary supporting documents about their place of birth, date of birth or age.

No bribe was reported by any of the elderly surveyed. Nine out of 10 elderly reported that they received pension regularly (three times annually)¹⁸. Old age allowances are paid in cash and the recipients have to renew their social security identity card every year at no extra cost. An overwhelming majority of the recipients reported that their children were very happy with the pension. Among the 127 elderly who reported more money allowances, 40 percent suggested that the allowance should be raised to Rupees 300 and another 25 percent were of the view stated that it should be increased to Rupees 500.

V.2 Governance and the role of the VDC

As already mentioned, the Village Development Committee distributes the OAP benefits in the rural areas. Each VDC consists of nine wards and each ward has its own representative elected for a period of five years. The VDC has 9 elected members; one chairman, one vice chairman and seven members to discharge all its administrative functions and to implement the various programs initiated by His Majesty's Government from time to time. Again, each ward selects four members and one among them is an (elected) ward representative with no salary. There is a 100 rupee (US \$ 1.3) sitting allowance whenever there is a meeting and he is supposed to keep a list of all individuals eligible for a benefit.

An extensive interview was conducted with the Chairman of one of the VDCs covered in the survey? Nawal Parasi VDC has 13 government and 10 private educational institutions including one college. About 25 non-governmental organisations are working in this area. One of them, Sahamati, canvassed the OAP recipients in three VDCs.. The VDC consists of seven elected representatives of the Nepali Congress and two from the Communist party. The chairman and vice chairman belong to the Nepali congress. Each

¹⁸ During the course, some of the respondents reported that the VDC and Ward officials are not prompt in informing the allowance recipients about the disbursement of money. They have to come to VDC office quite often to enquire about the allowance. A few people reported that some of the VDCs and Wards, they asked them to sign for four months allowance of Rupees 600 and pay them 400 or 500.

VDC has a permanent secretary to maintain records of beneficiaries. Excerpts from a conversation with the chairman are reproduced below in Box 1.

Clearly, the role of the VDC in administering the OAP in this predominantly rural country is crucial. The decentralization has several advantages. It allows most recipients direct access to those officials responsible for paying out the benefit, as opposed to having to make a long journey to a central government office or even a district headquarters. It also makes it more difficult for individuals to misrepresent themselves for the purposes of eligibility determination as each VDC monitors a manageable number of recipients. Another advantage is that VDC staff is close enough to the ground that they can be aware of deaths and the need to deliver the benefit to someone that is seriously ill or bedridden. In contrast, a centralized administration in a country with difficult communication would almost certainly result in significant delays and poor ability to monitor important developments.

BOX 1: VILLAGE DEVELOPMENT COMMITTEE: NEW EXPERIENCE

Q: How do you publicise or elicit or enumerate the eligible OAP beneficiaries in your VDC?

A: This is very simple. At the beginning of each fiscal year, the ward representative will identify all the eligible candidates through a visit to their homes and confirm their eligibility by checking the relevant documents.

Q: What criteria do you follow in recommending the eligible candidates for OAP?

A: In our VDC, we strictly follow the age criteria. To verify the age, we use the citizenship card issued by the Home Ministry of His Majesty. Citizenship card, among other things, gives the age of the person. If the citizenship card says the person is above 75, we recommend him/her for the allowance; otherwise we say no.

Q: According to the Directives issued by the Ministry of Local Development, VDC can also recommend a person for OAP who has no citizenship card. Do you follow the above provision?

A: No. If we do that it will create a lot of problem. Each member may recommend someone who has no citizenship card from his/her ward and it is difficult for the VDC to handle the situation. So we go by only proof of age provided by the citizenship card and not the recommendation of the VDC.

As the chairman had to leave at this point of time to inaugurate a certain function, he requested the secretary of the VDC to answer all my other queries.

Q: How many elderly persons receive OAP from this VDC?

A: 283 persons. (He maintains a register giving the names of all OAP recipients with their photographs)

Q: Is the application form free?

A: The application form is free. However, for all elderly illiterate above 75 years, we fill the form. When they come to our office, we write their name and they have to put their thumb impression. For photocopying the application and filling it in our office, we charge them two Rupees each.

Q: *What are the documents the elderly should bring when they approach for OAP?*

A: Two passport size photographs (one to be affixed in the VDC record book and another to be affixed on the Social Security Program Identity Card) and the photocopy of their citizenship card to prove their age.

