

Policy Brief

ACHIEVING THE BEST
OUTCOMES FOR CHILDREN >>

Why a universal Child Grant makes sense for Nepal

This policy brief considers the evidence for why taking a universal rather than a poverty-targeted approach to Nepal's Child Grant will achieve the best outcomes for children.

A short history of the Child Grant

The Child Grant was introduced in 2009/10 to support better nutrition for children under five years of age. Every four months, the Child Grant transfers NRs. 800 (US\$7.50) to the mother or primary caregiver of eligible children in the geographically remote Karnali region and to poor Dalit households in the rest of the country. As early as 2012, the Government indicated that it intended to extend coverage beyond Dalit households to all poor families with children under five across the country.¹

Like Nepal's other social security schemes, the Child Grant is managed by the Ministry of Federal Affairs and Local Development (MOFALD) and delivered through local government infrastructure. The Child Grant reaches around 80 per cent of the target population and, although the transfer amount is small, recipients use the money as best they can for the well-being of their children. It has also led to a dramatic increase in birth registration rates among recipient households – now 90 percent compared with a national average of 58 percent (Adhikari et al., 2014; VARG & UNICEF, 2015; CBS, 2015). Evidence suggests that an increase in benefit levels alongside improvements to delivery systems could lead to measurable changes in the nutritional status of children (VARG & UNICEF, 2015; de Groot et al., 2015; Hagen-Zanker & Mallet, 2016). To this end, MOFALD is looking at ways to automatically link birth

registration and enrolment for the grant, increase the frequency of registration, and start delivering payments via banks.

RECENT COMMITMENTS TO AN ENHANCED AND EXPANDED CHILD GRANT

The potential for the Child Grant to contribute to Nepal's development goals has been recognised by policy makers. The Social Welfare Act (1992) and the Constitution (2015) include commitments to provide social security for poor and vulnerable groups, including children, and strengthening and expanding coverage of the Child Grant is a priority of the National Framework for Social Protection (NFSP) (draft, 2016). More concretely, the Government's 2016/17 budget has doubled the benefit level to NRs 400 (US\$3.70) per month and commits to initiate the incremental expansion to all under-fives living in poor households.

These commitments represent an exceptional step forward in social policy for a country recovering from a devastating earthquake and which is still striving to emerge from least-developed country status. However, certain questions remain on the design and implementation reforms of an expanded Child Grant, including whether and how to reach the poorest households.

Does it make sense to target the Child Grant at poor households?

Whether cash transfers should be poverty targeted or universal within certain categories remains a hotly debated topic.² The rationale put forward for poverty targeting is that it is more efficient, allowing sometimes scarce resources to be concentrated on those who need them most. This argument is appealing, but there are potentially significant costs associated with targeting. These include costs related to: the (mis)identification of those who are poor; complex and costly implementation; reducing incentives to work; and the creation of social and political tensions between those who qualify and those who do not. Universal approaches, on the other hand, are by definition more inclusive and are less demanding to implement – an important consideration in countries with wide spread poverty and limited administrative capacity (Coady et al., 2004; Slater & Farrington, 2009; Devereux, 2016).

POVERTY IN NEPAL

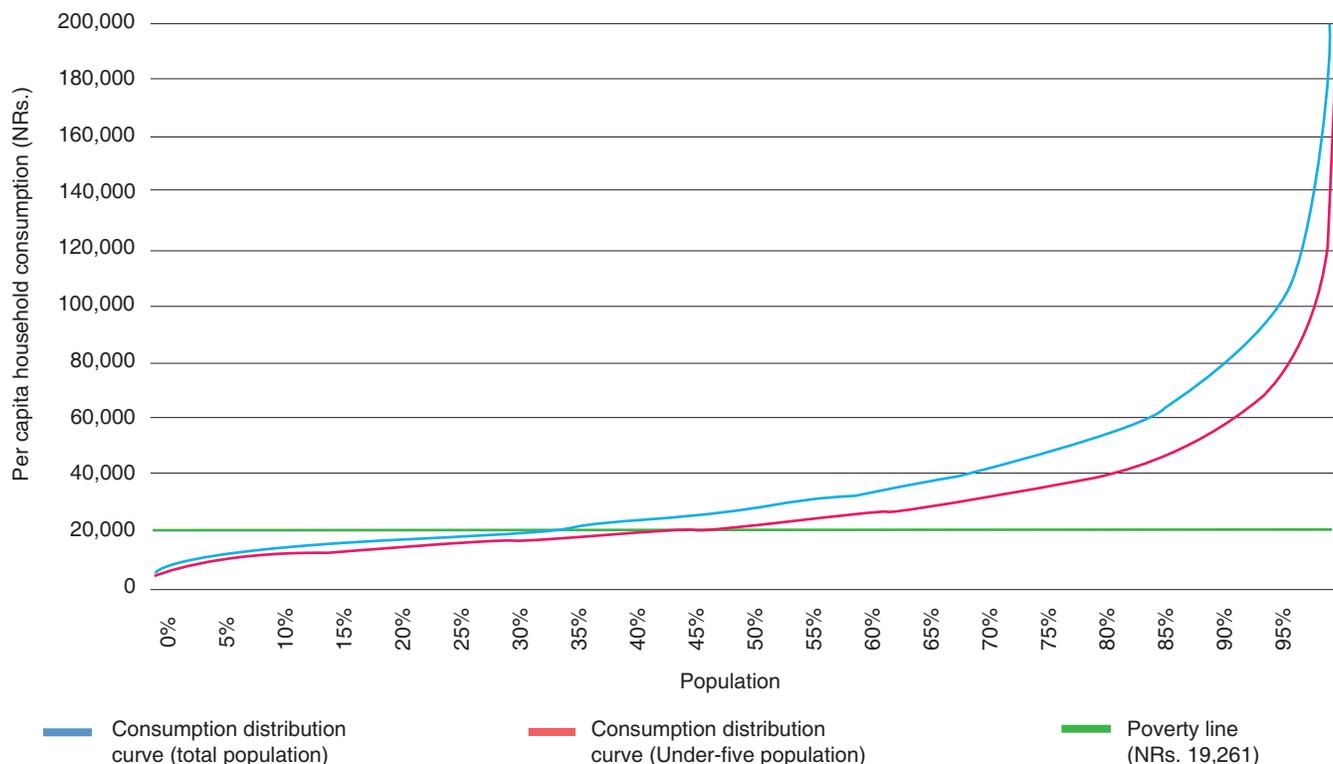
To understand the implications of targeting, it is necessary to understand Nepal's poverty profile. Figure 1 shows the per capita consumption distribution for the total population and for under-fives, alongside the national poverty line of NRs. 19,261 (US\$180). Poverty rates are shown where the distribution curves intersect the poverty line – approximately 37 percent for under-fives compared to 26 percent among the general population.³

