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SOCIAL PROTECTION BUDGET BRIEF

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GLOSSARY AND ABBREVIATIONS

CFT	UNICEF Child & Family Tracker
CBS	Central Bureau of Statistics
CP	Child Protection
CG	Child Grant
DoPM	Department of Pensions Management, Ministry of Finance
EU	European Union
FY	Fiscal Year (June-May)
GDP	Gross Domestic Product
GoN	Government of Nepal
IGFT	Intra-government fiscal transfer
MoEST	Ministry of Education Science & Technology
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MoHP	Ministry of Health & Population
MoHA	Ministry of Home Affairs
MoICS	Ministry of Industry, Commerce and Supplies
MoLESS	Ministry of Labour, Employment & Social Security
MoWCSW	Ministry of Children, Women and Social Welfare
MoUD	Ministry of Urban Development
NPC	National Planning Commission
NPR	Nepalese Rupee
NRB	Nepal Rashtriya Bank
SA	Social Assistance
SAARC	South Asian Association for Regional Cooperation
SDG	Sustainable development goal
SP	Social Protection
SSAs	Social Security Allowances
SSAPC	Social Security Allowances Per Capita
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Education Fund
WB	World Bank

EXECUTIVE SUMMARY

The Government of Nepal has prioritized social protection (SP) over the last two decades, and the number of schemes and investments in the SP sector is increasing. Efforts to extend SP in Nepal have been instrumental in reducing life cycle risks and vulnerability. Despite the commitment to increasing investment and coverage, there are growing concerns about its long-term financing, effectiveness, impact and inclusion. To address these concerns, the National Planning Commission (NPC) has drafted an Integrated National Framework on Social Protection (NPC, 2020).

The SP landscape is vast and fragmented in Nepal. There are approximately 76 schemes – spread across 29 different programme types – that are being implemented in 11 different ministries. Some of the agencies and ministries implementing SP programmes in Nepal are listed in Table 2 below, including the independent funds for Social Insurance along with the most recent data on coverage and expenditures (FY 2019/20). There is considerable variation in terms of the nature, outreach and expenditures, which also translates into variation in expenditure per beneficiary. In terms of outreach, the Ministry of Home Affairs (MoHA); the Ministry of Education, Science and Technology (MoEST); and the Ministry of Health (MoH) cover the largest number of beneficiaries. MoHA's Social Security Allowances (SSAs) dominate the budget. In addition, the independent health insurance fund provides contributory-based health insurance benefits to about 2.7 million individuals. In terms of budget allocations, the highest allocations accrue to MoHA; Ministry of Labour, Employment and Social Security (MoLESS); and MoEST.

The nominal SP budget allocation¹ in Nepal has grown rapidly, rising from NPR 6 billion in Fiscal Year (FY) 2014/15 to an estimated NPR 188 billion in FY 2020/21.² Examining the last five FYs, the SP budget has been growing by over 20 per cent each year (except for FY 2019/20 where it grew by 14 per cent). Note that due to data limitations and systems gaps, the administrative costs of local governments implementing federal government programmes (e.g., identification of beneficiaries) may not be fully reflected in these allocated amounts.³ Over the same period, GDP growth has been declining. Growth in 2020/21 FY was projected at 2.3 per cent – well below previous years. Subsequently, the ratio of SP spending is drifting upwards when compared to GDP. Similarly, the consolidated budget contracted for FY 2020/21, which resulted in a spike in the ratio of the allocated SP budget to the overall consolidated budget.

The growth in SP budget allocations was driven by a variety of factors related to politics, recent benefit increases, coverage growth, increasing life expectancy and increase in the number of schemes over time. The recently introduced Prime Minister's employment programme receives about 3.28 per cent of the SP budget.

The most recent data for the past FY 2019/20 suggest that a few programmes absorb most of the allocations:

- Social Assistance (SA) programmes were allotted the highest share of the SP budget (58 per cent), from which 43 per cent was allocated for SSAs, 7 per cent for the Special Agriculture Promotion/Production Programme (implemented at the local level) and other subsidies absorbed another 4 per cent. This implies that nearly 15 other programmes, including some of which are critical for children, such as school scholarships, school lunch and safe motherhood, absorb the remaining 4 per cent of the budget

¹ This document refers to the public sector budget allocations. The private sector also plays a role in providing SP in Nepal by providing mechanisms for remittances, bank transfers and other services. These are not factored into these expenditure allocation numbers.

² Based on budget data (Red Books) and NPC 2020.

³ Disentangling this would be a difficult proposition as the functional responsibilities related to implementing federal government programmes overlap with functional responsibilities related to programmes being implemented by local governments.

allocated for SA programmes. In terms of the overall budget, SA programmes were allocated nearly 6 per cent (2.3 per cent of GDP). SSAs were allocated about 1.71 per cent of GDP.

- Social insurance expenditures were allocated another 39 per cent of the SP budget: 90 percent of this (35 per cent of 39 per cent) went for public sector retirees (retirement gratuities), and the remaining 4 per cent was allocated for the health insurance board. In terms of the consolidated budget, social insurance was allocated 3.84 per cent (1.56 per cent of GDP). Within this category, allocated expenditures for retirees and gratuities were about 1.4 per cent of GDP.
- Labour market programmes were allocated 3.37 per cent of the total SP budget or 0.13 per cent of GDP, of which the Prime Minister's Employment Programme (98 per cent of which is set to be implemented at local levels) received the largest share (3.28 per cent).
- About 88 per cent of the SP budget was for the federal government, while just under 11 per cent of the SP budget was allocated to local levels. Provinces and states received 1 per cent of the allocations. The biggest local level programme was the Special Agriculture Production/Promotion Programme (7 per cent of the SP budget). In addition, funds for both the Scholarships, School Lunch, Safe Motherhood Programme, and the Mother and Child Nutrition Support Programme, were also allocated to the local level. Provincial allocations are low, but some provinces are showing interest in providing SP programmes (such as the Beti Bachao Beti Padoo Programme), which suggests there is a need to examine the intra-governmental distribution of expenditures in the context of some provincial development plans. It is also interesting to note the relatively lower allocations for the Safe Motherhood Programme and the Mother and Child Nutrition Support Programme. There is a possibility that there could be some overlap in these different efforts to target the young (for instance, the Universal Child Grant is also a nutrition related intervention).
- From the data, it can be inferred that SSAs as well as retirement gratuities absorbed nearly 78 per cent of the allocated budget, while the remaining 27 different kinds of programmes received just over 20 per cent. Hence, it would be fair to conclude that of the 76 operational schemes, about 80 per cent of allocations are absorbed by about 10 schemes, while the remaining 66 schemes are allocated 20 per cent.
- Retirement gratuities are mostly for retired government staff. Allocated expenditures for these absorb close to 1.41 per cent of GDP. In addition, allocations for SSAs (in total) absorb 1.71 per cent of GDP, and from this group, old age (both kinds), and widows and single women's allowances accruing to the elderly absorb nearly 87 per cent of SSA expenses, or 1.4 per cent of GDP. In other words, a large portion of Nepal's SP allocations are being spent on the elderly (defined by those age 60+) – persons who are perhaps relatively well-off compared to other age-groups, even as the demographic transition in Nepal is expected to accelerate soon in Nepal. Although many families and children benefit from this, given that the elderly comprise only 9-10 per cent of the population compared to 32 per cent children and 10 per cent children under age 5 (CBS, 2019), there is definitely scope to examine the expenditures from a lifecycle, human rights and equity perspective, and to consider the need for increasing budgets allocated for the very youngest and most vulnerable groups as a sustainable and smart investment.

During the most recent fiscal year (FY 2019/20), as per MoHA data, the government spent 72.8 billion NPR as benefit payments for all SSAs to 4.25 million beneficiaries (including medical treatment – about 2 per cent of GDP and 6 per cent of the consolidated budget). As per government records, in FY 2019/20, there were about 2.96 million beneficiaries of SSA (excluding medical treatment⁴) – about 10 per cent of the estimated population of Nepal. A total of 57.3 billion NPR was estimated to have been the SSAs benefit cost for these beneficiaries (derived by multiplying beneficiaries by amounts).

⁴ The medical treatment social allowances should become a part of a broader health (insurance) package as it addresses specific medical contingencies not covered by other medical programmes. The other social allowances are for certain groups.

This implies that:

1. The average annual per beneficiary transfer is NPR 19,373. Note that this weighted average compounds different benefit types and hence the average transfer for the old age allowances, single women's allowances and widow's allowances are NPR 24,000 per year, much higher. On the other hand, almost 25 per cent of beneficiaries – child grant recipients – receive only NPR 4,800 per year.
2. The average per capita transfer is NPR 1,959, derived by dividing total SSA allowances by total estimated population. In comparison, per capita budget expenditures were estimated to be NPR 51,000, while per capita GDP was estimated at NPR 134,000.⁵
3. SSAs transfer about 1.5 per cent of per capita GDP in benefit amounts.⁶ Although each of the programmes has different benefit amounts, and so the average could be misleading if not interpreted correctly (i.e., as a simple mean issue related to the adequacy and efficiency of these benefits, especially when it comes to those for children in need), inadequate or insufficient transfer values are likely to suffer from exclusion as well as have a more muted value on outcomes.
4. The situation is complicated, in part, because the per capita debt burden⁷ arising from current borrowing is estimated to be higher than the per capita transfer, which has several implications for the net transfer value to the household and in terms of the 'social contract' in Nepal.

The evolution of SA expenditures can be traced to movements in coverage (beneficiaries) and changes in the benefit level. The benefit level for old age allowances, single women, and widows, increased from NPR 500 per month to NPR 1,000 per month in FY 2016/17, and then doubled again to NPR 2,000 per month in FY 2019/20. At the same time, the benefit levels for endangered ethnic groups and full disability increased from NPR 1,000 per month in FY 2014/15 to NPR 2,000 per month in FY 2016/17, and then to NPR 3,000 per month in FY 2019/20. The benefit levels for partial disability also rose from NPR 300 per month and NPR 600 per month in FY 2016/17, and then to NPR 1,600 per month in FY 2019/20. In all these cases, the recent benefit increase was NPR 1,000 per month. Child grants received the lowest benefit amount, increasing from NPR 200 per month in FY 2014/15 to NPR 400 per month in 2016/17. Since then, the benefit level has not risen. Hence, unlike the other programmes which try to adjust benefit levels to partially offset inflation, the real value of the child grant has been falling.

Virtually, worldwide, any system of allowances based mostly on older demographic groups may not capture multiple dimensions of poverty that afflict all age groups, including the youngest. This holds true in Nepal. On average, the per capita distribution of SSAs is about NPR 1,959. There is considerable variation, ranging from a low of NPR 1,596 in Bagmati to a high of NPR 2,659 in Gandaki – the diversity being a product of many different factors, including coverage differentials, especially for child grants (with the lowest benefit amount) as well as underlying differences in demographics. When comparing these per capita allocations against underlying vulnerabilities and risks –represented by Multidimensional Poverty Rate (MPR) – Provinces 2 and Karnali have the highest MPR, considerably higher than the average, but the lowest per capita allocation of SSAs, well below the average. Province 5 receives less than the average in terms of per capita SSA but has a higher-than-average MPR. On the other hand, Gandaki province has the lowest MPR and receives the highest per capita SSA. A similar situation is observed in Province 1, which has the lowest MPR but receives a higher-than-average share of SSA. At the same time, it is encouraging to note that there is some alignment of overall multiple deprivation and per capita receipts of SSA (e.g., in Karnali).

⁵ These numbers are derived by using the CBS population forecasts for the relevant FY and publicly available budget and GDP data from MoF Redbooks and CBS/NRB economic bulletins.

⁶ This is a more meaningful measure for adequacy as well as for international comparison purposes as looking at it from the perspective of a share of budget or GDP does not consider the underlying population size.

⁷ Can be derived by using the most recent debt statistics available at NRB and population forecasts from CBS.

UNICEF's Baseline Child & Family Tracker (CFT) provides information on the progressivity of SSA coverage. The telephone-based survey administered during the lockdown (May 2020) to more than 7,500 households with more than 42,400 people living in them showed that child grants were progressive while old age allowances – although with a much higher coverage – were (in comparison) more likely to be regressive. This could, however, be explained by the low level of the child grant, which would probably not be very appealing for a significant segment of the population in the upper income groups.

Given the current context of COVID-19, the question of 'fiscal space' seems relevant – although it must be understood that countries all over the world, rich and poor alike, are 'doing all it takes' to protect their most vulnerable. Nepal has financed public SP programmes through general revenues. More recently, contributory-based SP programmes have emerged on the landscape. Given the crippling socio-economic effects of COVID-19 containment measures, there may not be any viable options in the short term other than incurring further debt. How revenues are raised and debt is repaid also has an impact on the net transfer value. Nevertheless, to the extent that debt is incurred to promote smart investments in children and other vulnerable groups, the future debt burden could be lower due to the higher growth path in the future.

Emerging evidence from a variety of sources in Nepal suggest large scale income and job losses, sharp macro level contractions, including in government revenues, and a heightened sense of vulnerability and uncertainty. Against this backdrop, the present brief notes that the SP budget has increased in real and nominal terms, although a small number of programmes dominate the budget. Allocations over the life cycle and on per capita terms is skewed towards the elderly, who are relatively wealthier. Allocations by province do not bear a strong relationship to multiple deprivation poverty.