Q: *Once you recommend the pension, what happens?*

A: We maintain a record with their photographs in the VDS office and issue a Social Security Program Identity Card (SSPIC) to the beneficiary.

Q: *How many times you distribute the allowance annually?*

A: Three times; March, June and October.

Q: *Has the beneficiary to collect the money in person or could he/she authorise someone?*

A: The OAP recipient has to come with the SSPIC to collect the money and to make an entry in his/her card. If we receive the information about a bedridden elderly, one of us from the VDC will visit and deliver the money at home.

Q: *Do they have to renew the SSPIC?*

A: Yes, once in a year. No cost involved.

Q: *Have the eligibility criteria been ever changed since its inception?*

A: When the OAP first announced in 1995 thorough out the country, the Government notified that all elderly above 75 would be eligible for the allowance of Rupees 100. As the response to the program was so massive, the Government found it difficult to sustain it. Unofficially, in 1997, we were directed by the Government to limit the OAP to persons above 75 who were below the poverty line. We expressed our inability to execute the amended program. The Government then withdrew the proposal and the program was applied to all elderly above 75 (entitling them to a universal flat pension).

Q: *You rightly mentioned about the sustainability of the program. Are you paying the allowances regularly to the OAP beneficiaries?*

A: To be frank with you, during 1995, 1996, and 1997, we could pay for all the 12 months. In 1998, we paid allowances for only eight months, as we did not get any grant from the Government for remaining four months. In 1999 and 2000, we paid for all 12 months. As Maoists disrupt most of the communication links, the Government has diverted a lot of money for reconstruction of the infrastructure and for curbing terrorism. Thus in 2001, we paid the old age allowance only for 10 months. Though we have submitted the request for a grant to the District Development Committee, they sanctioned only 80% of the required money.

Q: *Do you think that in your VDC all the elderly above 75 get the allowance of Rupees 150?*

A: As far as my knowledge goes, one person said that he was not interested to receive the allowance as he was a former member of parliament. Two other persons, we could not recommend, although they said they were above 75 years but the citizenship card showed that they were below 75.

The potential trade-off or cost of decentralization can be divided into two categories – administrative performance and corruption. Administration at such a local level is labor

intensive and, other things constant, will involve a higher cost than a centralized structure. However, the VDCs perform a variety of other functions aside from distributing the OAP benefit suggesting that the marginal cost may not be that high. On the other hand, the quality of the VDC may vary significantly between villages. A decentralized scheme makes it more likely that regular receipt of the benefit will differ according to where the person happens to live and this may bear some systematic relationship to the general quality of governance of the area.

The possibility for fraud is less pronounced in the OAP than in the means-tested program for widow's since there is much less discretion involved in simple determination of a person's age than in applying a set of criteria for determining relative welfare. This assertion is supported by our survey results did not reveal any systematic pattern of corruption as reported by OAP recipients. It should be noted however, that the sample surveyed was not representative. A survey that included poorly governed areas of the country might find a higher incidence of corruption.

The weakest link would appear to be the failure of any effective mechanism for ensuring that the beneficiaries receive the OAP on time. In fact, there was evidence that timely payments were not being made and VDC staff was not prompt in informing beneficiaries that they could come to pick up their cash. Part of the problem appears to be that budget allocations from the central government in certain years (for example, in 2001) have been insufficient to meet the mandate and to pay the full annual benefit promised. This may have resulted in a kind of rationing. On the other hand, since there is very little scope for monitoring the payouts and checking whether the cash is really reaching the beneficiaries, it is possible that cash is diverted, especially where local governance is suspect.¹⁹ In fact, the system depends heavily on the checks and balances of the VDC system whereby the village residents must exert pressure directly. In the areas we surveyed, this form of governance appeared to be working fairly well, but this does not guarantee the

¹⁹ The new "Working Procedures" issued in 2004 require twice yearly reporting of the names of all beneficiaries to the Ministry of Local Development. In principle, this might allow for random checks and audits by a central authority, but it is unclear what resources would be required to implement such a procedure.

same result elsewhere. Complicating any attempt to audit the activities at the local level however, is the limited access of central government to certain parts of the country.