The relatively flat distribution curve shows that a large number of people live just above the poverty line and that the majority are either poor or vulnerable to falling into poverty. The distribution curve for under-fives is consistently lower and flatter than for the total population, indicating the greater level of deprivation among young children in general. Nearly 80 per cent of under-fives live in a household with per capita consumption of less than NRs. 40,000 (US\$374). Although double the official poverty line, this is far from being economically secure. In this context, one of the problems targeting aims to address – 'leakage' of benefits to well-off households – is of less concern.

WHAT DO DIFFERENT TARGETING APPROACHES ACHIEVE IN THEORY?

Although little empirical data is available, it is possible to model theoretical outcomes for different targeting options. Table 1 shows the exclusion and inclusion errors under different Child Grant targeting designs (universal, caste-based and poverty-based), assuming perfect implementation. Logically, a universal Child Grant results in zero exclusion of poor under-fives, compared with an exclusion error of more than 7 in every 10 poor children for both the Dalit option (72%) and the simple proxy means test (PMT) option (71%).⁴ Thus, both caste-based targeting and the simple PMT – both of which are currently applied to the Child Grant – result in the exclusion of more than two thirds of poor children.

FIGURE 1 Per capita consumption distribution curve for total population and for under-five population



Data source: Nepal Living Standards Survey (NLSS) 2010

TABLE 1 Exclusion and inclusion errors for under-fives under different targeting designs

Child Grant targeting design	National poverty line (NRs. 19,261)	
	% of poor <5s excluded	% of <5s included that are non-poor
Universal	0 %	64 %
Dalit	72 %	52 %
Simple PMT	71 %	67 %

Data source: Nepal Living Standards Survey (NLSS), 2010

Inclusion errors (grant recipients who are ‘non-poor’) are more comparable across the different approaches. Taking the national poverty line, all three targeting options are slightly regressive with more than 50 percent of grant recipients being non-poor. However, it is worth noting that the universal approach (64%) performs slightly better than the simple PMT approach (67%). Moreover, Figure 1 shows that the majority of these ‘non-poor’ under-fives are in fact ‘near-poor’ and economically insecure.

Table 2 shows the percentage point (pp) change for different poverty measures (headcount, poverty gap and severity index) achieved by different targeting designs, given a fixed budget.⁵ The best outcomes are achieved by the universal and Dalit designs, with 7.3 and 8.4 percentage point reductions in the poverty rate, respectively. The simple PMT performs worst, with a 4.9 percentage point reduction.

TABLE 2 Poverty reduction impacts for under-fives under different targeting designs

Child Grant targeting design	Percentage point (pp) reduction in national under-five poverty measures (National poverty line, NRs. 19,261)		
	Head count	Poverty gap	Severity
Under-five poverty rate	35.8 %	8.6 %	3.1
Universal	7.3pp	2.8pp	1.3
Dalit	8.4pp	2.3pp	0.9
Simple PMT	4.9pp	1.8pp	0.8

Data source: Nepal Living Standards Survey (NLSS), 2010

Notably, however, both the Dalit and PMT designs achieve these outcomes by transferring the same sizable budget to a much smaller population – a scenario that is unlikely to occur in practice. Moreover, the universal option achieves the best outcomes in terms of reducing the poverty gap (by 2.8 pp) and severity (by 1.3 units). In other words, a universal Child Grant is better at reaching the poorest of the poor.

