Background

Nepal as a developing country is facing significant challenges in terms of poverty, inequality, social exclusion, and human development. Despite the progress in recent years, a significant proportion of the country’s population remains vulnerable and lacks access to essential social services and protections.

Nepal at present is facing a youth bulge, 40 percent of Nepal’s population comprises youths, and the median age of the country is 24.3. The country is at risk of losing what could be a tremendous opportunity for economic growth and social development if the demographic window of opportunity is not leveraged well. Investing in youth and children is crucial in order to take advantage of demographic dividends and ensure that the country’s future workforce is well-equipped to drive socio-economic growth. It is also important to address the burden of aging in Nepal, as the proportion of the population over the age of 60 is expected to increase significantly in the coming years.

Nepal’s investment in social protection is about 12 per cent which is comparatively higher to similar economy. The investment on social protection particularly social assistance program, however, is skewed towards adult population. Recent UNICEF social protection budget brief reveals that only about 6 per cent of the total social assistance program (five schemes) budget goes to children who comprise of 33 per cent of the beneficiaries whereas elderly citizens consist of only 38 per cent for whom almost 58 per cent budget is spent. It is good to address the aging and provide an elderly allowance. However, from return on investment is significantly low compared to investing in youths/children. Again, as the country is moving towards aging and aged society this can be bring huge financial challenge in future.

The following chart clearly reveals that GON increased the old age allowance from NPR 500 to 4000 form 2014/15 whereas child grant benefit was increased from 200 to 532.

<table>
<thead>
<tr>
<th>% Beneficiaries</th>
<th>% Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old age (70+)</td>
<td>38%</td>
</tr>
<tr>
<td>Old age (Dalit + Karnali)</td>
<td>6%</td>
</tr>
<tr>
<td>Single women + Widows</td>
<td>17%</td>
</tr>
<tr>
<td>Disability (Partial + Full)</td>
<td>5%</td>
</tr>
<tr>
<td>Child grants</td>
<td>33%</td>
</tr>
<tr>
<td>Endangered Ethnic Groups</td>
<td>1%</td>
</tr>
<tr>
<td>Total (%)</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total (N)</strong></td>
<td><strong>3.4 million</strong></td>
</tr>
<tr>
<td><strong>Total (N)</strong></td>
<td><strong>NPR 96 billion</strong></td>
</tr>
</tbody>
</table>

Source: DoNIDCR data (FY 2021/22). Note: The number of beneficiaries in FY 2022/23 has increased and the budgeted allocation for them is NPR 106 billion. Since the fiscal year is not yet complete, full details for each of these allowances are not available.

Table 1: Beneficiaries and expenditures (Pct) FY 2021/22
Source: UNICEF Social Protection Budget Brief 2023

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1 CBS Nepal 2022
2 World Bank (2021)
3 UNICEF Social Protection Budget Brief 2023
The following investment forecasting was done using the current benefit value of Rs. 532 for the universal child grant and Rs. 4,000 for the old age pension, inflation is adjusted to 5% on average and the population projection is taken from the UNFPA population monograph for Nepal published in 2018. The figures below show Nepal’s social protection budget for the old age population, while the cost to be allocated for the old age population is increasing in an increasing trend with the growing old age population, the cost of child grants is decreasing. Figure 1, 2, and 3 explains the cost of the social protection programs across ages for old age and universal child grants.
The role of social protection in building human capital foundations

Social protection programs create opportunities, empower families to invest in human capital, and break the cycle of intergenerational poverty\(^4\). The 2010 European Report on Development notes that social protection can be an important mechanism to reverse exclusion and allow for greater empowerment and inclusion of excluded\(^5\).

Studies have shown that social protection, particularly social assistance to children, can improve human capital from the early years through secondary school by facilitating and protecting human capital investments. For instance, cash transfers can increase the use of health services and improve dietary diversity, and in some cases result in improvements in health, nutrition, and cognitive development outcomes\(^6\). In addition to this, investments in early childhood development and nutrition can help to break intergenerational cycles of poverty and promote equitable development by providing children with the resources they need to reach their full potential. This, in turn, can lead to increased economic productivity and social well-being, creating a more prosperous and equitable society.

