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Policy Brief

REACHING NATIONAL COVERAGE »

An expansion strategy for Nepal's Child Grant

Following the Government of Nepal's recent announcement to expand the Child Grant programme, this policy brief presents strategies and options for an incremental geographic approach to the expansion in order to reach national coverage within 10 years.

Introduction

The Child Grant was introduced in 2009/10 to support better nutrition for children under five years of age. Like other social security schemes implemented by the Ministry of Federal Affairs and Local Development (MOFALD) that take a rights-based approach and promote social inclusion, the vision was to see a nationwide Child Grant that is available to all families with young children. Due to budget constraints at the time, however, various targeting criteria were applied to the Child Grant such that it covers approximately 16 per cent of under-fives nationwide.

Recognising the potential of the Child Grant to make a real difference to the lives of children and to contribute to Nepal's development goals,[1] the Government made a commitment in its 2016/17 budget speech to enhance and initiate expansion of the programme. To this end, UNICEF Nepal has provided

technical assistance to MOFALD to develop a long-term plan for expansion that reflects the principles and strategies of the draft National Framework for Social Protection (NFSP).

The case for a universal approach and incremental geographic expansion

Until now, the Child Grant has been provided to under-fives in all households in the remote Karnali region – five districts in the mid-western mountains with persistent food insecurity and high rates of malnutrition – and to poor Dalit households in the rest of the country.[2] Achieving national coverage requires a decision as to whether to make the Child Grant universal – available to all under-fives across the country – or to target children in more deprived households.[3] This is primarily an empirical question about which is the most feasible and effective strategy to

guarantee basic income security for young children in line with ILO Recommendation 202 on social protection floors (see Box 1). At the same time, consideration must be given to the fiscal implications and the potential long-term social and economic gains of the different approaches.

The argument for means testing programmes comes from a concern for efficiency and maximising the impact of scarce resources on those who are most deprived. While this is a commendable objective, there are several reasons why attempting to poverty target the Child Grant will be counter-productive and weaken the intended outcomes. These include:
- the largely informal economy and high rates of poor and near-poor households in Nepal, especially those with young children
- the dynamic nature of poverty and the need for regular data collection
- the low level of administrative capacity, especially in local government.

In the current context in Nepal, applying a means test is impossible and a proxy means test (PMT) will result in large numbers of poor children being excluded and cause social tension. By contrast, a universal approach will ensure substantially better coverage of the poorest and most deprived children, thereby improving the overall impact of the programme.

Moreover, a universal approach is affordable (see later) and only a relatively small proportion of resources will go to genuinely wealthy and economically secure households.[4]

Rather than trying to identify and include only the most deprived households, a number of other targeting options are available that are more feasible to implement, each with certain pros and cons.

1. Current Child Grant policy is to limit the benefits to a maximum of two children per mother. This approach is contrary to a rights-based approach and penalises third-born children and children of multiple births. At the same time, it saves little in terms of budget with an estimated 1.4 per cent of children falling into this group.[5] In addition, there is no evidence that cash transfer programmes increase fertility rates (Mathers & Slater, 2014).

2. Municipalities could be excluded on the basis that rates of poverty and deprivation, including young child malnutrition, tend to be lower in urban areas. The Child Grant is also likely to have less impact in these areas given the higher cost of living and fixed benefit levels. However, this option will penalise poor and deprived households living in urban poverty pockets. Also, many newly classified urban areas still exhibit predominantly rural characteristics.

3. There is a good case to focus investment in the earliest years of a child's life. If fiscal constraints required, the Child Grant could be limited to a younger age group. However, weaknesses in the Child Grant registration and budgeting procedures, while being addressed, currently lead to high levels of exclusion among the youngest children, which results in significant under-coverage among this age group. Moreover, evidence from cash transfer programmes in other countries shows that effects are maximised with longer exposure to the programme (de Groot et al., 2015).

4. Rather than set a low eligibility threshold and risk excluding those who are poor or near-poor, it can be more effective to apply a high threshold. Some mechanisms are already in use for excluding certain groups from social security schemes. Civil servants, for example, are not entitled to the social pension. This approach can be extended to include other easily identifiable groups such as formal private sector employees.

