

# Scaling Up the Child Grant, Improving the Impact on Human Capital Development

Policy Brief

April 2023



## 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.

At present, Nepal is facing a youth bulge; with a median age of 24.3<sup>1</sup>, youths make up 40 percent<sup>2</sup> of Nepal's population. If the demographic window of opportunity is not leveraged well, the country is at risk of losing what could be a tremendous opportunity for economic growth and social development. 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 percent, which is comparatively higher to similar economy. The investment in social protection, particularly social assistance program, however, is skewed towards the adult population. A recent UNICEF social protection budget brief<sup>3</sup> reveals that only about 6 percent of the total social assistance program (five schemes) budget goes to children, who comprise 33 percent of the beneficiaries, whereas 58 percent of the budget is spent on elderly citizens who consist of only 38 percent of the beneficiaries. It is important to address the issue of aging and provide elderly allowance, however, the return on investment is significantly low compared to investing in youths/children. This could bring a massive financial challenge in the future as the country is rapidly moving towards an aging society.

	% Beneficiaries	% Expenditures
Old age (70+)	38%	58%
Old age (Dalit + Karnali)	6%	7%
Single women + Widows	17%	21%
Disability (Partial + Full)	5%	6%
Child grants	33%	7%
Endangered Ethnic Groups	1%	1%
Total (%)	100%	100%
<b>Total (N)</b>	<b>3.4 million</b>	<b>NPR 96 billion</b>

*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*

The following chart clearly reveals that the GON increased the Old Age Allowance from NPR 500 to 4000 as compared to Child Grant Benefit which was increased from NPR 200 to 532.

<sup>1</sup> World Bank 2021

<sup>2</sup> CBS Nepal 2022

<sup>3</sup> UNICEF Social Protection Budget Brief 2023

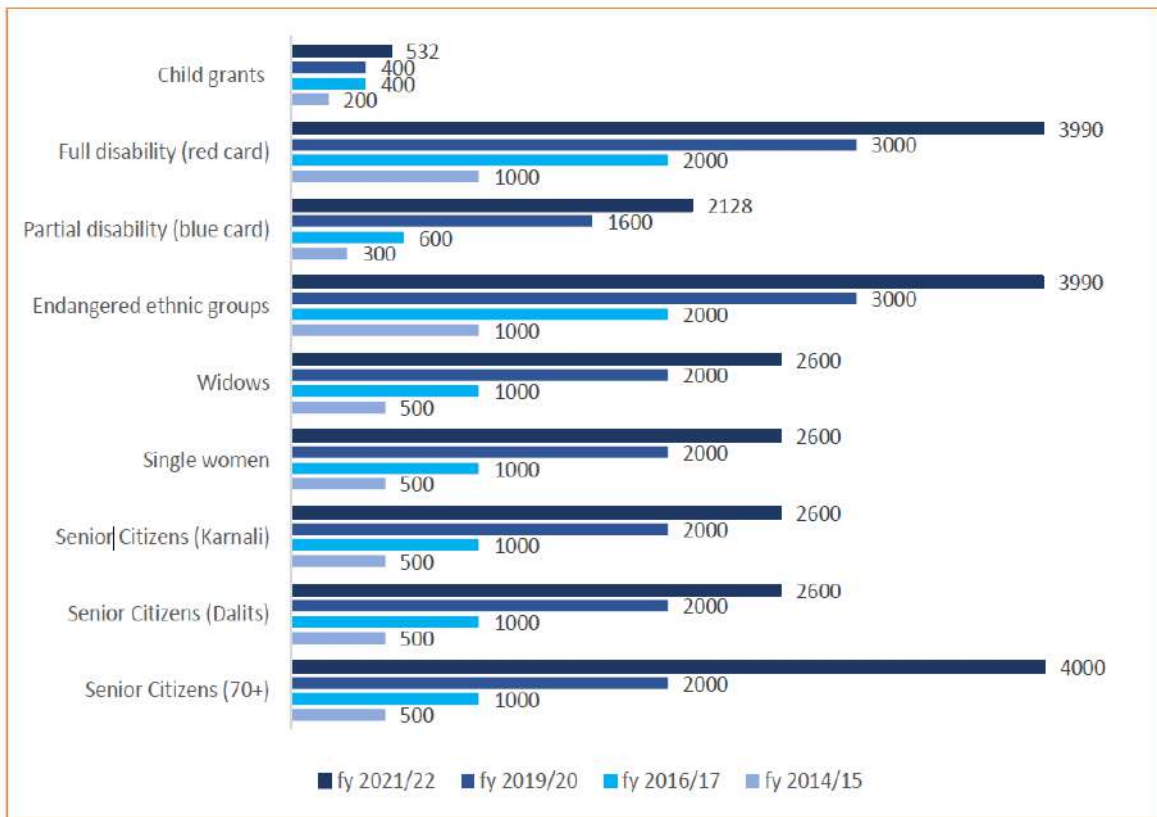


Figure 1: Benefit increment across various SSA schemes.  
 Source: UNICEF Social Protection Budget Brief 2023