HOW DOES TARGETING WORK IN PRACTICE IN NEPAL?

The previous analysis assumed that each targeting design is perfectly implemented – no additional exclusion and inclusion errors result from poor application – and that they incur no additional administrative costs. Given that this is unlikely even

under the best conditions, what do we know about how these targeting approaches work in practice?

Experience from Nepal shows that the simple PMT associated with the Child Grant is, for several reasons, not actually implemented. First, official procedures are often not well understood by local-level implementers. Second, despite being relatively simple, measuring and verifying even just three indicators (see end notes) is administratively challenging. Third, while local communities accept, to some extent, a Child Grant for Dalit children, when poverty criteria are applied there is demand from other non-Dalit but poor households. “We are all poor here” is a common refrain (Köhler et al., 2009; Drucza, 2015; Hagen-Zanker & Mallet, 2016).

Implementing a more complex PMT is even more challenging in Nepal, especially when the dynamic nature of poverty means that accurate targeting requires household data to be collected on a regular basis. Data collected for this purpose in 25 districts by the Ministry of Cooperatives and Poverty Alleviation (MOCPA) remain contested and unused for programming several years later.⁶ Moreover, in a pilot cash transfer project in Kanchanpur and Dhadheldura districts that employed a PMT, the financial cost of targeting was estimated at 22 percent of total project costs (Acharya et al., 2010), considerably more than the average of 4 per cent estimated for programmes in middle-income countries (Slater & Farrington, 2009).

While a PMT approach may have useful applications in certain circumstances, the current level of government capacity means that implementing at scale and at reasonable cost is still some years away. Insufficient human resources, paper-based record keeping and poor infrastructure limit the ability of local government to undertake regular and accurate measurement, recording, and analysis of socioeconomic data. In such a context, a PMT would result in substantially higher exclusion and inclusion errors than predicted and would be more prone to manipulation by both beneficiaries and officials (Kidd & Wylde, 2011). International experience supports this analysis. In low-income countries, universal child grants have been shown to perform as well as means-tested and PMT-targeted programmes in transferring resources to poor households, despite not being specifically designed to do so (Coady et al., 2004).⁷

Finally, as an alternative, geographic targeting can be useful when there are specific problems, such as food insecurity, to be addressed within certain well-defined geographic areas. The choice of Karnali region for the initial roll-out of the Child Grant is a case in point. However, from a national perspective, it is a crude mechanism for reaching poor households, leading to high levels of exclusion and inclusion error. Nonetheless, when budgets are limited, geographic targeting can be a practical approach to achieve incremental expansion in programme coverage, prioritising areas with the largest proportion or absolute number of poor or vulnerable households.

Conclusion and recommendations

Targeting social transfer programmes at poor households can be beneficial in certain circumstances. In the case of Nepal's Child Grant, however, poverty targeting would lead to largely undesirable outcomes. A universal approach reaches substantially more poor children and is better at reaching the poorest of the poor than Dalit- and poverty-targeted approaches. In a context where poverty rates are high, especially among young children, the social cost of excluding large numbers of poor households outweighs the financial cost of including a minority who are more income secure. Even if a more reliable PMT were developed, it would be highly challenging and costly to implement at scale in the foreseeable future. The universal approach is also affordable – 0.25 percent of GDP at the new

benefit levels (Mathers, 2016). As the Government follows through on its commitment to initiate the expansion of an enhanced Child Grant, it should:

- in line with the Karnali model, take a universal approach to an expanded Child Grant so that all households with children under five years of age are eligible for the programme
- in recognition of the need to incrementally expand the Child Grant over time, prioritise certain districts based on human development index (HDI) ratings, poverty rates or exposure to natural disasters or other risks
- continue to invest in strengthening delivery systems so that unintentional exclusion and inclusion errors are minimised and the full potential of the Child Grant is realised.

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¹According to the 2012 draft National Framework for Social Protection (National Planning Commission, 2012).

²'Universal' is sometimes used to refer to blanket coverage of the entire population. Here, as commonly understood, it means available to all within the defined social category regardless of income status. Poverty targeting is usually achieved in one of three ways: means test; proxy means test (PMT), when income data are unavailable; or self-targeting in the case of public works programmes.

³The official poverty rate is 25.2 per cent for the general population and 36 per cent for under-fives. The slight difference in Figure 1 is because it is not possible to apply sample weights in the distribution curve analysis.

⁴The simple proxy means test (PMT) currently applied, in policy, to the Dalit Child Grant requires that households: do not own their own house; have less than a certain area of farmable land; or can only produce adequate food for less than three months of the year.

⁵Poverty head count is the proportion of a population that is poor; the poverty gap is the difference between poor people's actual consumption and the poverty line; and the severity index is the squared poverty gap, giving more weight to the poorest. Each targeting design receives the same fixed budget, which allows for a transfer of NRs 500 (US\$4.70) per month per child under the universal design.

⁶VDC officials challenge data on poverty in Bajura', Republica, 7 June, 2016.

⁷World Bank analysis from low- and middle-income countries shows that, on average, child grants transfer 53% more resources to poor households than purely random targeting, on a par with means test (53%) and PMT (50%) approaches.