In summary, a universal approach to the Child Grant is the most effective strategy to ensure that all those who are in need can access the programme, not with standing the option to exclude clearly identifiable high-income groups. Universal national coverage, however, cannot be achieved overnight. To resolve this issue, incremental geographic expansion offers an appropriate and feasible strategy to reach this goal. First, it allows for prioritisation of areas with higher levels of deprivation

while maintaining the principle of universality within the age-group most at risk of malnutrition. Second, there is already acceptance of geographic targeting approaches in Nepal – the precedent having been set with the Child Grant in Karnali region. Third, it allows for predictable incremental increases in budget allocation over a fixed time period and within the fiscal means of the country. Finally, it provides a simple and easily understandable means of achieving national coverage, which is essential for maintaining nationwide support.

Specific strategies and options for expansion

Nepal's social security schemes, including the Child Grant, are managed by MOFALD and implemented through the 75 District Development Committees across the country. Eligible recipients are registered and receive cash payments at the local level through the Village Development Committee and municipal ward offices. The obvious geographic unit for expansion is therefore the district. Excluding Karnali region which already benefits from a universal Child Grant, coverage needs to be extended to the remaining 70 districts over time.

In line with the objectives of the Child Grant, the criteria for district prioritisation should reflect the well-being of children, in particular malnutrition rates, and a measure of the economic

status of households. Different indices (see Box 2) can be assessed in terms of their relevance, data availability and currency, the geographic level of analysis, and perceived credibility among technical experts and decision makers.

First, for simplicity and relevance, UNICEF Nepal's FPSI is the most appropriate in relation to the objectives of the Child Grant. The HPI also incorporates malnutrition rates and a broad range of socio-economic indicators of deprivation. The HDI focuses more on achievement and not specifically on deprivations experienced by younger children. Second, all indices are limited by the availability of recent data, relying predominantly on the Nepal Living Standards Survey (NLSS) and Population Census, both from 2010/11. One major implication of this is that the circumstances of the districts may have changed since the time of data collection. Parts of Nepal have been subject to significant external shocks in recent years, which have had a major impact on their socio-economic status and development trajectory. Third, all indices provide estimates at the district level. While they can be further aggregated to regional and national level, they cannot be disaggregated into smaller administrative units. Fourth, in terms of credibility, both the HDI and the HPI are well-established indices, published jointly by Nepal's National Planning Commission (NPC) and UNDP, and their relevance is widely accepted in Nepal. The FPSI is not in common use, although the Small Area Estimation study on which it is based is a recognised methodology.

Analysis of the three indices suggests that the HPI provides the best balance between relevance and wider acceptability. The approach for a simple district-wise expansion is to rank the districts in order of their HPI score and introduce a number of districts each year (depending on their population size and available resources) until national coverage is achieved. Figure 1 shows how the districts will be introduced over a 10-year period using the HPI ranking, starting in 2016 with the five districts of Karnali region that are already covered, plus Accham and Rautahat which are the most-deprived of the remaining districts.

A number of options within the simple district-wise approach can also be considered.

- Accounting for the proposed federal structure in the new Constitution, the expansion strategy can ensure some level of parity between the seven new provinces as districts are introduced. This approach will have the advantage of gaining wider political acceptance across the country but will deprioritise some of the more deprived districts in the short term.

- Officially classified urban areas or a sub-set of these (metropolitan and sub-metropolitan areas) can be deprioritised and included only when expansion to rural areas has been completed. This approach is likely to generate