An important caveat to the brief is that all the data refer to documented citizens. Hence, as an initial step to include all those in need in relevant SP schemes, it is critical to support the government's effort to strengthen its civil registration outreach programme, ensure timely issuance of legal identity documents to all eligible persons/children (and include them in the Civil Registry), and continue advocacy to amend the Citizenship Act to enable citizenship documentation at birth and repeal gender discriminatory provisions for women and gender/sexual minorities.

Summary of recommendations:

1. Continue to support and strengthen civil registration and family registration.
2. Provide coherence and integration among the 76 different schemes in operation.
3. Continue to support and expand cash transfers as a 'springboard' for recovery, especially for children, based on transparent and participatory evidence and evaluations to smoothen the impact of multiple/severe shocks unfolding in Nepal. Explore the possibility of aligning child grant benefit amounts with the other SA programmes from three perspectives: life cycle equity, sufficiency, and effectiveness.
4. Engage with key ministries and agencies to advocate for a more equitable distribution of resources, especially for provincial and local governments in concordance with capacity (including financial) and needs.
5. Establish cross-sectoral links for economies of scale and multiplier effects of interventions. This is crucial as many frontline services in health and education are being devolved to local governments, even with capacity constraints (including finance). There is an urgent and critical need to invest heavily in evidence, systems and capacity, especially at local levels.
6. Maintain fiscal sustainability by planning and allocating resources within a medium-term fiscal framework and adopting a cross-sectoral perspective for positive externalities. Developing alternative scenarios for planning and financing (and understanding the longer-term benefits of SP) are important.
7. Take advantage of the demographic opportunities unfolding in Nepal to invest strongly in children for a more productive future.
8. Leverage innovative/alternative sources of financing from local/private sector and regional initiatives (e.g., SAARC Development Fund), leverage international sources (e.g., SDG funds), allocate resources from tax growth, and curb illicit fiscal flows. And engage in innovative partnerships with the private sector.
9. Conduct regular process and outcome evaluations of the major programmes (including actuarial evaluations of social insurance schemes).
10. Accelerate and expand efforts to kick-start employment and generate income as sustainable pathways out of vulnerability.

Introduction

This condensed report on Social Protection (SP) in Nepal is one of several budget briefs being produced by a joint EU-UNICEF programme, named 'Public Finance Facility in South and Southeast Asia'. These briefs explore the extent to which Nepal's national budget addresses the needs of Nepal's children in terms of sufficiency, equity, efficiency, effectiveness and transparency. These objectives are expected to lead to outcomes that give children an equitable chance in life, enable them to learn, allow them to be healthy, permit them to live in a clean and safe environment, and empower them to survive and thrive.

The present brief investigates the magnitude and structural composition of budget allocations for key SP programmes over recent years, including federal level disaggregation. Subnational budget allocations are becoming increasingly important given Nepal's recent transition to a federal structure with three levels of government. The brief will be updated every year. Global evidence is mounting on the strong and positive multiplier effects of investing in children. Public finance and governance challenges, however (especially in a transitional context), compounded by environmental disasters and the recent COVID-19 pandemic, pose serious risks to the delivery of SP in Nepal.

The Government of Nepal has prioritized SP over the last two decades, and the number of schemes and investments in the SP sector is increasing. Efforts to extend SP in Nepal have been instrumental in reducing life cycle risks and vulnerability. Despite this commitment to increase investment and coverage, there are growing concerns about its long-term financing, effectiveness and impact. To address these concerns, the National Planning Commission (NPC) has drafted an Integrated National Framework on Social Protection (NPC, 2020).

The main objective of the present brief is to synthesize complex budget and other sector-specific items from a variety of sources to support policy advice for optimal SP budget allocations to fulfil the rights of Nepal's children during a difficult time in Nepal's history. The following structure of the document is based on global UNICEF guidelines (UNICEF, 2019). Beginning with the first section and ending with the conclusion, the document has the following structure:

- The SP landscape is discussed;
- Budget allocation trends on SP are explored;
- SSAs from a sufficiency, efficiency and equity perspective are examined;
- Financing patterns and options for SP are discussed;
- Challenges of SP associated with federalism are highlighted;
- The need for continued and accelerated investments in SP as a smart and humanitarian response to the ongoing pandemic is outlined;
- Key findings are recapitulated.



On July 13 2015, **Maiya Ramtel**, 26, counts cash received from the Government as part of support grant on her way back to home. UNICEF worked closely with the government under **“Emergency Top-up Cash Transfer Project”** to support vulnerable group affected by the 2015 earthquake.

The Social Protection Landscape: Major programmes and implementing agencies

This section outlines the SP landscape and identifies the major programmes and implementing agencies. As stated by NPC (National Social Protection Integration Framework, NPC, GoN, 2020, Draft) SP in Nepal comprises three components: 1) unconditional social support (cash and in-kind assistance, disaster and risk mitigation, programmes to allow deprived and marginal groups access to essential services), 2) contributory based social security (health insurance, pensions, accident insurance, education scholarships for children, and safe motherhood, etc.) and 3) labour market and employment programmes. The underlying principles are primarily rights based, but there is also an increasing concern about financial sustainability within the context of limited resources and a proclivity to move towards contributory modes.

In terms of functional responsibilities for SP, there are approximately 76 schemes spread across 29 programme types in 11 different ministries.⁸ The most recent list of schemes/programmes/facilities as published by NPC (ibid) is reproduced in Table 1. It should be noted that the classification does not follow global practices because most programmes listed under social insurance are contributory or collective risk based, hence, they should be listed under the contribution-based social security. On the other hand, programmes such as Safe Motherhood should fall under social assistance (SA) services.

TABLE 1 SP Programmes in Nepal (number)

Programme Area/Major Programme	# of Programmes
a. Social Assistance	39
• Social Security Allowance	5
• Rescue and Relief	4
• Relief and Rehabilitation	1
• Scholarship	10
• School Lunch and Accommodation	2
• Vaccination and Disease Control	3
• Health Services	8
• Free Health Check Up	6
b. Social Insurance/Grant	19
• Safe Motherhood Programme	3
• Child Welfare	2
• Housing Land	2
• Social Welfare	3
• Interest, Insurance and Relief Grants	9
• Social Security Fund	

⁸ These are based on international Classification of the Functions of Government (COFOG) as well as on the internal division of responsibilities within the Government of Nepal (GoN). It is important to note that these do not cover the role of the private sector. Increasingly, because of the digital push, the private sector is getting involved in service delivery (e.g., bank/money transfers or mobile wallets). Furthermore, there is increasing scope for private sector involvement through partnerships involving blended financing and corporate social responsibility (CSR) initiatives.

• Employee Provident Fund	
• Health Insurance	
• Crops and Livestock Insurance	
c. Contribution based social security	11
d. Labour Market and Employment	6
e. Legal Aid	1
Total # of programmes	76

Source: NPC, GoN (2020) "National Social Protection Integration Framework," Draft

As per the NPC (ibid) classification, there are 39 schemes that could be classified as 'social services', 19 classified as 'social insurance and grants' and 11 schemes classified as 'contribution based social security.' And there are six 'labour market and employment programmes' (including the Prime Minister's employment programme) and one 'legal-aid scheme' meant for foreign students. What is clear from this list of programmes is that there is fragmentation and overlaps juxtaposed with significant gaps along the lifecycle. This is illustrated later in this chapter. The focus has been on the provision of a wide range of safety net programmes.

Some of the agencies and ministries implementing SP programmes in Nepal are listed in Table 2 below (including the independent funds for Social Insurance) along with the most recent data on coverage and expenditures (FY 2019/20).

TABLE 2 Key Ministries and agencies implementing SP in Nepal (FY 2019/20)

Ministry	Major programmes	Beneficiaries	Annual budget exp (millions of NPR)	Per beneficiary exp (NPR)
MoHA	SSAs	3.15m	64,500.0	20,476
	Relief Support	786	90.3	114,885
MoEST	School Scholarships under the SSDP	3.15m	1,268.2	402
	Enhanced TVET (EVENT 11)	115K	1.4	12
	Enhanced Skills for Sustainable and Rewarding Employment (ENSSURE)		1.7	
MoHP	School Feeding	1m	332.7	333
	Safe Motherhood Programme	425K	101.2	2.5
	Poor Citizen's Medical Treatment Fund	23K	1.1	47.9
	Nutrition Supplements under ICHNP		0.4	
	Mother and Child Nutrition Programme		256.7	
MoLESS	Prime Minister's Employment Generation Programme	60K	4,935.7	82,261
MoFAGA	RCIW: Self targeted cash for work		0.3	
MoUD	People's residence programme	30K houses Target	1.3	43 (per house)
MoF	Youth and Small Entrepreneur Self Emp Fund	38K	0.2	
MoICS	Women Entrepreneurship Dev Fund			
	Public Food Distribution System (Transport subsidy)		587.5	
	President's Women's Upliftment Fund		0.3	
	Social Welfare Centres			
	Social Welfare Programme			
Social Security Fund	Social Security (Medical & Accidental, Death, Dependents, Old Age)	156K		
Health Insurance Fund	Health Insurance (board)	2.7m	5,859.6	2,170
DoPM	Public sector pensions, retirement gratuities & other benefits	250K	47,881.3	
Employees Provident Fund	Contributory Savings/Insurance	600K	11.7	

Source: Compiled from various sources, including MOF Redbooks, NPC (2020) draft and World Bank (2021) draft. ⁹

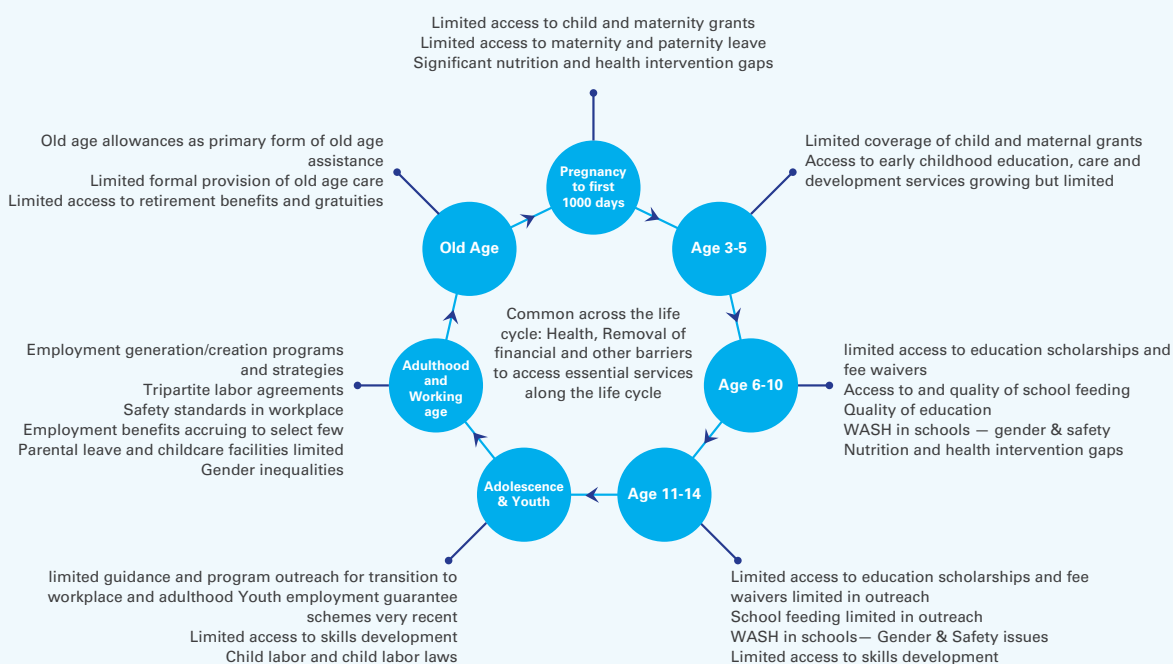
⁹ MoHA=Ministry of Home Affairs; MoEST=Ministry of Education Science and Technology; MoHP=Ministry of Health and Population; MoLESS=Ministry of Labour Employment and Social Security; MoFAGA=Ministry of Federal Affairs and General Administration; MoUD=Ministry of Urban Development; MoF=Ministry of Finance; MoICS=Ministry of Industry, Commerce and Supplies; MoWCSW=Ministry of Women, Children and Social Welfare; DoPM=Department of Pensions Management.

As shown above, a multitude of different ministries and sectors are involved in running a wide variety of SP programmes in Nepal. There is considerable variation in terms of the nature, outreach and expenditures, which translates into variation in expenditure per beneficiary. In terms of outreach, the Ministry of Home Affairs (MoHA), Ministry of Education, Science and Technology (MoEST), and Ministry of Health (MoH) cover the largest number of beneficiaries. In addition, the health insurance fund, an independent fund, also provides contributory based health insurance benefits to about 2.7 million individuals. In terms of budget allocations, the highest allocations accrue to MoHA, MoLESS and MoEST.

These data suggest that there’s scope for a stronger coordination and improved coherence among the diverse set of implementing agencies. The need for integration is urgent. Integration would create fiscal space as many fragmented programmes would tend to have higher administrative and services costs and thereby compromise efficiency. It is not clear why Nepal needs 76 different schemes from a sustainability perspective. For example, as noted in the Draft National Social Protection Integration Framework (NPC, *ibid*), under MoHA the scholarship programme related to the martyr’s family could be included in the scholarship of the MoEST. Similarly, women air rescue for emergency medical treatment could be merged with emergency air rescue conducted by MoHA. Some programmes in the fields of education, nutrition and health could be merged into integrated child development programmes.

