

Commitment to Reducing Inequality Index 2020

Country Policy Brief, Nepal

Overall Index Score *	#112	
Public Services Pillar*	Tax Pillar*	Labour Rights Pillar*
#120	#16	#130

* Out of 158

1) Scale of Inequality

The gap between richest and poorest is extreme and growing in Nepal. The poorest have seen their incomes stall in recent years, while the richest fifth of Nepalis have seen their income share increase. The income of the richest 10% is now more than three times that of the poorest 40%. Yet more than 8.1 million Nepali's live in extreme poverty, while huge rewards are going to those at the very top - top bank executives earn more than 100 times the salary of an average worker.

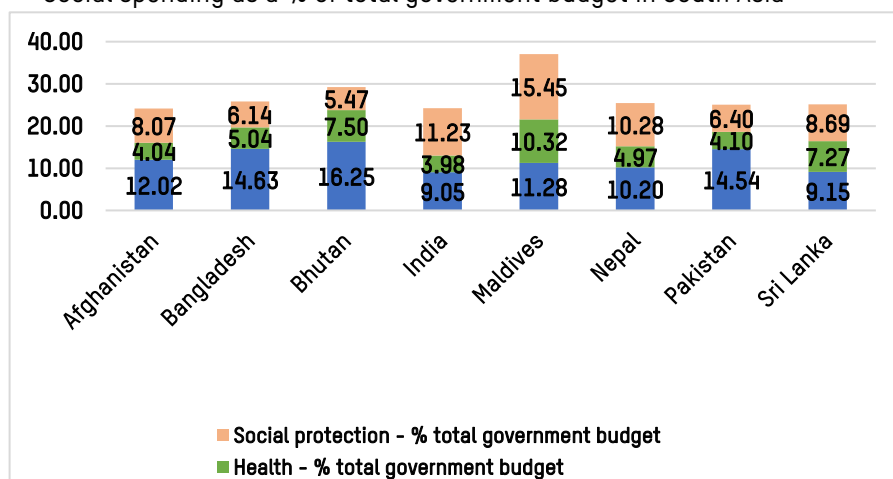
Inequality of wealth is also substantial. The richest 10% of Nepal's population have more than 26 times the wealth of the poorest 40%. Land inequality is the oldest and most fundamental type of wealth inequality. The wealthiest 7% of households own around 31% of agricultural land. There are also significant geographical divides in Nepal.¹

2) Key Policies to Fight Inequality – Lessons from the CRII

Nepal comes 112th out of 158 countries in the 2020 Commitment to Reducing Inequality Index. The score has improved slightly since the 2018 Index, where Nepal scored 139th. As COVID hit, Nepal was doing too little to support the poorest. Some measures have been introduced in response to COVID – such as free health insurance coverage to medical workers, expansion of social protection for the poorest through daily food rations and expansion of the public works programme – which are commendable, but insufficient and too short-term to respond the (still) unfolding crisis in Nepal.

- On public spending and services, Nepal comes 120th, because its spending is very low, and services for the poor are limited:
 - Education spending is just 10% of government budget – well below international recommendations – and only one quarter of the poorest young people complete secondary schooling.
 - As COVID hit, health spending was well below the recommended 15% of government budget recommended – at just 4%. This is woefully short depriving around half of all Nepalese of universal health services and requiring as many as 10% of Nepalese pay over 10% of their income on health services.

Social spending as a % of total government budget in South Asia



- Social protection spending is marginally better, with much of this allocated to social pensions, which covers up to 65% of population. But only about 8% of the population are covered overall by all types of social protection, leaving too few of the poorest protected as COVID hit.

- On tax, Nepal comes up high at number 16 due to a relatively progressive tax

system:

- It has a strong score on the overall policy 'on paper' – the 4th most progressive tax system on paper in the CRII. This is due to a combination of having one of the most progressive PIT scores – with personal income tax rate for the highest earners (36%) while the poorest pay a very low rate (1%), and VAT that

has a number of essential commodities and services exempted (however there is evidence that poor households are still paying a significant amount in indirect taxes). On the CIT rate Nepal could do much better – at 25% – comes 3rd from bottom in the South Asia sub-region.