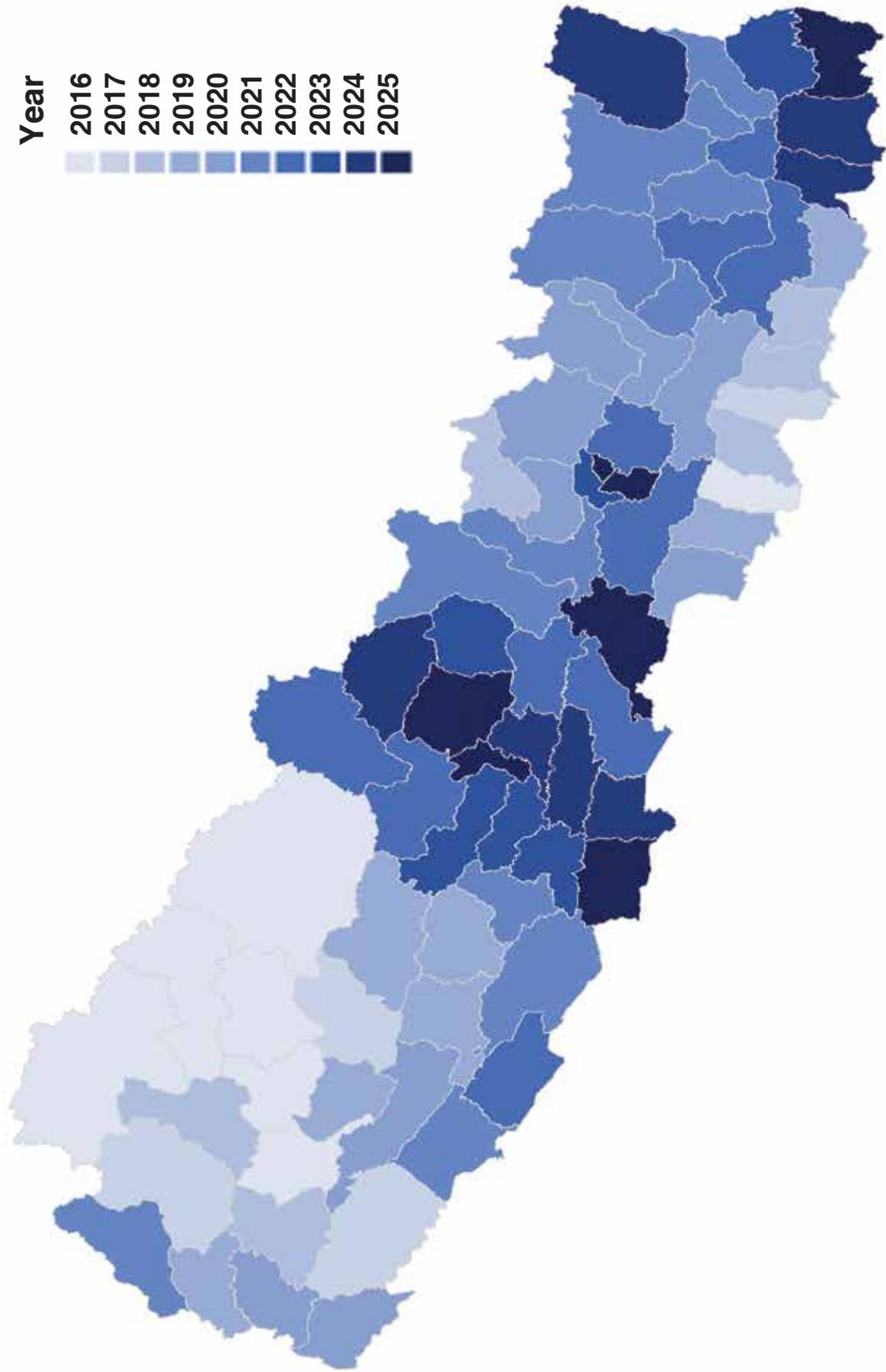### BOX 2. POSSIBLE INDICES FOR DISTRICT RANKING

- *Human Development Index (HDI)* Measures average achievement in three basic dimensions of human development – long and healthy life (life expectancy at birth), knowledge (adult literacy and mean years of schooling), and standard of living (GNI per capita).

- *Human Poverty Index (HPI)* Measures average deprivation in three basic dimensions of human development – long and healthy life (life expectancy below 40 years), knowledge (adult literacy rate), and standard of living (access to safe water and under 5 malnutrition).

- *Food Poverty and Stunting Index (FPSI)* Developed by UNICEF Nepal, the FPSI uses the Small Area Estimation (Haslet et al., 2014) to measure average deprivation in the two dimensions of well-being most relevant to the Child Grant: access to food (food poverty rate) and young child nutrition (under-five stunting rate).

FIGURE 1 District year of introduction based on HPI ranking

Year
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025

Source: DevInfo, based on data from NPC (2014)

some level of local tension and will penalise newly classified urban areas that are effectively rural in nature. In addition, the largest metropolitan areas will anyway appear lower down the district ranking.

- Given that the data for district selection are several years old, the strategy can allow for the effects of recent shocks to be taken into account. For example, the 2015 earthquakes were estimated to have led to a 10–14 per cent increase in the poverty rate within the 19 most-affected districts (NPC, 2015a). In such cases it may be appropriate to elevate the expansion priority of the most-affected districts and to capitalise on external donor funding that is tied to disaster response and recovery.