A second issue that emerges (and will be addressed later in this brief) is the uneven allocation of funds for some crucial issues, such as human capital development for young people so that they can become productive adults. There are gaps along the life cycle, especially for the youngest and most vulnerable groups (Figure 1). These gaps, it will be argued, fail to address the opportunities provided by the ‘demographic dividend’ that Nepal could enjoy in the imminent future (NPC, 2017). It will also be shown in the analysis that expenditures per beneficiary are likely to be lower for children than for adults and the elderly, thereby making it a ‘smart’ investment.

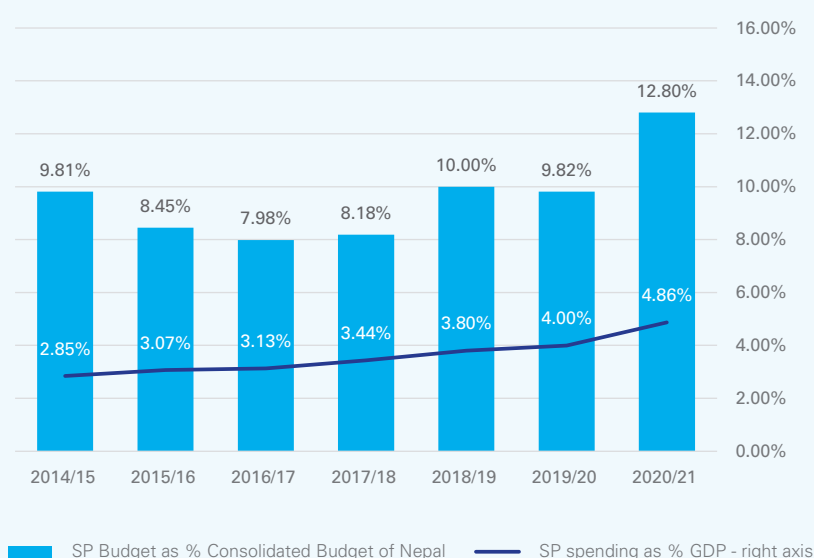
FIGURE 1 Gaps along the life-cycle – SP coverage in Nepal



Examining Social Protection Budget allocations & recent trends

The nominal SP budget allocation¹⁰ in Nepal has grown rapidly, rising from NPR 6 billion in FY 2014/15 to an estimated NPR 188 billion in FY 2020/21.¹¹ Examining the last five FYs, the SP budget has been growing by over 20 per cent each year (except for FY 2019/20 where it grew by 14 per cent). Due to data limitations and systems gaps, however, the administrative costs of local governments implementing federal government programmes (e.g., identification of beneficiaries) may not be fully reflected in these allocated amounts.¹² Over the same period, GDP growth has been declining, and the growth in 2020/21 FY was projected at 2.3 per cent – well below previous years. Subsequently, the ratio of SP spending has been drifting upwards when compared to GDP. Similarly, the consolidated budget has contracted for FY 2020/21, leading to a spike in the ratio of the allocated SP budget to the overall consolidated budget. The results for the last few FYs are shown in Figure 2 below.

FIGURE 2 SP Budget allocations as per cent of GDP and consolidated budget



Growth in SP budget allocations was driven by a variety of factors related to politics, recent benefit increases (Figure 3), coverage growth, increasing life expectancy and increase in the number of schemes over time. The Prime Minister's employment programme was introduced recently and is allocated about 3.28 per cent of the SP budget. It would be useful to decompose this growth of the budget into the growth of the major constituent programmes (including trends in beneficiaries, administrative expenditures, investment in assets, utilization of capital gains) and from there filter out the non-benefit related expenditures to get a better calibration of sufficiency, efficiency and equity.¹³

¹⁰ This document refers to the public sector budget allocations. The private sector also plays a role in social protection in Nepal by providing mechanisms for remittances, bank transfers and other services. These are not factored into the expenditure allocation numbers.

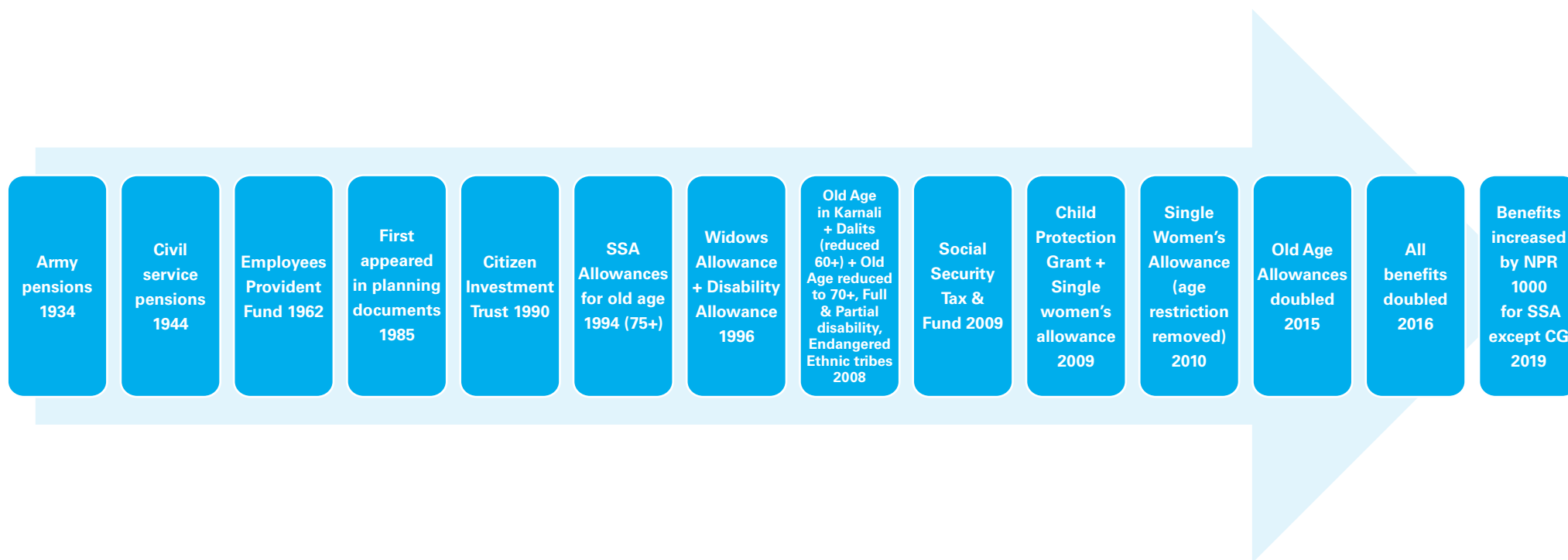
¹¹ Based on budget data (Red Books) and NPC 2020 draft.

¹² Disentangling this would be a difficult proposition as the functional responsibilities related to implementing federal government programmes overlap with functional responsibilities related to programmes being implemented by local governments.

¹³ Disaggregating data along these lines would support integration, making it possible to separate out administrative and other service delivery costs. Since these could and probably will vary by region or municipality, it would also address multiple issues related to equity.

An important consideration in examining government reported expenditure allocations and actual spending is to have better information on the budgetary codes of activities considered as SP in the implementing ministries. This becomes critical as different layers of government begin to participate in SP initiatives. In the absence of such a codification, it becomes onerous to separate out SP spending. In addition, developing SP specific budget codes is crucial for an accurate assessment of medium-term expenditures/costs.

FIGURE 3 SP major events timeline¹⁴



¹⁴ Compiled from different sources and desk research.



Namche Village Development Committee Secretary **Binod Basnet** (in orange) hands NRs. 5,000, including emergency top-up NRs. 3000 provided by UNICEF to **Daati Sherpa**, widowed mother of five-year-old Ang Dolker in Solukhumbu District. The emergency cash grant was distributed to an estimated 400,000 vulnerable people, who have been receiving cash grant under the government's social welfare scheme, in 19 districts – 14 most affected and an additional five identified by the Government's Post Disaster Needs Assessment (PDNA).

SP programmes with the highest allocations

The most recent data for the past FY 2019/20 suggest that a few programmes absorb most of the allocations, which further strengthens the need for integration and harmonization (Table 3). Analysing the breakdown of allocations by NPC (2020) classifications implies that:

- Social Assistance (SA) programmes were allotted the highest share of the SP budget (58 per cent) from which 43 per cent was allocated for SSAs and 7 per cent for the Special Agriculture Promotion/ Production Programme (which is implemented at the local level). Subsidies absorbed another 4 per cent. This implies that nearly 15 other programmes, including some of which are quite critical for children, such as School Scholarships, School Lunch, and Safe Motherhood absorb the remaining 4 per cent allocated to for SA programmes. In terms of the overall budget, SA programmes were allocated nearly 6 per cent (2.3 per cent of GDP). SSAs were about 1.71 per cent of GDP.
- Social Insurance Expenditures were allocated another 39 per cent of the SP budget: 90 per cent of this (35 per cent) went for public sector retirees (retirement gratuities), and the remaining 4 per cent was allocated for the health insurance board. In terms of the consolidated budget, social insurance was allocated 3.84 per cent (1.56 per cent of GDP). Within this category, allocated expenditures for Retirees and Gratuities were about 1.4 per cent of GDP.
- Labour market programmes were allocated 3.37 per cent of the total SP budget or 0.13 per cent of GDP, of which the Prime Minister's employment programme (98 per cent of which is to be implemented at the local levels), received the largest share at 3.28 per cent.

TABLE 3 Breakdown of SP Budget allocations for 2019/20

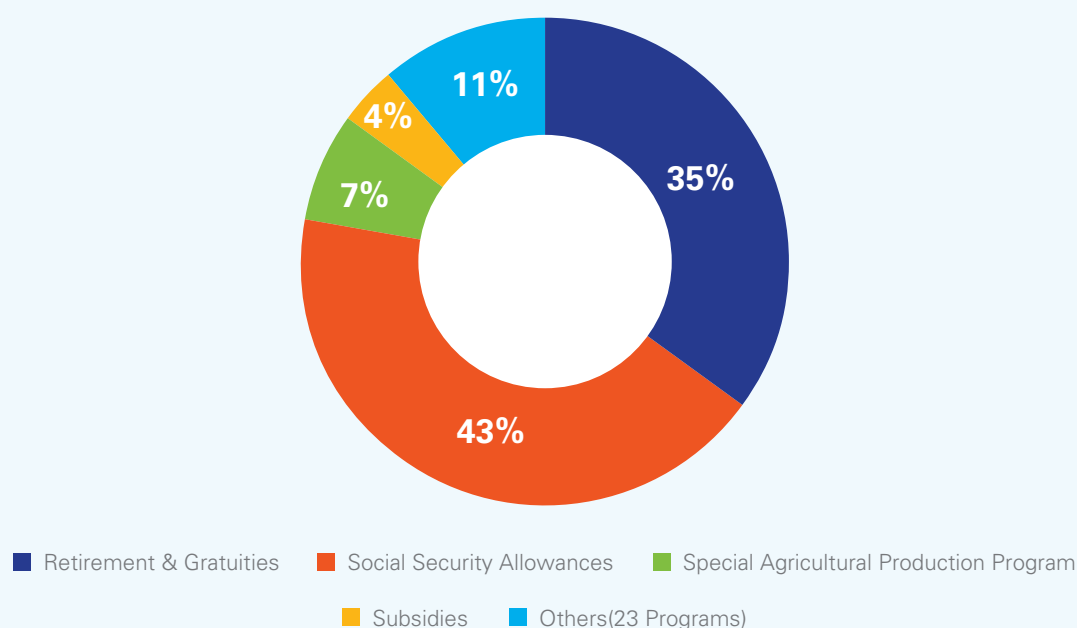
	Allocation (NPR /US\$ in millions)	% of SP Budget	% GDP	% Consolidated Budget	% Allocated to Local Level
Social Assistance	8,6562.2/752.7	57.52%	2.30	5.65%	13.70%
SSAs	74.51%	42.86%	1.71	4.21%	0.00%
Special Agricultural Production Programme	11.55%	6.64%	0.27	0.65%	100.00%
Subsidies (interest + sugarcane + food transport)	7.55%	4.34%	0.17	0.43%	0.00%
Scholarships + School Lunch	1.85%	1.06%	0.04	0.10%	100.00%
Safe Motherhood + Mother Child Nutrition Support Programme	0.41%	0.24%	0.01	0.02%	100.00%
Others (12 Programmes)	4.12%	2.37%	0.09	0.23%	
Social Insurance	58,859.6/511.8	39.11%	1.56	3.84%	0.00%
Retirement gratuities	90%	35.22%	1.41	3.46%	0.00%
Health Insurance Board	10%	3.89%	0.16	0.38%	0.00%
Labour Market Programmes	5,071.6/44.1	3.37%	0.13	0.33%	97.93%
Prime Minister's Employment Programme	97.32%	3.28%	0.13	0.32%	100.00%
Others (2 Programmes)	2.68%	0.09%	0.00	0.01%	22.74%
Total SP Allocation	150,493.4/1,308.6	100.00%	4.00%	9.82%	11.18%

Source: NPC, 2020 (Draft. National Social Protection Integration Framework).