The following investment forecasting was done using the current benefit value of NPR 532 for the Universal Child Grant Program, and NPR 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

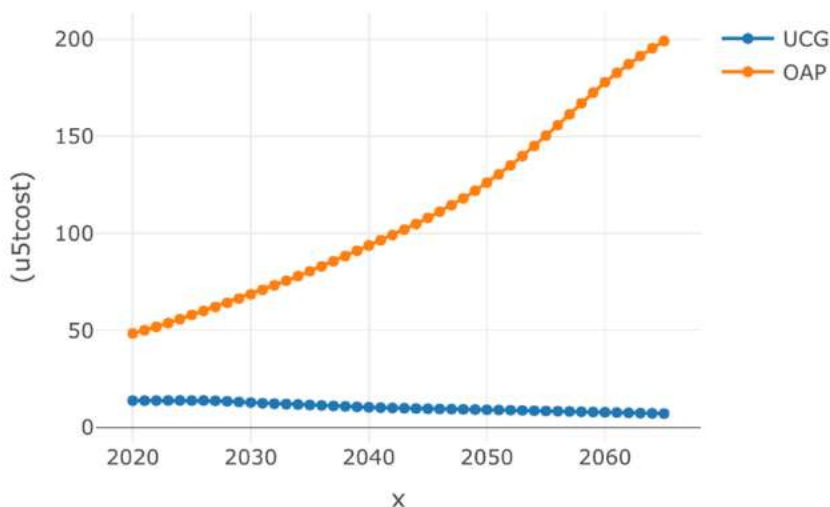


figure below shows Nepal's social protection budget for the old age population. While the cost to be allocated for the old age population is increasing in an increasing trend with the growing old age population, the cost of child grants is decreasing.

Figure 2: Forecasting estimated investment on the Universal child grant (<5) and Old Age Pension (OAP) for next 40 years.  
 Source: UNICEF's calculation based on UNEPA population monograph 2018 and GON data.

## 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<sup>4</sup>. The 2010 European Report on Development notes that social protection can be an important mechanism to reverse exclusion, allowing for greater empowerment and inclusion of the excluded<sup>5</sup>

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<sup>6</sup>. In addition to this, investments in early childhood development and nutrition can help 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 income prevent families from investing in their children's development, hindering economic growth and social cohesion due to which Nepal could be at a risk of falling behind in the global market. To avoid this, it is crucial for the country to invest in children's health, education, and overall well-being, as well as address the widespread low-income issue 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. It is important for Nepal to increase investment in youth and children to minimize the impact of poverty on future generations and develop a quality human resource.

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<sup>4</sup>World Bank 2021

<sup>5</sup> Social Protection and its Contribution to Social Inclusion Presented at the UNDESA expert group meeting New York, 10-11 September 2013

<sup>6</sup> Bastagli et al. 2016; De Walque et al. 2017; Rawlings 2019

## Poverty Reduction and Improvement in Social Indicators

The Child Grant Program, in early years in South Africa<sup>7</sup> and Indonesia<sup>8</sup> has consistently demonstrated positive long-term effects on families with young children. These investments have improved the health, education, and overall well-being of children, transforming them into productive adults, ultimately contributing to the country's economic prosperity. Similarly, In Nepal, various studies demonstrate that investment in children results in positive outcomes for children and their 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 were to receive a small monthly allowance starting with children under the age of 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, the Child Grant Program Evaluation conducted in 2020<sup>9</sup> shows that the grant 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<sup>10</sup> shows that the Child Grant program, which provides financial assistance to families with children, has had positive impacts on the 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 percent of children under the age of five and 6 percent of all children in the country receive the grant.

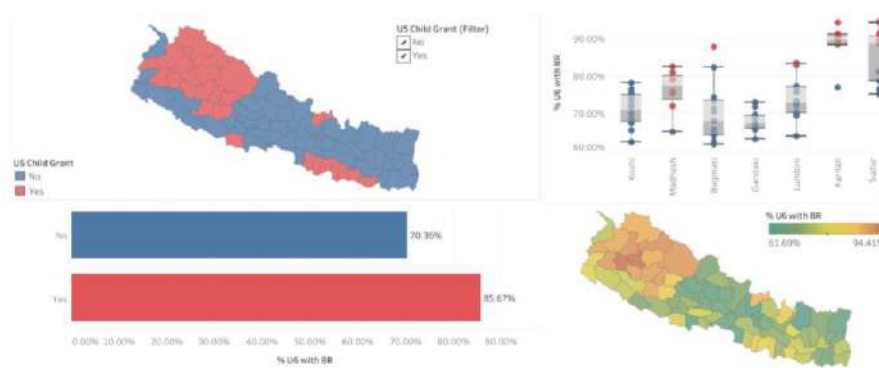


Figure:3 Districts with Child Grant have significantly higher Birth registration. Source: CBS, 2021 Nepal Census.