- Nepal has increased overall tax collection over the recent years as a % of GDP, however, overall, it is not collecting as much tax as it could – Nepal is collecting just 12.6%, from the major tax types of VAT, CIT and PIT, leading a ranking of 78 on this indicator.
- which is holding it back from ensuring tax can work harder to fight inequality in Nepal.
- Nepal has poor labour policies which are letting the poorest women down the hardest. Its respect for workers' rights overall, ranks it 130th overall on this pillar:
 - On the labour rights – freedom of association and collective bargaining rights – Nepal scores 110, and is let down by missing some critical legislation, and violations in ensuring collective labour rights.
 - Women workers are badly protected, with Nepal ranking 126 -- there are no laws to prevent gender-based discrimination and no law against rape. But recent increases in days given for maternity leave -- from 52 to 60 days and introduced – and the 15 days paternity leave given in 2018 has seen some improvements.
 - The otherwise dismal scores on this pillar, is pulled up by a substantial government set minimum wage, which helps Nepal to fight inequality in wages – with Nepal ranked 16th.
 - Overall, on wages and work, Nepal also has 78% of the workforce in vulnerable employment who do not have access to many workers' rights – and women, in particular, are far more likely to be in vulnerable employment.

As COVID hit Nepal was woefully unprepared to fight the pandemic – it was spending only 4% of budget on health - very far below required levels of 15% - which led to just one doctor for every 1,734 people; less than 10% of the country had protection to, including unemployment or sick pay; and, up to 80% of workers were already in the vulnerable worker category.

Debt

External and domestic debt spending in 2019 was 25% of revenue, close to four times the health budgets, and nearly twice the education budget², while total public debt is just over 30% of GDP – external debt is just over half of this (17%).³

Role of the IFIs

- The IMF has been supportive of increased health and social protection spending as COVID has hit. This has included increasing loans to help cover the increased costs. This is likely to increase debt levels faster than previously predicted, with debt exceeding 40% of GDP, and debt service above 30% of government revenues by 2021. The economic crisis is also expected to have a severe impact -- more than 2 million people are projected to lose employment while an additional 1.5 million migrants are expected to return to the country. In this context, without additional support, the country is likely to quickly reverse the response package introduced to tackle Covid-19, this will bring overall expenditures to below pre-crisis levels, just as increased investments in public services are most needed.⁴
- Nepal will benefit from the G20 Debt Service Suspension Initiative (DSSI) under which the country will defer debt service obligations owed to official external creditors amounting to US\$18.8 million for the remainder of 2020. Nepal was also among the 25 countries to receive debt relief from the International Monetary Fund for six months as part of its response to help address the impact of the Covid-19 pandemic. In addition, the country received a loan under the IMF Rapid Credit Facility (RCF) for US\$ 214 million to address the pandemic. The support and relief provided falls dramatically short relative to the social and economic impact of the crisis and the overall evolution of debt vulnerabilities. Against this background, debt service suspension is clearly insufficient.⁵

Policy suggestions

Based on the areas where it is performing more poorly, Nepal should:

- sharply increase its spending on education, health and social protection, and ensure that more of all its social spending gets to the poor by improving transparency and accountability.
- to fund these increases it should increase income tax rates for the wealthiest individuals and corporations and consider adding a “solidarity” tax on top of them to cover the additional needs for post-COVID recovery.
- it should also take advantage of the COVID-related offers of debt relief to get its current debt service suspended and negotiate a comprehensive cancellation of its overall debt as soon as possible, so as to free up massive amounts of money for anti-inequality spending.

¹ Inequality data taken from Oxfam 2019 report, *[“Fighting Inequality in Nepal: The road to prosperity”](#)*

² Government spending watch figures

³ <http://documents1.worldbank.org/curated/en/205791586543067463/pdf/Nepal-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf>

⁴ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/473551595429740654/nepal-development-update-post-pandemic-nepal-charting-a-resilient-recovery-and-future-growth-directions> and IMF

⁵https://d3n8a8pro7vhmx.cloudfront.net/eurodad/pages/768/attachments/original/1594831184/DSSIShadowReport_designedIF_mp_CLEAN.pdf?1594831184