88 per cent of the SP budget was for the Federal government, while just under 11 per cent of the SP budget was allocated to local levels. Provinces and states received 1 per cent of the allocations. The biggest local level programme was the Special Agriculture Production/Promotion Programme (7 per cent of the SP budget). In addition, funds for Scholarships, School Lunch, Safe Motherhood and MCNSP programmes were allocated to the local level. Provincial allocations were low, but some provinces have been showing interest in providing SP programmes (such as the Beti Bachao Beti Padoo Programme), which suggests there is a need to examine the intra-governmental distribution of expenditures in the context of some provincial development plans. It is also interesting to note the relatively lower allocations for the Safe Motherhood Programme and the Mother and Child Nutrition Support Programme. There is a possibility that there could be some overlap in these different efforts to target the young (for instance, the universal child grant is also a nutrition related intervention).

Figure 4 shows that SSAs as well as retirement gratuities absorbed nearly 78 per cent of the allocated budget, while the remaining 27 different kinds of programmes received just over 20 per cent. Hence, it would be fair to conclude that of the 76 operational schemes, about 80 per cent of allocations are absorbed by about 10 schemes, while the remaining schemes are allocated 20 per cent. In other words, there is considerable scope for reorganization, integration, and coherence as it is quite unlikely Nepal needs 76 different schemes for inclusive SP.

FIGURE 4 Breakdown of the total SP Budget allocations by key programmes



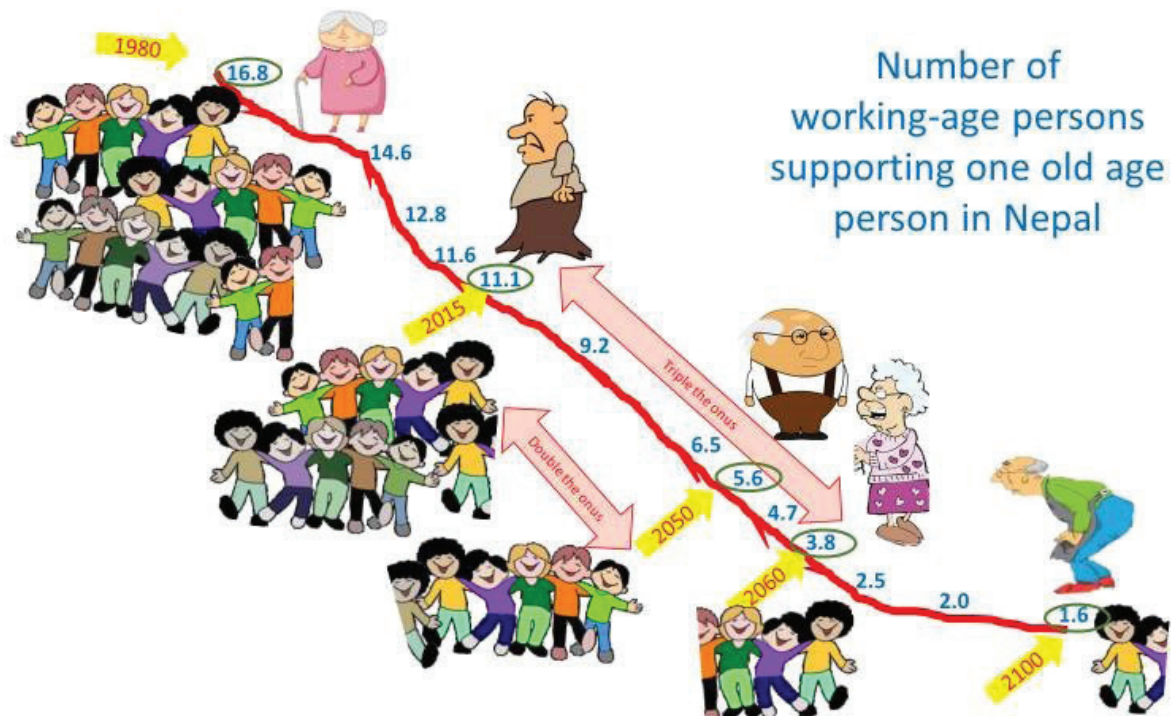
Retirement-based, defined benefit contributory programmes are a call option¹⁵ on the Treasury (at some point) and impose a contingent related fiscal liability to the Treasury, coupled with their tendency to pool risks, which benefits the upper income groups the most. It is important to understand if these programmes are actuarially sound and how the funds are being managed, and it is important to separate out this expenditure item into pay-outs and contributions. This is important because of the danger of 'squeezing out' other critical SA and employment generation programmes, in addition to putting future pressure on the budget. Presently, there are about 25 thousand pensioners who receive retirement

¹⁵ This implies that they impose a liability that must be financed in the future.

gratuities from the civil service – costing about US\$ 460 million (SSAs are costing about US\$ 750 million). Expenditures on public sector retirement gratuities are expected to rise in the future as the civil service ages and/or salaries increase. As demographic change unfolds in Nepal, the imperative to set up sustainable, pooled insurance programmes will be challenging because the support ratio is expected to decline much faster in Nepal than in her neighbouring countries (UN, 2019, World Population Prospects, NPC 2017).

Retirement gratuities are mostly for retired government staff. Allocated expenditures for these absorb close to 1.41 per cent of GDP. In addition, allocations for SSAs (in total) absorb 1.71 per cent of GDP, and from this group, old age (both kinds), widows and single women’s allowances accruing to the elderly absorb nearly 87 per cent of SSA expenses (1.4 per cent of GDP). In other words, a large portion of Nepal’s SP allocations are being spent on the elderly – as defined by those over the age of 60, who are (perhaps) relatively well-off compared to other age-groups – even as the demographic transition in Nepal is expected to accelerate soon (UN, *ibid*). Although many families, including children, benefit from this, given that the elderly (age 60+) comprise only 9-10 per cent of the population compared to 32 per cent being children and 10 per cent being under the age of 5 (CBS, 2019), there is definitely scope to examine the expenditures from a lifecycle perspective in addition to human rights and equity, and to consider the need for increasing budgets allocated for the very youngest and most vulnerable groups as a sustainable and smart investment. As quoted in NPC (2017), “...evidence exists that suggests that there are promising uncharted territories (in terms of cost-effective investments) that can allow us to explore strategies for raising more productive future generations. In terms of the timing of investment in life, no period will be more cost-effective than childhood.” Given that Nepal’s support-ratio is projected to decline (Figure 5), investing in children now is a smart investment on Nepal’s future productivity.

FIGURE 5 Nepal’s support ratio





Examining SSAs from an equity perspective

The Management Information System (MIS) for SSAs lists eight different types of allowances plus an allowance for medical treatment for those over 70 years of age.¹⁶ The eight different types of allowances (excluding the medical allowance for senior citizens) are: two different kinds of old age social allowances (one for Dalits and one for the others), social pensions for widows and single (elderly) women, allowances for endangered ethnic tribes, full and partial disability related allowances, and a child grant for all Dalit children under the age of 5, and all children under the age of 5 in 14 districts. Hence, as per the data records of the MIS maintained by MoHA, there are four programmes covering the elderly, another two programmes covering the disabled, one program for the endangered ethnic groups and a programme covering children under the age of 5. As per various policy and programme documents in Nepal, however, the two old age allowances are often combined into one, the disability allowances are combined into one, widows and elderly women's allowances are combined into one and the child grants are combined into one to create the data in Table 4. This rearrangement gives six SSAs, one of which is for medical treatment.

TABLE 4 SSAs (FY 2019/20)

Social Security allowance	Eligibility	Annual benefit amount (NPR/ US\$)	# of beneficiaries	Annual amount paid (NPR millions)
Old age	Dalit + Karnali age 60+, All others age 70+	24,000/209	1,329,087	31,898
Single Women & Widows	Age 60+ and no earning members in family Widowed women with no earning members in the family	24,000/209	741,160	17,788
Endangered ethnic tribe	Belonging to 1 of 10 ethnic groups considered endangered	36,000/313	24,345	876.42
Partial disability & Full disability	Blue Disability Card Red Disability Card	P: 19,200/167 F: 36,000/313	12,7447	3,239
Child Grant	All Dalit Children less than 5 All children under 5 in 14 districts	4,800/42	737,579	3,540
Medical treatment allowance	Age 70+	12,000/104	1,288,017	15,456
		TOTAL	4,247,932	72,798

Source: Compiled from MIS records MoHA. US\$ values calculated using 115 as average exchange rate for 2019/20 FY.

P=Partial disability; F=Full Disability

During the most recent fiscal year (FY 2019/20), as per MoHA data, the government spent NPR 72.8 billion as benefit payments for all SSAs to 4.25 million beneficiaries (including medical treatment – about 2 per cent of GDP and 6 per cent of the consolidated budget). As per government records, in FY 2019/20, there were about 2.96 million beneficiaries of SSA (excluding medical treatment¹⁷) – about 10 per cent of the estimated population of Nepal. A total of 57.3 billion NPR was estimated to have been the SSAs benefit cost for these beneficiaries (derived by multiplying beneficiaries by amounts).

16 Details for other SP programmes can be found in World Bank (2021) draft: Social Protection Assessment and Public Expenditure Review.

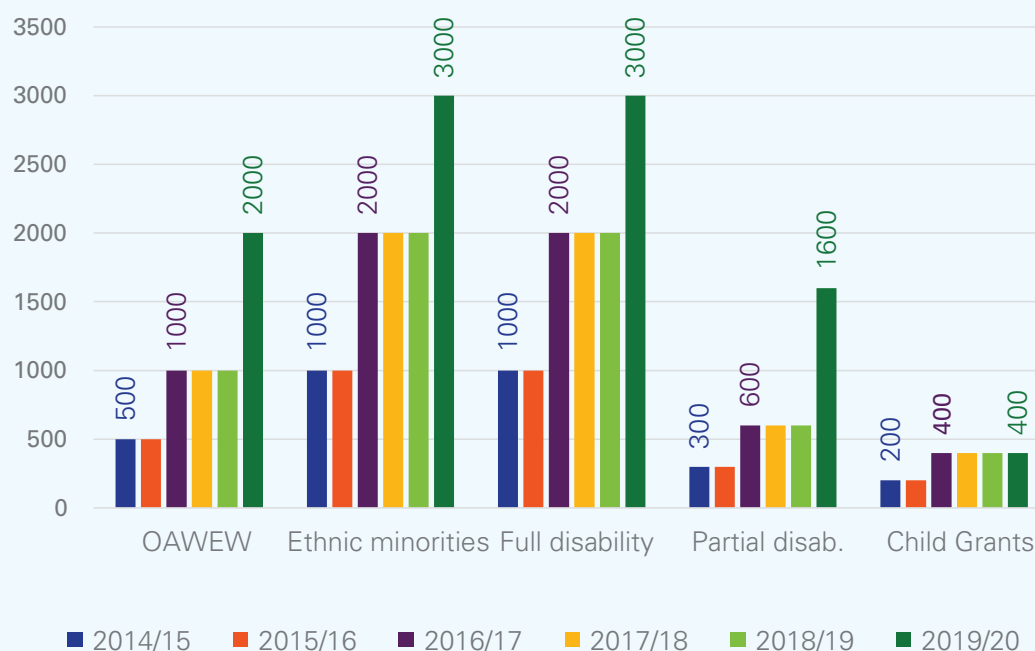
17 The medical treatment social allowances should become a part of a broader health (insurance) package as it addresses specific medical contingencies not covered by other medical programmes. The other social allowances are for certain groups.

This implies that:

1. There is an average annual per beneficiary transfer of NPR 19,373. Note that this weighted average compounds different benefit types and hence the average transfer for the old age allowances, single women's allowances and widow's allowances are NPR 24,000 per year, much higher. On the other hand, almost 25 per cent of beneficiaries – child grant recipients, receive only NPR 4,800 per year.
2. There is an average per capita transfer of NPR 1,959, which can be derived by dividing total SSA allowances by total estimated population. In comparison, per capita budget expenditures were estimated to be NPR 51,000, while per capita GDP was estimated at NPR 134,000.¹⁸
3. The SSAs transfer about 1.5 per cent of per capita GDP in benefit amounts.¹⁹ Although each programme has a different benefit amount, and so the average could be misleading if not interpreted correctly (i.e., as a simple mean), issues related to the adequacy and efficiency of these benefits, especially when it comes to those for children, need closer scrutiny. Inadequate or insufficient transfer values are likely to suffer from exclusion as well as have a more muted value on outcomes.
4. The situation is complicated because the per capita debt burden²⁰ arising from current borrowing is estimated to be higher than the per capita transfer, which has several implications for the net transfer value to the household and in terms of the 'social contract' in Nepal.

The evolution of SA expenditures can be traced to movements in coverage (beneficiaries) and changes in the benefit level. Changes in the nominal benefit levels for the different SSAs are shown in Figure 6.