<sup>7</sup> <https://europa.eu/capacity4dev/articles/studies-show-benefits-child-support-grants>

<sup>8</sup> <https://www.worldbank.org/en/news/immersive-story/2019/07/29/build-employ-and-protect-using-social-protection-to-invest-in-people-in-a-changing-world>

<sup>9</sup> Child Grant Evaluation, GON (2020)

<sup>10</sup> Benefits of Nepal's Child Grant for Current And Future Generations (Nov2016)

## Universal Basic Incomes as an Emergency Response to Crisis

During crisis, communities and people become vulnerable to different kinds of situation. The economic vulnerability caused by the Covid-19 pandemic saw significant fall in people's standards of living<sup>11</sup>. Universal schemes like the Child Grant Program helps provide emergency response during crisis by acting as an economic stimulus<sup>12</sup> and offering everyone a regular and predictable income to sustain their well-being.

## Reaping the Demographic Dividend and Productive Workforce

In the experience of a high-growth economy in East Asia, the "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<sup>13</sup>. The demographic analyses of Nepal justify the necessity of investing in children as an act of "paying forward" for the sustainable growth and development of the society<sup>14</sup>.

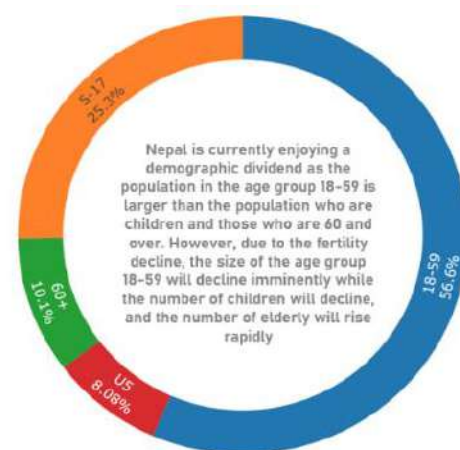


Figure:4 Demographic percent  
Source: Census 2021

## Fulfillment of International and National Commitments

Expansion of the Child Grant Program is not only economically, socially, and politically imperative but also important to fulfil its international and national commitments. Having ratified the 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 to provide 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, 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 of themselves and citizens

<sup>11</sup> Kidd, S. and Sibun D. (2020)

<sup>12</sup> Kidd, S. and Sibun D. (2020)

<sup>13</sup> NPC, UNICEF (2017) Demographic Changes of Nepal: Trends and policy Implications

<sup>14</sup> ibid

belonging to the tribes on the verge of extinction shall have the right to social 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 of fulfilling these rights to parents and guardians and the responsibility of providing a conducive environment to the state. Additionally, in the 15<sup>th</sup> Five Year Plan, the Government of Nepal (GON) made a commitment to expand and strengthen social security programs including the Child Grant Program nationwide, by expanding the scope of social security tax and contribution-based social security system. The GON aims to expand social security program from 17% of the population in FY 2018/19 to 60% by the end of 2024. It also intends to increase the share of social security expenditure from 11.7% to 13.7% in the national budget.

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

Nepal is no exception to the current global financial crisis. Therefore, expansion of social protection schemes is indisputably a challenge under the given economic circumstance. However, expansion of the grant is possible by leveraging the existing resources. The four possible options are discussed below:

(i) To leverage resources that will gradually be available from contributory social security system as it has replaced the tax-financed public pension system. According to the Ministry of Finance, the average contribution rate for civil servants is 13 percent of their salary. Assuming 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).

(ii) The second approach is to exclude children from well off families. Families of civil servants, formal sector, self-employed, and other affluent families could opt-out of receiving the grant voluntarily. This approach would ensure that the resources are directed towards children who are in grave need of financial support. According to Nepal Multidimensional Poverty Index (2021), 22 percent children (NO 2181519) are multi dimensionally poor in Nepal and could benefit from the child grant program.

(iii) The third approach to finance the Universal Child Grant Program is by imposing a minimum additional tax on schools running under the Company Act. According to the Annual Report of the Department of Education for FY 2020/21, there were 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. Upon request, the development partners can potentially provide grants and/or soft loans to help reduce burden on the government's fiscal space.

## Conclusion

Nepal is expected to become an aging society with a larger proportion of older people by the year 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 imperative to invest in youth and children so they become productive adults and support the older generation, all the while 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, investment in children is also likely to increase citizens' trust in the 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%<sup>15</sup> of its social protection budget on children who make up 34% of the country's population. A large portion of the budget is spent on other social transfers which have comparatively nominal returns. At this demographic juncture, it is crucial for Nepal to prioritize investing in youth and children by expanding child grant nationwide. If Nepal fails to do so, a large portion of the population will be unskilled and inadequately equipped to contribute to the country's economy and serve the aging society in the future.

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<sup>15</sup> Social protection budget brief UNICEF Nepal.