VI. Summary and prospects for the OAP

Nepal is one of a handful of countries that has adopted a demogrant program as part of its strategy for addressing old age income security. The other examples are mostly found in rich or middle income countries like New Zealand or Mauritius. It is the only demogrant operating in South Asia and among the very few found in poor countries.²⁰

Upon closer inspection however, it becomes clear that the version of the universal flat pension applied today in Nepal is very modest. The age of eligibility is much higher at 75 than in other demogrant countries where it is typically 60 or 65. The gap is even greater if life expectancy at those ages in different countries is taken into account. The benefit is also low in both absolute and relative terms.²¹ Clearly, the combination of a low benefit and high eligibility age make the scheme more affordable and it currently represents only a small fraction of government outlays. Despite this, there have been periods of time during which even these small budgetary allocations required were diverted for other purposes.

As the population ages, OAP spending will rise. Figure 4 projects OAP spending through 2050. The projection is based on the assumption that the current level of benefits relative to income per capita is maintained (it is currently falling due to the lack of indexation) and that the same proportion of the population 75 and older continues to receive this modest benefit in the future. The higher bar includes the widow's benefit to the OAP spending using similar assumptions. Thus, in this scenario, expenditures are affected purely by the demographics. The results confirm that the scheme continues to be rather small relative to the economy well out into the future.

²⁰ The broad means-tested scheme in South Africa and the demogrant in Namibia are exceptions that have roots in special historical circumstances. See Devereaux (2001).

²¹ For example, the universal flat pension in New Zealand is equivalent to almost 40 percent of income per capita.

Figure 4 Projected spending at current benefit levels and eligibility rates, 2005-40

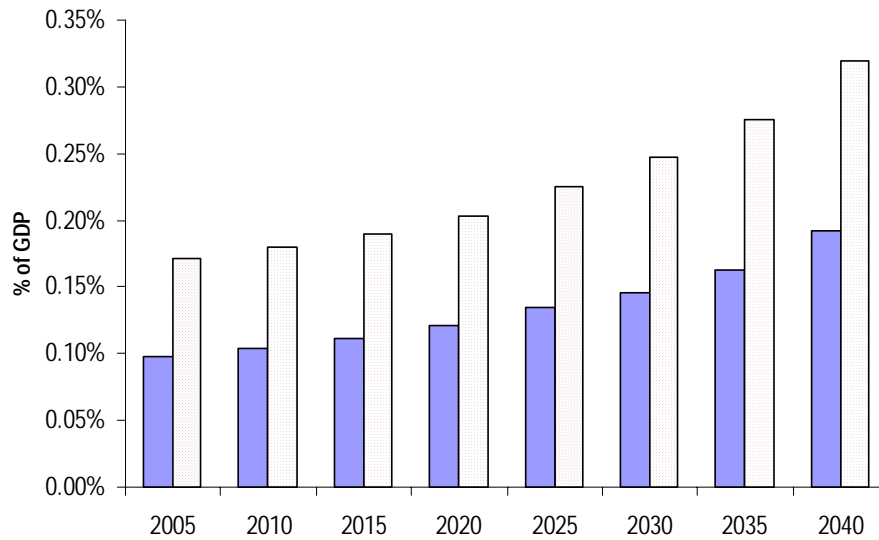
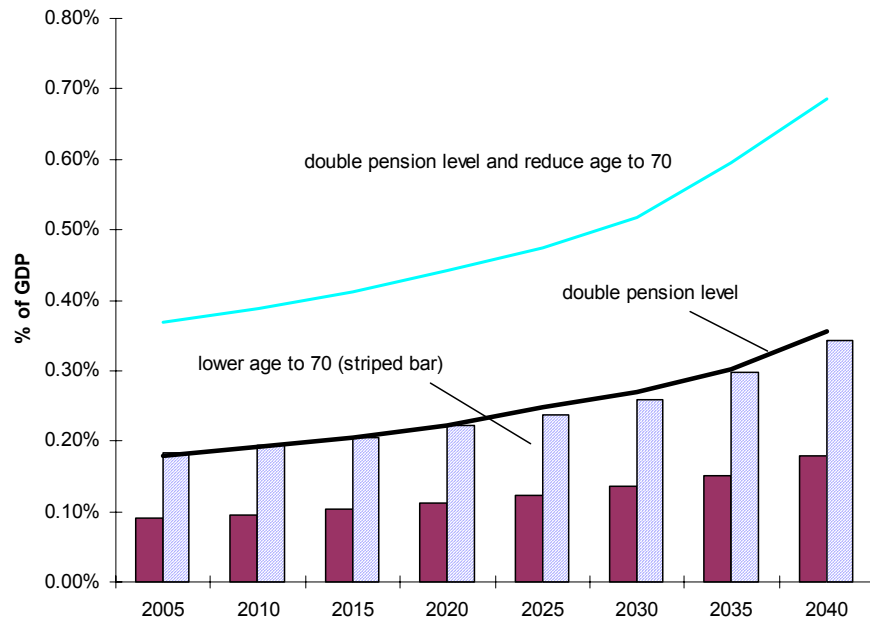