In summary, it is recommended to pursue a simple district-wise expansion of the Child Grant based on priority ranking using the HPI. In anticipation and support of the forthcoming provincial federal structure, it is reasonable to ensure some parity between provinces in each phase of expansion. Disaster-affected districts that are lower down the HPI-based ranking can also be introduced sooner if external resources are available for an initial period. In order to plan and manage expectations in a predictable manner, there should be a relatively even rate of expansion each year. The actual number of districts introduced each year will vary depending on their population size and the resources available. It is recommended to aim for a maximum 10-year period in which to achieve national coverage in line with the time frame of the draft NFSP. This should not preclude the possibility of accelerated expansion if additional resources become available.

Costing the expansion and the implications for fiscal space

Having established the most effective and feasible approach for expansion of the Child Grant, the question of cost still needs to be addressed. Analysis of three different scenarios shows that incremental expansion to universal national coverage is affordable.[6] First, the simple district-level expansion scenario ranks the districts according to their HPI score and chooses how many districts will be included so that the annual incremental cost of the programme is almost the same each year. Second, the provincial scenario chooses the most disadvantaged district from each province to be included in the programme each year. For both these options the benefit remains constant at NRs. 400 per month per child. Third, under the simple district-wise expansion, the monthly payment is increased to NRs. 600 after five years, adjusting for the estimated inflation rate.

Table 1 shows the estimated total cost of each scenario by the expansion year. In the district scenario, the total cost of the Child Grant will increase from NRs.2.6 billion (US$24 million) in 2016 to NRs.14.16 billion (US$117 million) in 2025, requiring an average annual incremental budget increase of NRs.1.2 billion (US$10 million). This represents an increase from 0.11% of GDP in 2016 to 0.25% of GDP in 2025. The provincial scenario has the same overall cost implications but with some variation in the incremental increase between years, given the slightly different ranking of districts. The third scenario, accounting for an inflation-indexed increase in benefit levels after five years, will result in a total budget of NRs.21.24 billion (US$175 million), or 0.38% of GDP, in 2025.

TABLE 1 Estimated cost of expansion scenarios

Year	District scenario		Provincial scenario		Inflation-adjusted benefit	
	Cost in NRs. (Billions)	% of projected GDP	Cost in NRs. (Billions)	% of projected GDP	Cost in NRs. (Billions)	% of projected GDP
2016	2.60	0.11%	2.60	0.11%	2.60	0.11%
2017	3.76	0.14%	3.69	0.13%	3.76	0.14%
2018	5.10	0.17%	5.15	0.17%	5.10	0.17%
2019	6.47	0.19%	6.20	0.18%	6.47	0.19%
2020	7.83	0.21%	7.14	0.19%	7.83	0.21%
2021	9.11	0.23%	8.53	0.21%	13.66	0.34%
2022	10.44	0.24%	9.71	0.22%	15.66	0.36%
2023	11.54	0.24%	10.45	0.22%	17.30	0.36%
2024	12.88	0.25%	12.28	0.24%	19.32	0.37%
2025	14.16	0.25%	14.16	0.25%	21.24	0.38%

Source: Mshvidobadze & Mathers (2016)