Investment In Children for Improved Human Development

High levels of unemployment, underemployment, and low incomes would continue to be prevalent, leading to families being unable to invest in their children’s development and hindering economic growth and social cohesion and Nepal would be at risk of falling behind in global markets. To avoid this, it is crucial for the country to invest in children’s health, education, and overall well-being, as well as address widespread low incomes that prevent children from reaching their full potential. Growing up in poverty can have lasting negative effects on children, including inadequate nutrition, poor health care, missed educational opportunities, and the constant stress of financial insecurity. The World Bank’s Human Capital Index estimates that globally, a child born today would only reach 56% of their full adult productivity due to the risks of poor health and education. As a result, millions of children do not reach their full development potential because of inadequate nutrition, lack of early stimulation and learning, and exposure to poverty and stress.

These disadvantages can follow children into adulthood and even affect future generations. To minimize the impact of poverty in future generation and develop a quality human resource, it is important for Nepal to increase the investment in youth and children.

Having ratified international human rights instruments including Universal Declaration of Human Rights 1948, International Covenant on Economic Social and Cultural Rights 1962 and the Convention on the Rights of Children 1989; Nepal has made a commitment of providing regular basic income for children who are inherently vulnerable. Moreover,

\(^4\) World Bank 2021
\(^5\) Social Protection and its Contribution to Social Inclusion Presented at the UNDESA expert group meeting New York, 10-11 September 2013
\(^6\) Bastagli et al. 2016; De Walque et al. 2017; Rawlings 2019
Poverty Reduction and Improvement in social indicators

This investment in early years in South Africa\(^7\) and Indonesia\(^8\) has consistently demonstrated positive long-term effects on families with young children. These investments have been shown to improve the health, education, and overall well-being of children in the household, leading to them becoming more productive adults and contributing to the country's economic prosperity. Similarly, in Nepal, various studies demonstrate investment in children resulting in positive outcomes for not only children but for the overall well-being of the families. Demographic Health Survey 2022 has shown that malnutrition among children has decreased significantly, this is attributed to the child grant program. A 2021 UNICEF study found that if children in Nepal under the age of 17 received a small monthly allowance starting with children under five and increasing over time, the poverty rate could be reduced by 16.8% at a cost of less than 0.7% of the GDP per year. Moreover, Child Grant Program Evaluation conducted in 2020\(^9\) shows that the children’s grant program has not only contributed to better health outcomes for children but has also contributed to the empowerment of the mothers who receive the grant. The mothers were found to have increased mobility and exercised their agency to make their household and personal decisions.

An Instrument to Achieve Universal Birth Registration

Research\(^{10}\) shows that the Child Grant program, which provides financial assistance to families with children, has had positive impacts on recipients. It has increased birth registration rates and enabled families to afford basic necessities like food and clothing. The program has also reduced the likelihood of child labour among recipients and their siblings. However, currently, only about 46 per cent of children under the age of five and 6% of all children in the country receive the grant.

![Figure 3: Districts with Child Grant have significantly higher Birth registration. Source: CBS, 2021 Nepal Census.](image)

\(^7\) [https://europa.eu/capacity4dev/articles/studies-show-benefits-child-support-grants](https://europa.eu/capacity4dev/articles/studies-show-benefits-child-support-grants)


\(^9\) Child Grant Evaluation, GON (2020)

\(^{10}\) Benefits of Nepal’s Child Grant for Current And Future Generations (Nov2016)
Universal Basic Incomes as an Emergency Response to Crisis

During the crisis, almost everyone gets vulnerable. For example, during the Covid-19 period, everyone got affected economically, with the majority experiencing significant falls in their standards of living\textsuperscript{11}. In fact, having universal schemes like the child grant helps in emergency response to the crisis, whereby offering everyone in the society a regular and predictable income to sustain their well-being and act as an economic stimulus\textsuperscript{12}.

Reaping the Demographic Evident and Productive Workforce

The experience of a high-growth economy in East Asia, the so-called “East Asian Tigers” have captured the demographic dividend mainly by investing in the early years and promoting the engagement of female workers in the economy\textsuperscript{13}. The demographic analyses in Nepal also show that it is right, justifiable, and necessary to consider the investment in children as an act of “paying forward” to the generations that will support us in our old age and continue to develop our society in the future\textsuperscript{14}.

Fulfillment of International and National Commitments

Expansion of the child grant is not only economically, socially, and politically imperative but also important to fulfill its international and national commitments. Having ratified international human rights instruments including the Universal Declaration of Human Rights 1948, the International Covenant on Economic Social and Cultural Rights 1962 and the Convention on the Rights of Children 1989; Nepal has made a commitment of providing regular basic income for children who are inherently vulnerable. Moreover, having considered social protection as the most important measure to address poverty, the 2030 Agenda for Sustainable Development targets to implement nationally appropriate social protection systems and measures for all including children, and achieve substantial coverage of the poor and vulnerable by 2030.