Figure 5 provides an illustration of the impact of changes in policy that would increase the number of eligible older persons and/or increase the current benefit level. The eligibility age is assumed to be reduced to 70 and the benefit level is doubled to 20 percent of income per capita. The line showing the highest expenditure level combines both types of increase and is assumed to take place as of January 2005. Introducing both changes would substantially increase the role of the demogrant as part of the overall package of income security for old age (in addition to contribution-based retirement savings schemes, for example). Taking both changes into account, expenditures begin at around 0.4 percent of GDP and rise gradually to 0.5 percent by 2030.

Whether this level of expenditure is considered appropriate depends on the overall priorities of government and the opportunity costs associated with this spending. If poverty reduction is the objective, for example, the potential impact of expanding the OAP should be compared to the impact of viable alternatives for providing effective cash transfers to vulnerable groups. A first necessary step in this assessment is to measure the incidence of the current program. Unfortunately, this has not been possible using the LSMS data set both due to the absence of a specific question on this program and the problem of a small

sample.²² To the extent that life expectancy is related to income level, the results of such an analysis may show that this age group is not disproportionately poor. This analysis could also provide insight on whether lowering the eligibility age or increasing the benefit level would have a greater poverty-reducing impact.

Figure 5 Simulation of OAP with increased benefits and lower eligibility age



Survey data could also be used to corroborate or reject the district-level findings reported above which are based completely on administrative data. It is possible that the reported beneficiary numbers differ significantly from what is reported in such a survey. Detailed information on private transfers would also allow for a test for crowding out (in) effect, although the impact is likely to be limited given the small amounts involved.

Another area that merits further study is the administration of the scheme, both in terms of efficiency of local delivery and monitoring mechanisms as well as cost. There is

²² At the time of writing, only preliminary findings were available from a more recent National Sample Survey. These results suggest that both households with members as well as individuals 75 years of age or over were overrepresented in the higher quintiles of the income distribution. This tends to support the hypothesis that longevity will be correlated to household income per capita level. Further analysis is needed to test for the sensitivity of these estimates to equivalence scale changes and the statistical robustness of the estimates given the small proportion of the overall sample that falls into this category.

clearly a trade-off involved when comparing a means-tested pension with a demogrant in that the latter is simpler to administer, but less well targeted. Quantifying this trade-off would be useful, but difficult in the Nepalese case given the degree of decentralization. On the other hand, the fact that the demogrant is administered by the same local entities that run the means-tested widow's program may provide some unique insights if studied carefully.

It is also important to step back and place the demogrant program in perspective within the overall pension system. Moreover, the role of the demogrant would be defined in the context of a reformed retirement savings scheme with consumption smoothing objectives. For example, target replacement rates for individuals with different lifetime income streams would be formulated taking into account both the demogrant as well as any mandated savings programs in place. At present, there is no clear elaboration of old age income security policy nor has the role of the demogrant in the overall system been clearly defined. Together with reforms to the schemes covering the formal sector (the Employees' Provident Fund and the civil service pension scheme), public policy in this area will pose a challenge for Nepal in the next few years.

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Appendix I: Old age Allowance Beneficiaries by Age, 2001-2002

Age Group	Ward No 34 in Khatmandu		Gurudaket VDC in Nepal	
	Male	Female	Male	Female
76	7	3	20	18
77	0	3	15	10
78	2	2	7	5
79	15	18	14	10
80	8	14	15	3
81	1	9	12	9
82	4	7	12	2
83	1	5	9	14
84	3	7	11	11
85	2	2	6	9
86	5	6	6	11
87	4	2	3	7
88	3	0	5	6
89	0	0	3	4
90	0	1	2	4
91	2	3	3	3
92	0	2	1	4
93	0	12	0	1
94	0	1	0	0
95	0	1	1	1
96	0	1	2	0
97	0	0	0	0
98	0	0	0	1
99	0	0	2	
Total	57	90	149	134

Note: Unpublished data compiled from the ward office and village development committee in Nepal.