FIGURE 6 Trends in nominal benefit levels for SSAs (NPR/month)



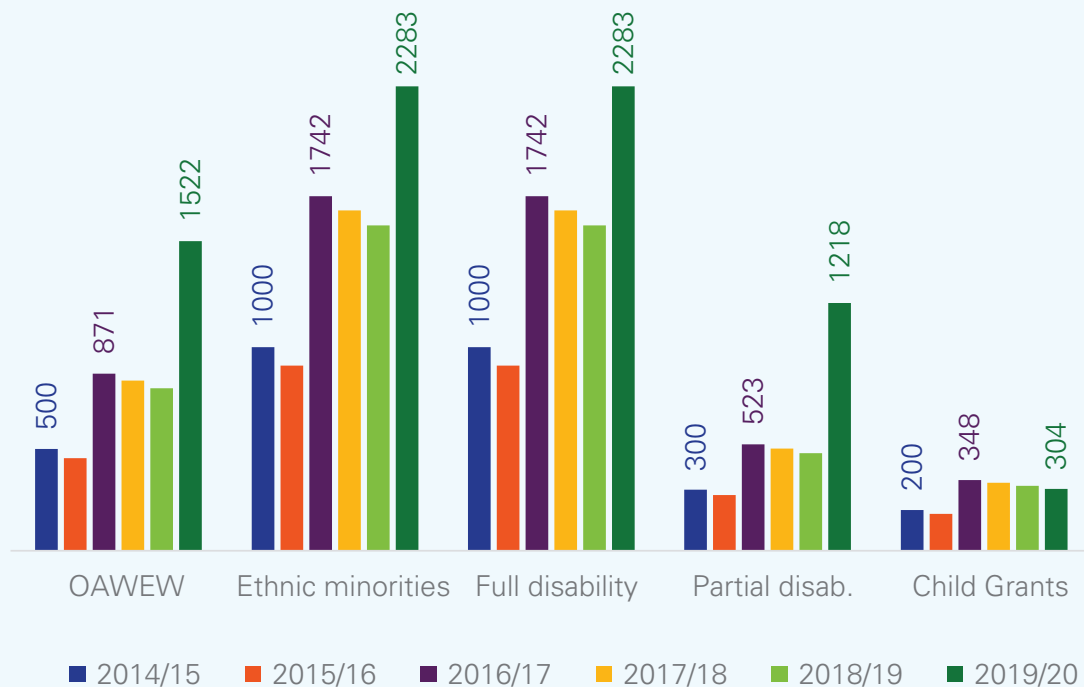
18 These numbers are derived by using the CBS population forecasts for the relevant FY and publicly available budget and GDP data from MoF Redbooks and CBS/NRB economic bulletins.

19 This is a more meaningful measure for adequacy as well as for international comparison purposes as looking at it from the perspective of a share of budget or GDP does not consider the underlying population size.

20 Can be derived by using the most recent debt statistics available at NRB and population forecasts from CBS.

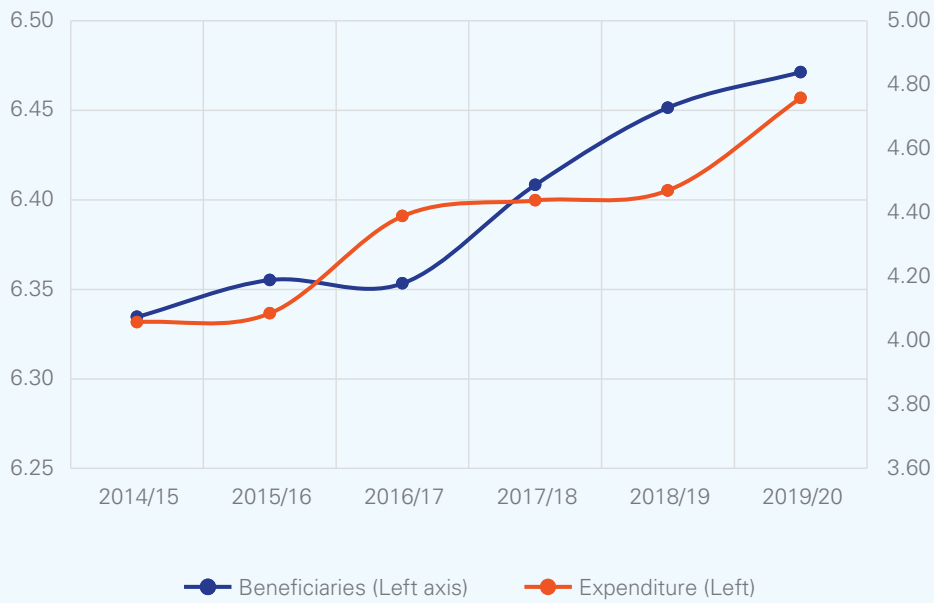
The benefit level for old age, widows, and elderly women (OAWEW) increased from NPR 500 per month to NPR 1,000 per month in FY 2016/17 and then doubled again to NPR 2,000 per month in FY 2019/20. At the same time, the benefit levels for endangered ethnic groups and full disability increased from NPR 1,000 per month in FY 2014/15 to NPR 2,000 per month in FY 2016/17 and then to NPR 3,000 per month in FY 2019/20. The periodic adjustment in allowances also applied for partial disability: the benefit levels for partial disability rose from NPR 300 per month to NPR 600 per month in FY 2016/17 and then to NPR 1,600 per month in FY 2019/20. Across all categories of allowances except the child grant, the most recent benefit increase was NPR 1,000 per month. Child grants received the lowest benefit amount, rising from NPR 200 per month in FY 2014/15 to NPR 400 per month in 2016/17. Since then, the benefit level has not risen. Hence, unlike the other programmes which try to adjust benefit levels (to partially offset inflation), the real value of the child grant has been falling (Figure 7) over the last few years.

FIGURE 7 Trends in real benefit levels for SSAs (NPR/Month, base year =2014/15)



The number of beneficiaries receiving SSAs increased from 2.16 million in FY 2014/15 to 2.95 million in FY 2019/20 (excluding medical treatment) – an increase of 37 per cent, although the increase has not been linear. When combined with the benefit increases and increasing number of beneficiaries, an increasing expenditure trend is observed (Figure 8). Expenditures for SSAs rose from NPR 11.4 billion to NPR 57.3 billion in FY 2019/20 – an increase of over 400 per cent in nominal terms. Factoring inflation, in real terms (with 2014/15 as base year), expenditures rose from NPR 11.4 billion to NPR 42.8 billion in FY 2019/20 – an increase of 282 per cent.

FIGURE 8 Trends in (Log) Beneficiaries and (Log) Expenditures in NPR millions



The composition of beneficiaries among the different types of allowances as well as the composition of expenditures is shown in Figure 9. Over the last few years, a significant number of beneficiaries have received old age, single women’s, or widow’s allowances. Child grant recipients comprise about a quarter of all beneficiaries. Due to the low benefit level, however, child grant recipients receive less than 10 per cent of expenditures.

FIGURE 9 Trends in composition of beneficiaries (Left) & expenditures (Right)

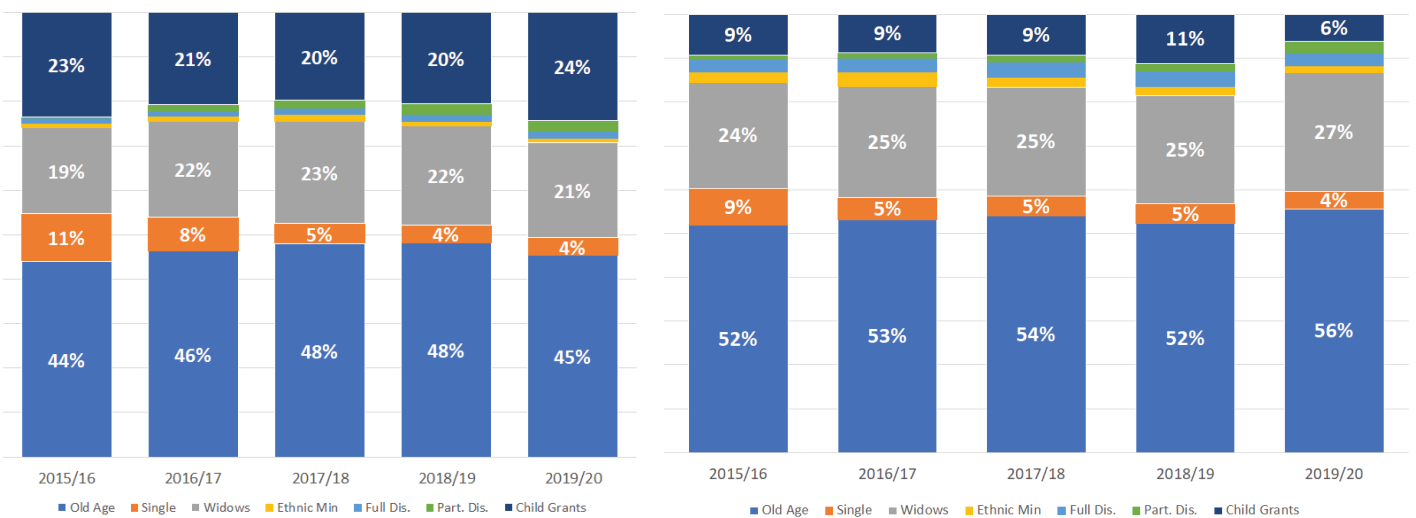
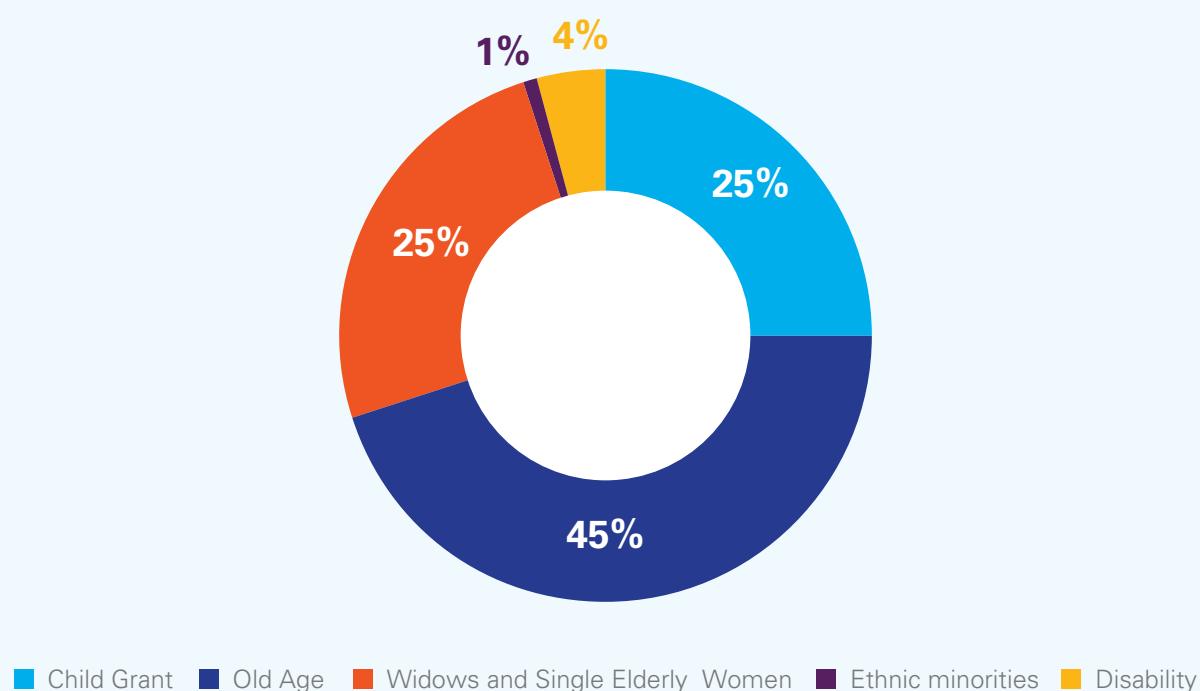




FIGURE 10 Distribution of beneficiaries of SSA (N=2.96 million)

For the most recent fiscal year, the distribution of beneficiaries is shown in Figure 10. Including the Dalit old age allowance, most allowances are for old age (45 per cent or 1.33 million). And 22 per cent of the beneficiaries are widows, many of whom are also senior citizens. When coupled with the single women's (elderly) allowance, these two categories of beneficiaries comprise 0.74 million beneficiaries (25 per cent). The number of beneficiaries receiving the child grant accounted for 25 per cent of beneficiaries. This static picture will eventually change due to demographic factors and the expansion of coverage (e.g., of the child grant).

Using recent population estimates, the coverage ratios can be crudely estimated, but with a wide margin of error. It is important to note that if single women's (elderly grant) beneficiaries are added to the old age allowance beneficiaries, they would constitute about 56 per cent of the total population over the age of 60 (CBS, 2019).²¹ Widow's pension beneficiaries, many of whom are elderly, account for nearly 25 per cent of the total population over the age of 60. In other words, these SSAs cover a significant share of the elderly – anywhere from 56 to 80 per cent, depending on the age distribution of the widow's beneficiaries. On the other hand, child grant beneficiaries comprise 25 per cent of the total population estimated to be under age 5 (CBS, 2019). The Child Grant Programme has not yet been made universal in all districts of Nepal. Disability beneficiaries are likely to have very low coverage because of exclusion errors in the identification card compounded by exclusion errors in the programme itself.²²

Household level data from UNICEF's ongoing Child and Family Tracker (CFT) reveal useful insights on coverage. About 1,595 out of 7,655 respondents reported receiving (any) SSAs (21 per cent). Of this group, the highest proportion of beneficiaries were for the old age allowances (58 per cent), widow's and elderly

²¹ The population over age 70 is not available, so this number probably represents an 'underestimate' as the numerator is the total population over the age of 60, which is the eligibility age for Karnali and Dalits.