At the national level, the Article 43 of the Constitution of Nepal 2015 enshrines the fundamental right to social protection for all children. The article reads “The indigent citizens, incapacitated and helpless citizens, helpless single women, citizens with disabilities, children, citizens who cannot take care themselves and citizens belonging to the tribes on the verge of extinction shall have the right to social

\textsuperscript{11} Kidd, S. and Sibun D. (2020)
\textsuperscript{12} Kidd, S. and Sibun D. (2020)
\textsuperscript{13} NPC, UNICEF (2017) Demographic Changes of Nepal: Trends and policy Implications
\textsuperscript{14} ibid
security, in accordance with the law. Child Rights Act 2018 provides a bundle of rights to children, including the rights to a dignified life, appropriate care, nutrition, and free basic health services. The Act assigns the primary responsibility for fulfilling these rights to parents and guardians and assigns the responsibility for providing a conducive environment to the state. In addition, in the fifteenth Five Year Plan, the Government of Nepal (GON) made a commitment of expanding the Child Grant program nationwide by 2024. The GoN plans to strengthen social security programs including Child Grant by expanding the scope of social security tax and the contribution-based social security system. By the end of 2024, the GON intends to expand social security program to 60% population from 17% in FY 2018/19 and increase the share of social security expenditure in the national budget from 11.7% to 13.7%.

**Fiscal Space and Financing Universal Child Grant in Nepal**

The world is in a situation of the financial crisis and Nepal is not exception. In this context one can argue how is this possible to expand the child grant? Expansion of child grant nationwide is indisputably a challenge in the given economic situation, it is however possible by leveraging the existing resources. Four options are discussed here: (i) One possible way is by leveraging the resources that will be gradually available from contributory social security system and reduced burden of tax-financed public pension system which has been now replaced by the contributory one. According to the Ministry of Finance, the average contribution rate for civil servants is 13 percent of their salary. If we assume that an average of 10,000 new civil servants join the system annually, the total amount of resources that can be generated through new pension contributions is approximately NPR 1.56 billion (USD 13.5 million) annually.

(ii) the second approach is to exclude children from well off families. Identifying well off family could be excluding civil servants, formal sector self-employed, and other affluent families who could opt-out of receiving the child grant voluntarily. This approach would ensure that resources are directed towards children who genuinely need financial support. According to the Nepal Living Standards Survey (NLSS) 2010/11, approximately 33.8 percent of the population in Nepal is living below the poverty line. Based on this, it is estimated that there are around 5.5 million children in Nepal who are living in poverty and could benefit from the child grant program.

(iii) The third approach is to finance universal child grant program is by imposing a minimum additional tax on schools running under the company act. This tax could be utilized to finance the child grant program. According to the Annual Report of the Department of Education for the fiscal year 2020/21, there are 3,988 schools operating under the company act in Nepal. Imposing a minimum additional tax on these schools could generate additional revenue that could be utilized to finance the child grant program.

(iv) Lastly, Collaboration with development partners for grants and concessional soft loans can also help manage fiscal space. Development partners upon a request can potentially provide grants and/or soft loans to help reduce the burden on the government's fiscal space.
Conclusion

Nepal is expected to become a society with a larger proportion of older people in the population by 2028. Currently, Nepal has a "demographic window of opportunity" where the majority of the population is young and productive. In order to take advantage of this opportunity and prepare for the aging population, it is important to invest in youth and young children now so that they can be productive adults and support the elderly while also contributing to the economic development of the country. Investment in children would provide both short-term and long-term boosts to the economy and strengthen national social contracts. Moreover, the more investment in children is also likely to increase citizens' trust in government. As most households receive regular and predictable cash payments, their trust in the government is likely to increase, which can potentially result in higher tax payments and an opportunity for the government to increase investment in public services such as health and education.

Currently, the government of Nepal has been spending less than 5%\(^\text{15}\) of its social protection budget on children who consists of about 34% the country’s population. The large portion of the budget is invested in other social transfers which have comparatively nominal returns than that of investing in children. On this demographic juncture, it is a right time for Nepal to rethink and prioritize on investing in youth and children by expanding child grants nationwide. If Nepal fails to invest in youth and children, there is a high risk of having large unskilled population who will not be adequately productive to serve the aging society in the future.

\(^{15}\) Social protection budget brief UNICEF Nepal.