APPENDIX II

Center for Development Studies (CDS)

SURVEY AMONG NON-CONTRIBUTORY PENSIONERS IN NEPAL

Schedule No: _____

Interview Schedule

Household Identification

1. House name and Address:

Village/town _____ **Panchayat /Municipality/ Corporation**

Taluk _____

District _____

2. Name of the Elderly (who can speak only) _____

Note: If the elderly person is unable to answer drop him/her

Name of Field Officer _____

Date of Interview / ____ / ____ / ____ /

Name of Supervisor _____

101. Household Data

I.	Name	Age - date of birth	Sex	Relationship to the elderly	Marital status	Educational qualification (for persons above 5 years)	Current Employment status
o.	2	3	4	5	6	7	8
	Elderly person						

CODES

Sex: 1 = Male; 2 = Female

Relationship with Elderly: 1 = Elderly himself/herself; 2 = Spouse ; 3 = Son; 4 = daughter; 5 = Daughter-in-law; 6 = Son-in-law; 7 = Grand Son; 8 = Grand Daughter; 9 = Others (specify)

Marital Status: 1 = Single; 2 = Married; 3 = Widowed; 4 = deserted; 5=separated; 6=divorced

Educational Qualification: 1 = No education; 2 = Primary ((I-V); 3 = Secondary (VI-X); 4 = Higher Secondary (XI-XII); 5 = Graduate; 6 = Post-graduate; 7 = others (specify)

Employment Status: 1 = Employed regularly; 2 = Employed Casually; 3 = Self-employed; 4 = Unemployed 5 = Others (specify)

102. Information on Surviving children of the Elderly Interviewed

S I. No.	Name	Sex	Age/date of birth	Marital Status	Employment Status
1					
2					

103: Housing and Amenities

1. Type of house
 1 = Permanent 2 = Semipermanent 3= temporary

2. Number of bed rooms:

3. Facilities available in the house? (Put appropriate code, where applicable)

a. Water b. Toilet c. Cooking d. Lighting

a. Water:

1 = Safe source (piped water/tube well/ protected well)

2 = Unsafe source (river/pond/unprotected well)

b. Toilet

1 = Flush Toilet Inside the house

2 = Flush Toilet Outside the house

3 = Pit Toilet (enclosed)

c. Cooking

1 = Gas

2 = Electricity

3 = Kerosene

4 = Fire wood

d. Lighting

1 = Electricity

2= Kerosene

4 = No facility (open space)

4. Do you or your family possess the following consumer durables at home?

(Put tick mark in appropriate column) 1= Yes, 2 =No

a) Radio

b) Bicycle

10 How do you rate your health condition?

1 = Excellent 2 = Good 3 = Satisfactory 4 = Poor

11. Do you have any chronic ailment?

1 = No 2 = Gastric/ulcer 3 = Arthritis/Rheumatism 4 = High blood pressure
 5 = Diabetes 6 = Heart condition 7 = Asthma 8 = Paralysis
 9 = Disabled/bedridden 10 = Tuberculosis 11 = Other (specify)

12. Do you have any of the following disabilities?

13.

<u>Disability</u>	1 = Yes, 2 = No	If yes, do you use any aid (code)	If aids are used, who financed it
Poor vision			
Problem with walking			
Problem with hearing			

Aid

1 = Spectacles
 2 = Stick/wheel chair
 3 = Hearing aid

Finance

1 = Self
 2 = Children
 3 = Others (specify)

13. Are you under regular medication for any illness?

1 = Yes, 2 = No

14 If yes, mention the illness and the amount

you spend per month? Rs.