²² See also World Bank (2021) draft: Social Protection Assessment and Public Expenditure Review.

women's grants (29 per cent) and child grants (21 per cent).²³ It is interesting to note that this distribution of beneficiaries is not that different than what government data suggest.

Information in the CFT and household roster can be useful in providing a more precise estimation of coverage of both old age allowances and child grants.

- From the household roster, it can be inferred that 4 per cent of the overall population are eligible for old age SSA (Dalits age 60+, Karnali age 60+, all others age 70+). In terms of households, a little less than 1 in 5 (18 per cent of households) have at least one family member who qualifies for old age SSA (1,416 in total).
- Data from the CFT data file show that 11 per cent of respondents (from all households) reported that someone in their family received old age allowances – 852 in total. Of these, 6 per cent reported receiving an old age SSA but did not have any person eligible for old age SSA living with them (inclusion error). The remaining 831 families receiving old age SSA had at least one person eligible for old age SSA. Hence, the data reveal that coverage is approximately 831/1,416 (56 per cent of eligible households).
- In terms of all households, the coverage of old age allowances is estimated to be about 11 per cent, although the numerator includes a few households receiving old age allowances but not having anyone eligible for the benefit living with them.²⁴

It is useful to examine coverage of the child grant in the 14 districts where all children under the age of 5 are eligible. In terms of the overall population (including all districts), 9 per cent of the overall population was under the age of 5. Although all households in the sample had children, only 42 per cent had at least one child under the age of 5.²⁵

- Focusing in on those districts where all children under the age of 5 are eligible (14 districts), 1,560 respondents (20 per cent of the sample) were identified. Of these, 53 per cent (828) had at least one child under the age of 5.²⁶ It follows that 47 per cent of the respondents living in those districts where the child grant is universal did not have any children under the age of 5 at the time of the CFT baseline.
- In those 14 districts where the child grant is universal, 245 respondents reported receiving child grants. Of these, however, 11 respondents did not have any child under the age of 5, suggesting an inclusion error of 4 per cent. The remaining 234 respondents (96 per cent) who reported receiving a child grant had eligible children living in the household, suggesting a coverage rate of 234/828 (28%), in terms of eligible households. In other words, only 28 per cent of households with eligible children received child grant benefits in those districts where the child grant was universal.
- In terms of all households in these 14 districts, the coverage rate was 245/1,560 (16 per cent).

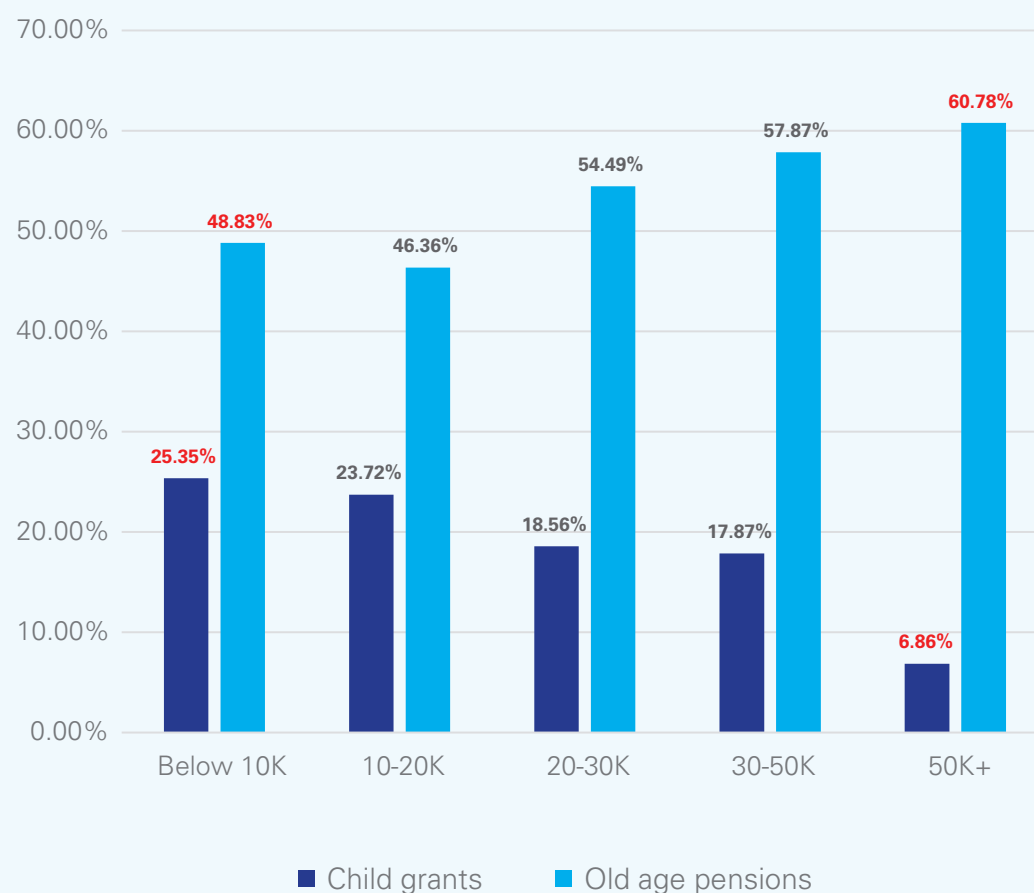
UNICEF's baseline CFT also provides information on the progressivity of SSA coverage. The telephone-based survey administered during the lockdown (May 2020) to more than 7,500 households with more than 42,400 people living in them showed that child grants were progressive, while old age allowances – although with a much higher coverage – were, in comparison, more likely to be regressive (Figure 11). This could be explained by the low level of the child grant, which would probably not be very appealing for a significant portion of the population in the upper income groups.

23 Since benefit levels are fixed for each type of allowance, an understanding of coverage also yields information on expenditures.

24 This excludes beneficiaries from the widows and elderly single women's grants, many of whom are also above the age of 60. It is interesting to note that these findings are also corroborated in the most recent MICS where 10.6 per cent of households reported receiving an old age allowance.

25 It is also interesting to note that from this group, 7 per cent of these had two children while 1 per cent had three children.

26 This is a much higher percentage than the average. It is also interesting to note that from this group about 12 per cent had two children and another 3 per cent had three children.

FIGURE 11 Income distribution and receipt of SSA (CFT, Baseline)

These findings suggest that there is a need to expand coverage towards the beginning of the lifecycle while paying attention to adequacy or sufficiency as well as sustainability. As per CBS population projections (CBS, 2019), children under the age of 5 are at least as strong as the share of the population over 60 (9-10 per cent). While SSAs for the elderly reach anywhere between 50 to 80 per cent of the population, less than 20 to 30 per cent of children are covered by the child grant, even in areas where it is universal. A recent study (OPM, Jan 2020) found a lack of awareness as a primary reason for exclusion in the Child Grant Programme in flood prone areas. It is possible that this factor could also explain exclusion elsewhere. As mentioned earlier, however, it is important to note that the child grant transfers about NPR 4,800 per year (US\$42). The low benefit level may lead many families, especially those in the upper income groups, to eschew this benefit if their implicit and explicit costs of acquiring these benefits are higher. Therefore, unless some consideration is given to the level of the benefit – in terms of sufficiency and adequacy – it may not be truly ‘universal’ but ‘de-facto’ only reaching ultra-poor families who are dependent on this transfer to smoothen consumption.

To expand coverage inclusively, it becomes critical to support the Government to strengthen its civil registration outreach, ensure timely issuance of legal identity documents to all eligible persons/children, include them in the Civil Registry (as an initial step) and include them in relevant SP schemes. There is continued need for advocacy to amend the Citizenship Act to enable citizenship documentation at birth and repeal gender discriminatory provisions for women and gender and sexual minorities.

FIGURE 12 Distribution of benefit payments (N=57.3 billion NPR)

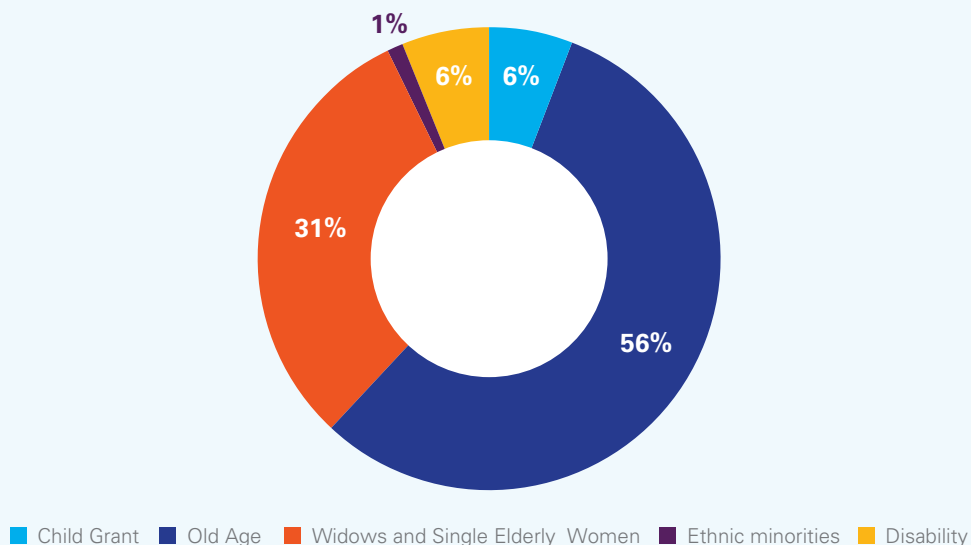
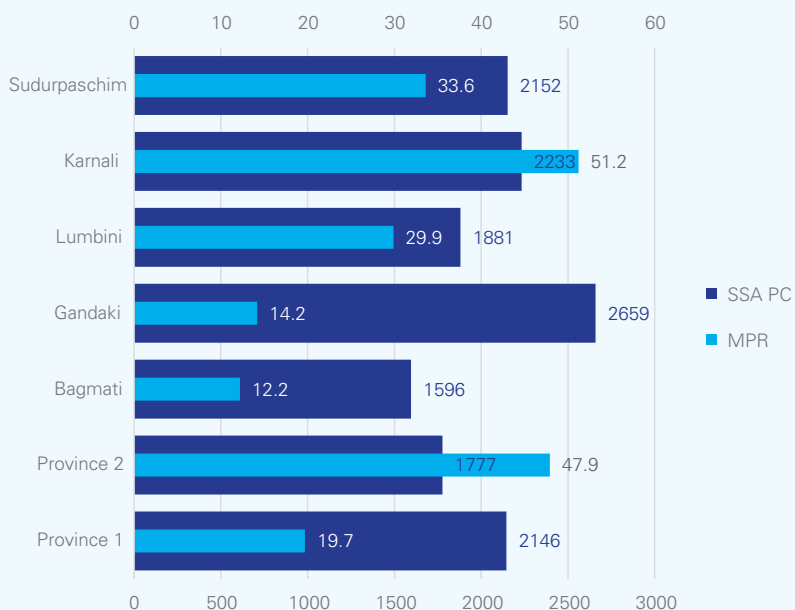


Figure 12 shows the distribution of benefit payments in FY 2019/20 across the different categories of allowances. The benefit amounts vary greatly among the types of allowances with old age allowances (both types), widows and single women’s allowances being NPR 24,000 per year, while child grants (both types) beneficiaries receive NPR 4,800 per year. Consequently, child grants beneficiaries receive only 6 per cent of expenditures while comprising 25 per cent of beneficiaries. The two old age allowances as well as the widows (plus single women’s) absorb nearly 87 per cent of all SSA expenditures but comprise only 70 per cent of beneficiaries. Although many children as well as other members of the family benefit directly and indirectly from benefits paid to the elderly, from a life-cycle perspective, it raises the question of a more optimal balance of resources.