FIGURE 2 Projected annual cost by expansion scenarios
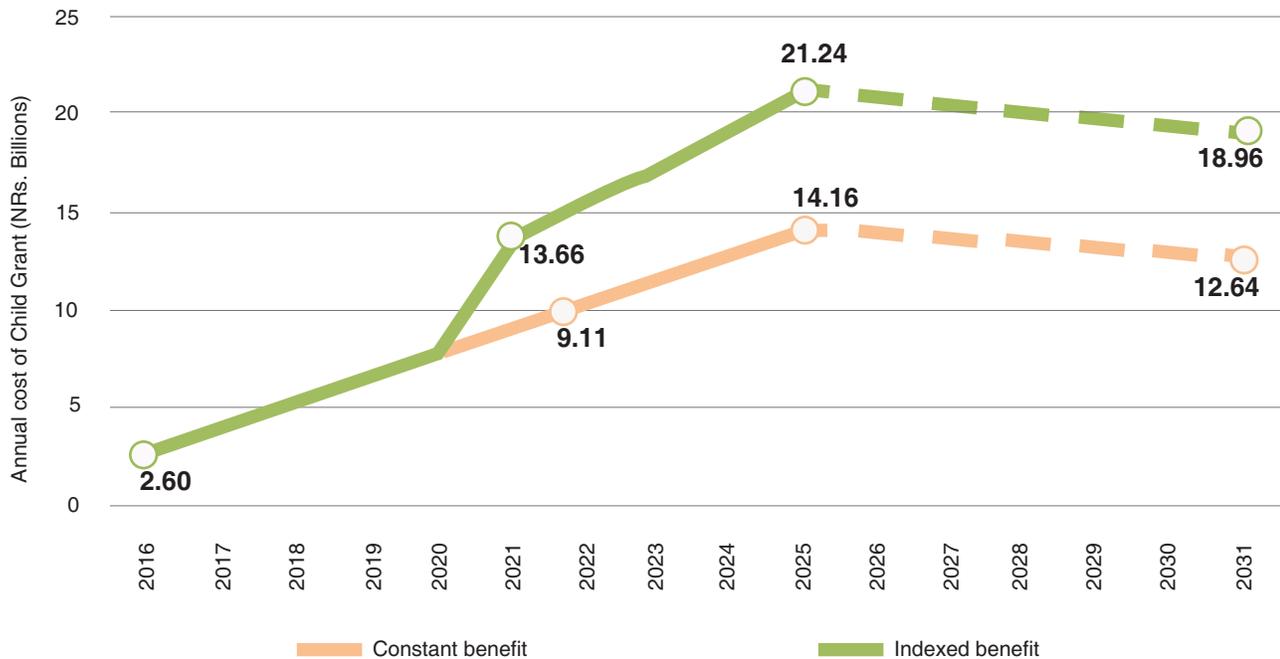
Source: Mshvidobadze & Mathers (2016)

Due to falling fertility rates, the under-five population is predicted to decline from 2021 (CBS and UNFPA, 2014). As a result, Figure 2 shows that the overall cost of the Child Grant will also start to decline once national coverage has been reached. The district and index-linked scenarios will decline from NRs.14.16 billion and NRs.21.24 billion in 2025 to NRs.12.64 billion and NRs.18.96 billion in 2031, respectively.

While these sums are certainly not small, they are affordable. Even the highest cost scenario does not reach more than 0.38 per cent of GDP and the sums are manageable within the context of current government spending. In 2016/17, social security schemes, including the Child Grant, account for 9.2 percent of the total government budget, whereas the Child Grant alone accounts for 0.2 percent. By comparison, Figure 3 shows the breakdown of the government budget in 2016/17 assuming that the Child Grant is made universal across the country in the same year – an immediate nationwide expansion. This shows that the Child Grant would grow to 1.3 percent of total government budget and social security as a whole would grow to 10.2 percent – still well within the Government's own target under the Sustainable Development Goals to achieve 15 per cent of total expenditure on social protection by 2030 (see Box 3).

BOX 3. THE ROLE OF SOCIAL PROTECTION IN NEPAL'S COMMITMENTS TO THE SUSTAINABLE DEVELOPMENT GOALS
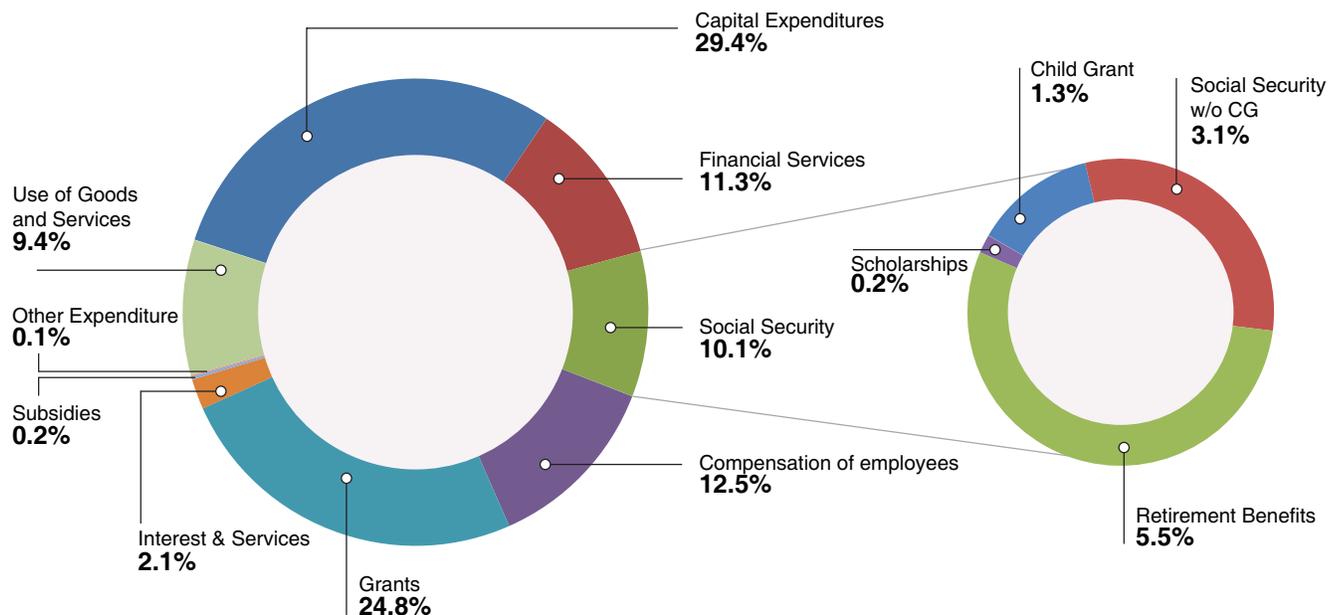
Recommendation on SDG 1