15 Are you currently sick?

1 = Yes, 2 = No

16 How many days were you sick during the last one year? Days

17 Do you have any of the following habits? (put appropriate code)

1 = Never 2 = Occasionally 3 = Regularly

a. smoking b. drinking

c. chewing

d. snuffing

18. If yes, how much do you spend on them per month? Rs

Family Interaction

19. Do you have any contact with your children who do not live with you?

1 = Yes, regularly, 2 = Yes, occasionally 3 = Never 4 = Have no children

20. In your opinion what is the best living arrangement for the elderly?

- 1 = Live alone/live with spouse
- 2 = Live with son
- 3 = Live with daughter
- 4 = Live with other close relatives
- 5 = Live in old age homes

200: About Non-Contributory Flat Pension

201 Are you currently recipient of the non-contributory pension?

Yes – 1/ No - 2

202 If yes, how long?

Months or

years

203 How much was your first monthly pension? Rs.

204 Has there been any revision of the pension over the years?

Yes – 1 /No - 2

205 If yes, how much?

Rs.

206 What is the current pension?

Rs.

207 How did you know about the existence of this pension?

- 1- Government notification (Print Media, newspapers) 2 - TV
- 3 - Children 4 - Relatives 5 - Friends 6 - Neighbors
- 7 - Political Speech 8 - Others (specify)

- 208 Where did you collect the application form?
- 1- In the village 2 - Panchayat office 3 - Other place (specify)
- 209 Did you go to collect the form? Yes - 1/No - 2
- 210 If not, who went to collect the form on your behalf?
- 1- Children 2- Relatives 3- Friends 4- Neighbours
5- Brokers 6- Others (specify)
- 211 If yes, how many kilometres did you have to travel to obtain an application form?
 meters
- 212 Have you incurred any expenditure in collecting the form? Yes - 1/No - 2
- 213 If yes, the amount Rs.
- 214 How did you prove that you were eligible for the non-contributory pension?
- 215 What supporting documents did you submit along with application?
1
- 216 How much expenditure did you incur in obtaining the supporting documents?
Rs.
- 217 Did you go personally to submit the application form? Yes - 1/No - 2
- 218 If No, who went to submit the form on your behalf?
- 1 Children 2 Relatives 3 Friends 4 Neighbors
5 Brokers 6 Others (specify)
- 219 If yes, how much expenditure did you incur in submitting the form?
Rs
- 220 Did any one from the Government visit you to verify your documents?
Yes - 1/No - 2
- 221 If yes, did you bribe the officer? Yes - 1 /No -2
- 222 If yes, the amount Rs...

- 223 Was your application accepted at the first instance? Yes - 1/No - 2
- 224 If no, what were the reasons for rejection?
Please state:
- 225 Do you know any one in the locality whose application was rejected?
Yes - 1/No - 2
- 226 If yes, give the name and address:
Please state:
- 227 How did the officials behave with you at the time of application?
1 - Very good, 2 – Good, 3 - Very bad
- 228 How did you get the proof of age certificate?
1 - I had already, 2 - Village office, 3 - Others (specify)
- 229 How much amount did you have to incur in obtaining the age certificate?
Rs.
- 230 To be treated eligible for the pension, did you have to pay any bribe to any one?
Yes - 1/No – 2
- 231 If yes, how much? Rs.
- 232 Did you get an acknowledgement from the pension issuing authority
after submitting your application form? Yes - 1/No – 2
- 233 How many days it took from the time of the submission of
application to the receipt of the pension? Days Months
- 234 Did you get any pension arrears due to the delay in sanctioning
the pension? Yes - 1/No - 2
- 235 Have you been receiving the pension regularly? Yes - 1/No - 2
- 236 If yes, how often?
1 - Every month, 2 - Once in two months, 3 Once in three months,
4- Once in six months, 5 - Once in 12 months, 6- Other (specify)
- 237 If no, what is the reason?
Please state:

238 How did you collect the pension?

1-In cash, 2-By Money order, 3-By Cheque,
4-Direct transfer through bank, 5-Others (specify)

239 How much money do you spend normally in collecting the pension?

Rs

240 Do you have to pay any bribe, every time the pension is collected?

Yes - 1/No - 2

241 If yes, how much? Rs

242 Do you have to prove your eligibility periodically? Yes - 1/No - 2

243 If yes, how often?

1 - Once in three months 2 - Once in six months 3 - Once in a year

244 What is the cost involved in proving your eligibility every time?

Rs.

245 Are your children happy with the amount of pension? Yes - 1/No - 2

246 Do you think that the pension is sufficient to meet the needs of
the elderly person? Yes - 1/No - 2

247 If No, how much do you think, the government should give? Rs

248 Can you tell us, how the present system of pension could be improved?

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