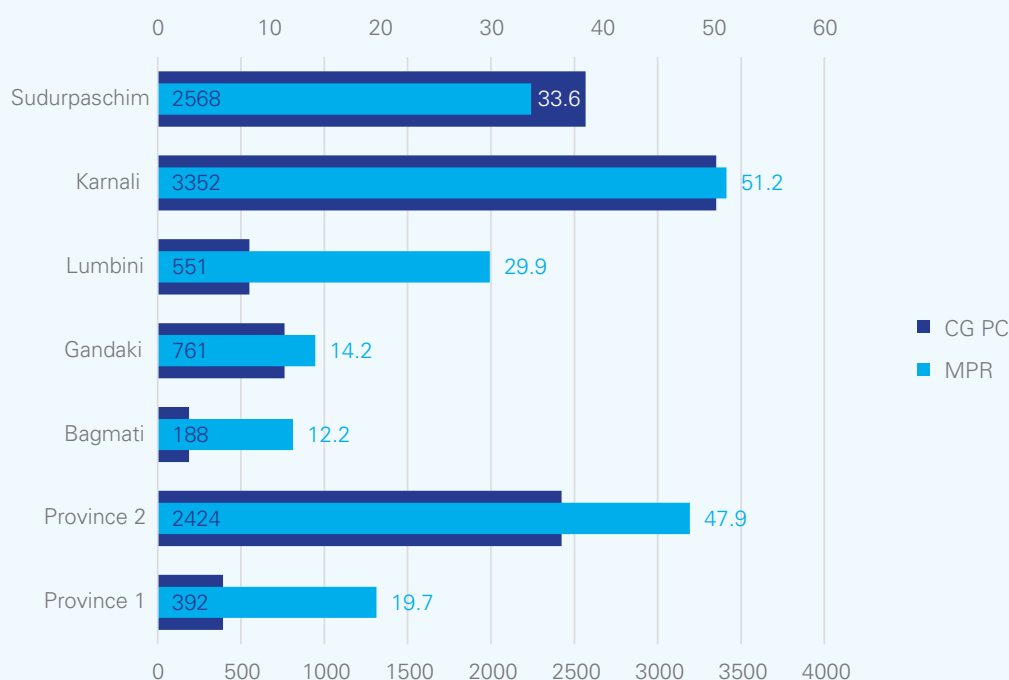
FIGURE 13 Comparing per capita SSA (SSA PC, bottom axis) with MPR in provinces (top axis)



Any system of allowances based mostly on older demographic groups may not capture multiple dimensions of poverty that afflict all age groups, including the youngest. This holds true in Nepal as well. Figure 13 shows the distribution of SSAs per capita (SSA PC) across the provinces and regions and compares it to the distribution of the multi-dimensional poverty rate (MPR). On average, the per capita distribution of SSAs is about NPR 1,959. There is considerable variation, ranging from a low of NPR 1,596 in Bagmati to a high of NPR 2,659 in Gandaki – the diversity being a product of many different factors, including coverage differentials, especially for child grants (with the lowest benefit amount), as well as underlying differences in demographics. When comparing these per capita allocations against underlying vulnerabilities and risks (represented by MPR), Provinces 2 and Karnali have the highest MPR, considerably higher than the average, but the lowest per capita allocation of SSAs, well below the average. Province 5 receives less than the average in terms of per capita SSA but has a higher-than-average MPR. On the other hand, Gandaki province has the lowest MPR and receives the highest per capita SSA. A similar situation is observed in Province 1 which has the lowest MPR but receives a higher-than-average share of SSA. At the same time, it is encouraging to note that there is some alignment of overall multiple deprivation and per capita receipts of SSA (e.g., Karnali).

Unpacking the same distribution for child grants – which comprises nearly 25 per cent of all beneficiaries but only 6 per cent of expenditures – it can be seen (Figure 14) that provinces where the child grant has been universalized, such as Sudurpaschim, Karnali and Province 2, are areas where the MPR is the highest, as is the per capita child grant. On the other hand, in places where only Dalit children are qualifying for the child grant – in Gandaki, Bagmati and Province 1 – the MPR is lower than the average, as is the per capita child grant. The heterogeneity is attributed, therefore, to coverage, and suggests that (in general) the child grant is being directed to places with the highest multi-dimensional poverty rates. By this logic, the universal Child Grant Programme could now expand to Province 5 followed by Province 1, Bagmati and Gandaki.

FIGURE 14 Per capita Child Grants (CG PC, Bottom axis) and MPR (top axis)





A family from Nepal's southern plains where the child grant programme has been rolled out. In an assessment of the programme, majority of women reported that their lives have been positively impacted, with improved access to health services and nutrition for their children, and increased purchasing power in terms of other everyday childcare necessities. More broadly, the programme has also helped bolster birth registrations in target areas: the assessment revealed that all child recipients of the grant are in possession of birth certificates.

Financing social protection in Nepal

Given the current context of COVID-19, the question of ‘fiscal space’ seems relevant – although it must be understood that countries all over the world, rich and poor alike, are ‘doing all it takes’ to protect their most vulnerable (UNICEF, 2020).

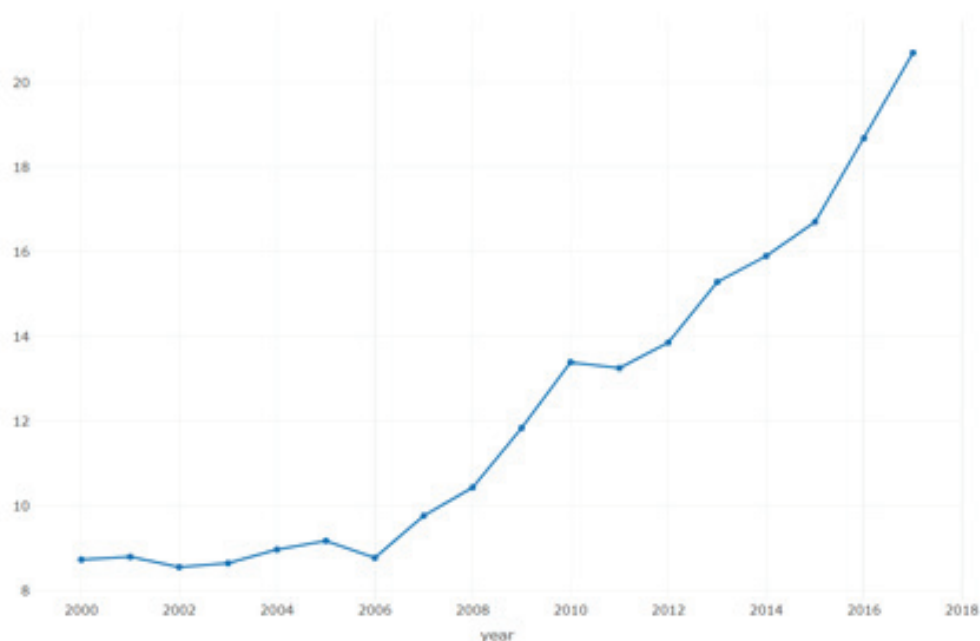
Examining the specific sources of funds for the entire gamut of SP programmes is outside the scope of this brief, but since nearly all SP expenditures are financed through the consolidated budget, it would be safe to assume that general revenues are used to finance most if not all SA programmes in Nepal. In general, most countries finance SA through domestic revenues. Given the limited ability of provinces and local government to raise revenues, it is likely that much of the SP sector would be funded by the Treasury at the Federal level.

In turn, government revenues are financed through taxes or by incurring debt, and to a lesser extent now, through concessional grants. In the last fiscal year, domestic revenues grew at 17 per cent, grants declined by 60 per cent and loans increased by 17 per cent (MoF, Budget speech 2019/20). As Nepal’s transition to a lower middle-income country is imminent, and Nepal’s debt to GDP ratio is low compared to her South Asian neighbours, grants are becoming less significant as a source for financing the budget compared to loans. It is important to note that Nepal’s Tax/GDP ratio (World Bank, WDI 2019) has been rising steadily in recent years (Figure 15), reflecting the bulk of increased financing available for SP. There is, however, a strong reliance on indirect taxation in Nepal, and some taxes have been found to be regressive. A study by the NRB concluded that the net incidence of indirect taxes is lower for higher income deciles (NRB, 2017). Hence, if highly regressive indirect taxes are the primary means of financing pro-poor SA programmes, we have a zero-sum game.

Some recent and innovative tax options that have been considered by other countries include:

- A nominal (US\$1) tourism fee;
- A nominal surcharge on natural resources (sustainable use of natural resources);
- A nominal (0.01 per cent) surcharge on remittances over NPR xxxx per month;
- A transaction surcharge (e.g. 0.2 per cent) on all card and cash transactions over NPR 1,000;
- An extra surcharge for luxury/sin items, jewelry, chocolates, alcohol and cigarettes (e.g., 0.1 per cent).

Even a progressive financing regime for SP could be undermined due to sudden revenue-shocks such as that caused by the ongoing COVID-19 pandemic. In fact, this situation has forced Nepal into higher debt recently as evidenced by loan agreements with the World Bank, ADB and talks about debt relief with the IMF. What the debt is spent on and how it is repaid matters. Excessive reliance on inflation through, for example, monetary policy easing liquidity, printing money, or selling bonds could adversely affect the poor and vulnerable, including children. Nevertheless, to the extent that debt is incurred to promote smart investments in children and other vulnerable groups, the future debt burden could be lower as the returns of these investments generate higher growth in the future. In the short-run, Nepal may have no option but to opt for quantitative easing (printing money), which it has done. This is, however, clearly not a long-term solution and carries the risk of excess liquidity if banks and businesses are unable to transact (lend and borrow) during economic downturns (NRB, 2020).

FIGURE 15 Tax revenues as % GDP (created from World Bank, WDI 2019)

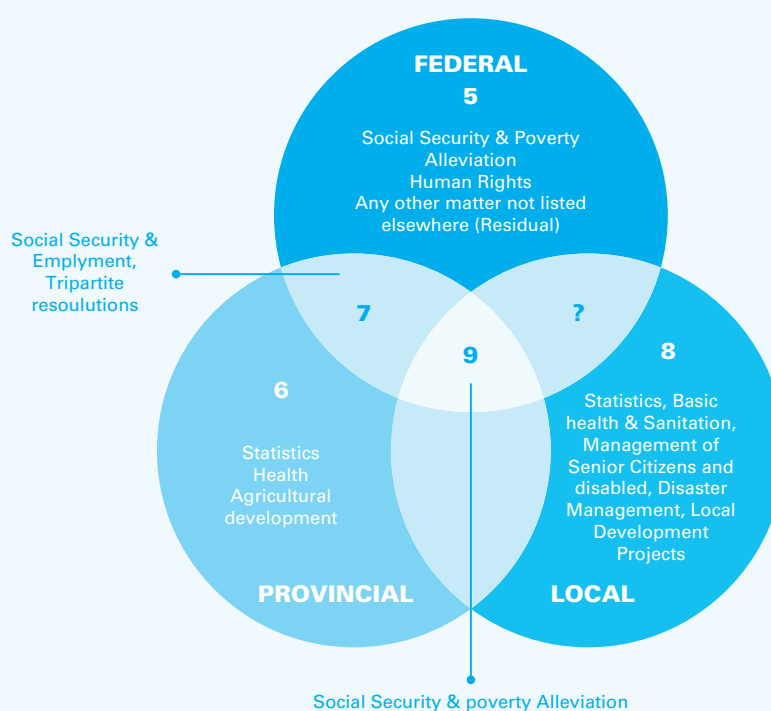
Social insurance forms an important part of the SP landscape in Nepal – the contributory component. Many social insurance programmes in Nepal are contributions-based- defined-benefit schemes (e.g., social security pensions). They operate based on risk-pooling and require contributions to a fund for a specific number of years before qualifying to receive a certain pre-defined or fixed benefit (contingent risk-pooling). They are financed through contributions and an inter-generational transfer where the current stock of pension funds (including current contributions from younger generations) is used to pay the current set of beneficiaries. Since benefits are defined and must be paid, any shortfall (which is inevitable due to demographic aging or low capital market returns) becomes a call option on the Treasury (i.e., it is an inter-generational contract and must be financed through current revenues – typically taxes). In other words, these schemes could impose a contingent fiscal liability on the government, which needs to be managed carefully. Factors such as changing life expectancy and shocks to real wage growth can undermine these arrangements. The actuarial soundness of these programmes, how the funds are managed and what their returns are compared to demographic ageing has a crucial bearing on sustainability, equity, efficiency, and transparency. A movement towards defined contribution type of social insurance programmes could bring the promise of sustainability as these are ‘fully-funded’ programmes,²⁷ but it could also result in a concomitant challenge of managing large and complex volumes of funds with dynamic maturity dates while insulating it from the government. The role of fully funded programmes in deepening financial and capital markets is also significant. A central challenge facing policymakers is to find the correct mixture of the two types of insurance given the current labour market, financial market, and overall socio-economic context in Nepal, as well as the demographic changes that are unfolding.

27 Because upon retirement, benefits are exactly equal to the accumulated value of contributions plus interest. The benefit is not defined in advance.

Social Protection and Federalism in Nepal

Article 56 of the Constitution demarcates the new federal structure of Nepal into three distinct tiers: Federal, Provincial and Local.²⁸ It further specifies exactly how the districts are distributed into seven provinces. The local level consists of the village council, municipal council and the district assembly. The number of wards in each village or municipality is provided in federal law. In terms of administrative divisions, there are seven states (provinces) that include 6 metropolises, 11 sub-metropolises, 276 municipal councils and 460 village councils. Hence, a total of 753 local governance units, 7 provincial governments and 1 federal government forms the administrative structure of Nepal as specified in the Constitution.²⁹

FIGURE 16 Federalism and Social Protection in Nepal (numbers relate to Schedules in the Constitution)



With respect to SP, the division of functions or responsibilities is also demarcated in the Constitution of Nepal (Figure 16). The figure is derived from the Constitution and there are areas of overlap or 'concurrence' which would require coordination and cooperation. As per Schedule 5, Social Security & Poverty Alleviation fall under the list of federal powers as does the overall preservation of Human Rights. Schedule 9, however, which contains concurrent powers of federal, province and local governments, also contains poverty alleviation and social security. Schedule 8, the schedule of 'local' powers, lists the management of the elderly and disabled as a 'local' function as well as disaster management and the promotion of agriculture and employment.³⁰ Functional responsibilities for evidence and statistics, which form a crucial component of SP, is distributed among all three administrative units. This 'concurrence'

²⁸ In this sense, it resembles federal structures seen in Brazil, India, Switzerland and USA.

²⁹ Although subsequently two municipalities split (Rukum & Nawalparasi into East and West).