Eradicating poverty requires the two-pronged strategy of expediting economic growth and redistributing incomes through policy interventions in the labour market and financial market along with expanding social protection.

Target 1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable

- Increase social protection expenditure to 15 percent of the national budget by 2030

Source: NPC (2015b)

FIGURE 3 Government budget by line item if the Child Grant achieves universal coverage in FY2016/17

Capital Expenditures
29.4%

Financial Services
11.3%

Child Grant
1.3%

Social Security
w/o CG
3.1%

Use of Goods
and Services
9.4%

Scholarships
0.2%

Other Expenditure
0.1%

Social Security
10.1%

Subsidies
0.2%

Compensation of employees
12.5%

Interest & Services
2.1%

Retirement Benefits
5.5%

Grants
24.8%

Source: Mshvidobadze & Mathers (2016)

The way forward

The commitment of the Government of Nepal to expand the Child Grant nationwide represents an exceptional step forward in social policy for a country recovering from devastating earthquakes and which is still striving to emerge from least-developed country status. MOFALD has already made significant strides towards developing specific options, and in securing wider support for the expansion strategy. A number of steps should now be taken to ensure that momentum is maintained and that national coverage is achieved within a 10-year period, including:

- develop a phased and costed plan on the basis of a universal approach and incremental district-wise expansion, to be approved by relevant ministers

- develop a communications strategy to ensure buy-in and legitimacy of the strategy among stakeholders at all levels

- make necessary modifications to the social security guidelines including allowing for more than two children per mother to receive the Child Grant and to introduce protocols for exclusion of certain higher-income groups, where feasible

- continue to invest in systems-strengthening activities, such as extending delivery through the banking system and development of management information systems, and align this with the expansion strategy such that newly-introduced districts receive priority support

- integrate a comprehensive evaluation and assessment into the expansion strategy to exploit the opportunity to assess the impact of the Child Grant on the lives of children.

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This Policy Brief was written by Nicholas Mathers, Social Policy and Economic Analysis (SPEA) Section, UNICEF Nepal, with Thakur Dhakal and Anastasia Mshvidobadze.

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[1] See the companion policy brief: Paying forward: Benefits of Nepal's Child Grant for current and future generations (Bhuvanendra, 2016).

[2] Dalits, previously known as 'untouchables', are the lowest group in the Hindu caste system and experience significant social and economic marginalisation.

[3] Here, universal is used in the commonly understood sense of available to all within a certain age category (i.e. not means tested).

[4] See the companion policy brief: Achieving the best outcomes for children: Why a universal Child Grant makes sense for Nepal (Mathers, 2016).

[5] Estimate based on the number of children under five who have more than one sibling under five (Nepal MICS 2014).

[6] Costing scenarios use estimated beneficiary numbers based on population projections from the 2011 Population Census (CBS and UNFPA, 2014). Given the existing government infrastructure and social security systems, administrative costs are assumed to remain stable and are excluded from the calculations. A full explanation of the costings methodology, findings and implications for fiscal space is available in the related report: Costing the Child Grant Expansion in Nepal (Mshvidobadze & Mathers, 2016).