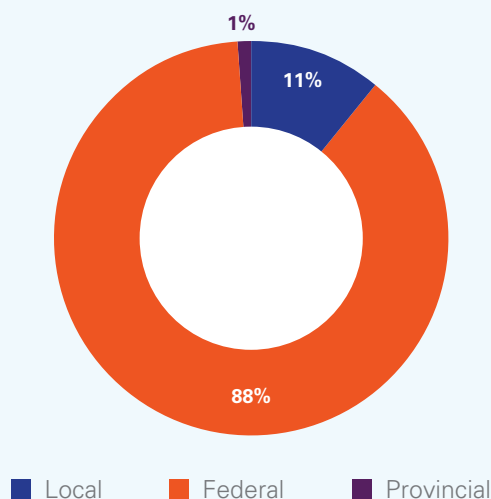
³⁰ The schedule also transfers the frontline provision of many education and health services to local administrations.

would need an integrated and smart system-driven approach to facilitate coordinated information flows. Provincial governments have thus far not been allocated significant shares in SP, although a few are engaging in initiatives, such as the Beti Bachao Beti Padao Programme in Province 2. The federal government retains 'residual' power for any other SP matter not listed in these schedules. Given that these schedules are still being negotiated and debated at different government levels, this provision leaves considerable autonomy with the federal government.

SP Budget allocations for the three tiers of government are broadly in line with the functional division of responsibilities (Figure 17). The most recent data for FY 2019/20 show that:

- 88 per cent of the budget is for federal government programmes (a vast majority of these allocations are for the elderly, although an increasing but insignificant amount is spent on programmes for children);
- 11 per cent of budget allocations are for local level programmes, such as scholarships, school lunch, Safe Motherhood Programme, Maternal and Child Nutrition Supplement Programme, Social Welfare Programme, Special Agricultural Production Programme, Prime Minister's Employment Fund and the Youth Unemployment Fund (the biggest local level SP programme is the Special Agricultural Production Programme);
- 1 per cent of the budget goes to provincial governments to provide sugarcane farmers subsidy, Herbal Cultivation Technology and Enterprise Development grants, Safe Citizen Housing Programme, and the Free Haliya Grant.

FIGURE 17 Division of SP Budget allocations among three tiers of government (FY 2019/20)



As articulated in the recent National Social Protection Integration Framework Draft (NPC, 2020), the roles of the three tiers of government are shown in Table 5.

TABLE 5 Roles of the three tiers of government under the Integration Plan

Federal	Provincial	Local
Regulation and supervision, M&E, coordinate distribution of services and resources, set up transparent MIS, mobilize domestic and international resources, capacity-building for province and local governments, manage unresolved grievances at subnational levels	Support/complement federal programmes, formulate, and implement employment-oriented projects, unresolved grievances at local level, M&E of employment programmes, development of capacity at the local level	Registration, distribution, monitoring of compliance with rules, support and complement provincial/federal programmes, collect social security related statistics, employment generation, maintain transparency, encourage cooperatives

Source: Summarized from NPC, 2020.



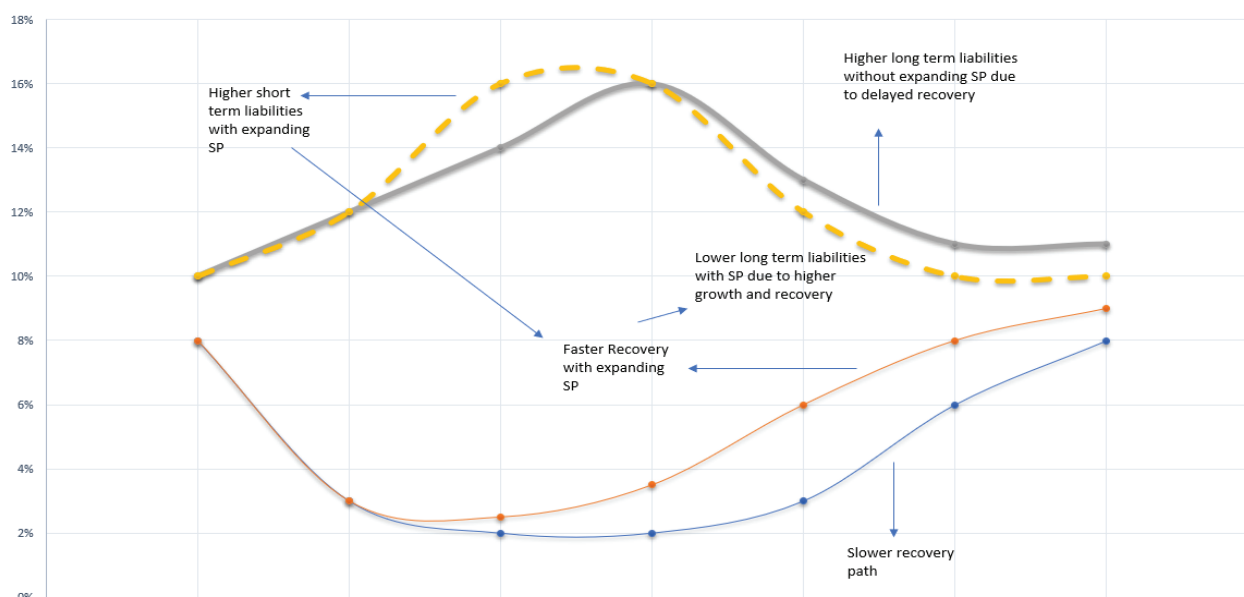
Summary and Key Recommendations

The COVID-19 pandemic has illuminated intersecting vulnerabilities and magnified existing uncertainties about the future. Emerging evidence from a variety of sources suggest large scale income and job losses, sharp macro level contractions, including in government revenues, and a heightened sense of vulnerability/uncertainty. Against this backdrop, the present budget brief has shown that the SP budget has increased in real and nominal terms, although a small number of programmes have dominated the budget. Allocations over the life cycle and on per capita terms are skewed towards the elderly, who are relatively wealthier. Allocations by province do not bear a strong relationship to multiple deprivation poverty. The key findings and recommendations of this budget brief are summarized below.

- All the data refer to documented citizens. As an initial step, it is critical to support the government to strengthen its civil registration outreach and ensure timely issuance of legal identity documents to all eligible persons/children, and include them in the civil registry and relevant social protection schemes. Continued advocacy is needed to amend the Citizenship Act to enable citizenship documentation at birth and repeal gender discriminatory provisions for women and gender and sexual minorities.
- It is important to note that the increase in the SP budget from 10 per cent of the consolidated budget in 2018/19 to an estimated 12.8 per cent of the budget in FY 2020/21 can be attribute to demographic factors, increasing coverage and benefit levels, and the introduction of new programmes. In recent years, the SP budget has been increasing faster than the budget (especially in relation to allocations in the ongoing fiscal year where the budget contracted while the SP budget increased). Nepal could likely meet the SDG target of allocating 15 per cent of its budget for SP, but as mentioned earlier there needs to be a better balance of resources along the life cycle. Only 25 per cent of the registered beneficiaries are for child grants – the rest are mainly for the elderly or widowed. At present, there are 76 schemes and 29 programmes being implemented by 11 ministries. The SP landscape is dominated by SA (58 per cent of the SP budget), Social Insurance (39 per cent of the SP budget) and to a lesser extent employment-related programmes (3 per cent of the SP budget). Furthermore, despite this relatively high allocation (both from a regional perspective as well as from a sectoral perspective in Nepal), coverage is low and the benefit amount, especially for the child grant, may not be adequate.
- Two largest programmes in the consolidated SP budget, namely, 1) SSAs, and 2) public sector pensions and retirement gratuities absorb 78 per cent of the SP budget. Twenty-seven other programmes share 20 per cent of the SP budget. Among SSAs, the old age SSAs are the most expensive. This means that SP programmes and resources are heavily skewed towards the elderly, which though commendable, suggests the need for a better balancing of resources along the life cycle. Furthermore, evidence is emerging that households are receiving multiple benefits (CFT, Baseline) – hence the urgency to accelerate efforts towards a national (family) registry.
- About 88 per cent of the consolidated SP budget is allocated for federal level programmes, while 11 per cent is allocated for programmes to be implemented by local authorities. Only 1 per cent is allocated for provinces. Given the increasing importance of local governments in implementing SP, there is some urgency to ensure that adequate governance and M&E arrangements are in place to achieve the best outcomes for recipients. Given the enormous diversity in terms of capacity and willingness, this could be a challenge, but also an opportunity to roll-out participatory and transparent systems-based governance and reporting arrangements. Furthermore, there is scope and opportunity to include emerging, multi-dimensional development indices as a factor in the allocation of resources to local governments.

- A steadily rising tax to GDP ratio has allowed the financing of SP in Nepal through government revenues, and for those not covered, through out-of-pocket expenditures. Social insurance programmes are also partially funded through contributions. Considering the current context of COVID-19, the ensuing revenue crunch and income/employment shocks to households will threaten financing SP at all levels. It is, therefore, extremely commendable that the government is still allocating resources for SP during the pandemic. The challenge remains on how to sustainably finance SP programmes in the short run, given that in the long run they tend to finance themselves through higher productivity, recovery and growth. Specific suggestions for Nepal have been discussed in this brief. Global evidence suggests that governments in many development settings are resorting to deficit financing (including quantitative easing) in the short term – a ‘do all it takes’ smart strategy to protect vulnerable populations for a quicker recovery. The fundamental argument can be shown in Figure 18 below, which shows the recovery/growth with and without SP interventions at the bottom and the net liability to GDP ratio with and without SP on top, both as percentages. Expanding SP may incur higher short-term liabilities, but the higher growth path in the future would eventually reduce liabilities to GDP ratio. On the other hand, absent SP stimulus measures, short-term liabilities may be lower, but due to the reduced prospect of recovery, long-term liabilities could be higher.³¹

FIGURE 18 Liabilities and recovery scenarios with and without SP: A simulation



- From an alternative perspective, it can be said that in Nepal, as elsewhere, households bear the cost of SP. They have to bear out-of-pocket expenditures if not covered, and even when covered the benefit amount is inadequate, and they pay taxes that contribute to the financing of SP. This ‘social contract’ is the basis for SP. Hence, it becomes imperative to examine the ‘net transfer’ – the benefit received less implicit and explicit costs in receiving them. To a large extent, these factors can explain why people tend to eschew benefits and produce exclusion errors (Bonnerjee, 2017).

³¹ These numbers in the figure are based on a simulation and are for illustrative purposes only.

In summary, we conclude that it is critical to:

- Continue to support and strengthen civil registration and family registration;
- Provide coherence and integration among the 76 different schemes in operation;
- Continue to support and expand cash transfers as a 'springboard' for recovery, especially for children, based on transparent and participatory evidence and evaluations to smoothen the impact of multiple and severe shocks unfolding in Nepal, and explore the possibility of aligning child grant benefit amounts with other SA programmes from a lifecycle equity perspective, from a sufficiency perspective, and from an effectiveness perspective (these factors are likely to be negatively affected if the benefit level is kept at very low levels);
- Engage with key ministries and agencies to advocate for a more equitable distribution of resources, especially for provincial and local governments in concordance with capacity (including financial) and needs;
- Establish cross-sectoral links for economies of scale and multiplier effects of interventions (this is crucial as many frontline services in health and education are being devolved to local governments that are capacity constrained), and invest heavily in evidence, systems and capacity, especially at the local level;
- Maintain fiscal sustainability by planning and allocating resources within a medium-term fiscal framework and adopt a cross-sectoral perspective for positive externalities (developing alternative scenarios for planning and financing and understanding the longer-term benefits of SP are important);
- Take advantage of the demographic opportunities unfolding in Nepal to invest strongly in children for a more productive future;
- Leverage innovative and alternative sources of financing – from local/private sector, regional initiatives (e.g., SAARC funds) and international sources (e.g., SDG funds) – allocate resources from tax growth, curb illicit fiscal flows, and engage in innovative partnerships with the private sector;
- Conduct regular process and outcome evaluations of the major SP programmes (including actuarial evaluations of social insurance schemes);
- Accelerate and expand efforts to kick-start employment and generate income, as sustainable pathways out of vulnerability.

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Annex: An introduction of Beti Bachau-Beti Padhau (BBBP) Programme in Province-2

Background:

Beti Bachau-Beti Padhau (BBBP) is a flagship programme in Province 2, initiated under the leadership and strong support from the Chief Minister aiming to reduce early child marriage and promote girl's education. The insurance is done at the ward level of permanent resident and citizens at the time of birth registration from 15th January 2019 (1st Magh 2076 BS). It prioritizes girls from Muslim and Dalit families. To expediate the programme implementation a door-to-door campaign was initiated in January 2020 to register the girl child into the programme. As per the programme, every newborn (aged 0-1 year) girl child will be identified, their birth registered and insured for a sum of NPR 300,000 (US\$ 2,521). The insurance is to be received after 20 years with a condition to send the insured child to school and not to marry before age 20. Each of the insured girls will receive the insurance for education. The family needs to submit a recommendation letter from the ward office, a letter from a health institution, along with the citizenship certificates of the parents.

Coverage:

All eight districts and 136 Palika of Province 2. The districts are: Sarlahi, Rautahat, Siraha, Mahottari, Dhanusa, Saptari, Bara and Parsa.

Financial expenditure:

Planned budget for FY 2077/78: around NPR 420 million from provincial government and NPR 220 million from federal government for a total of NPR 640 million.

Planned tentative activities are:

- Girls Education Insurance;
- Programme against GBV;
- Cycle distribution;
- Awareness programme through street drama, radio, hoarding boards, among others;
- Capacity development programme;
- Girls friendly toilet construction;
- Sanitary pad distribution;
- SEE topper felicitation.

