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Review and Assessment of Public Expenditure on Social Assistance in Nepal•

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ABSTRACT

This paper provides an overview of the social protection programmes and expenditure trends over the ten-year period (FY2011-FY 2020) and presents an assessment of the social assistance programmes. The aim of the paper is to critically review the expenditure and assess the social assistance programmes in Nepal in terms of their coverage, adequacy, and outcomes. The paper uses quantitative data to analyse the expenditure trend and presents a qualitative assessment of social assistance relying on existing data and literature. At 3.9 per cent of the Gross Domestic Product (GDP) in FY 2019, Nepal spends a substantial amount of its budget on social protection. There is a sound legal basis for social protection programmes. However, the policy and institutional landscape remains fragmented and there are gaps in terms of its coverage and adequacy. Existing programmes do not address all risks and vulnerabilities comprehensively or adequately, by design. Few programmes explicitly target the economically poor or aim to reduce poverty. Important coverage gaps remain among those eligible for existing programmes, mainly due to implementation challenges. In addition, theyare not scalable in design, mainly in terms of responding to shocks. Spending is heavily skewed towards the elderly with relatively low spending on early childhood. Finally, the paper also presents simulations to show that the fiscal implications of reforms to address some of these challenges over the next 10 years which implies that the reforms would result in moderate increase in the expenditure.

1. Introduction

Nepal has a long history of a range of social protection programmes including cash and in-kind transfers, cash for work, scholarships, midday meals and health subsidies. These programmes are at addressing life cycle risks, social exclusion and other types of vulnerabilities. However, comprehensive review of expenditure on social protection programmes and analysis of the policies and programmes is rare. A public expenditure review (PER) assesses the efficiency,

• This paper draws largely from Pandey et al., (2021). *Nepal - Social Protection: Review of Public Expenditure and Assessment of Social Assistance Programs: Main Report: FY 2011-FY 2020.* Washington, D.C.: World Bank Group.

effectiveness, and equity of expenditures and their adequacy and sustainability relative to the sector's goals (World Bank, 2017). This paper attempts to review the public expenditure on social protection in Nepal.

Social protection here is defined as the set of programmes and systems that help individuals and households, especially the poor and vulnerable, reduce poverty, cope with crises and shocks, find jobs, improve productivity, and invest in health and education of their children, and protect the aging population (World Bank, 2012). It covers a range of programmes defined below:

- **Social insurance.** Typically includes contributory programmes such as public sector pensions, unemployment insurance, and health insurance.
- **Social assistance.** Noncontributory programmes, such as cash transfers, scholarships, health subsidies, and school feeding, including care services.
- **Labor market programmes.** Skills training, economic inclusion, entrepreneurship, job-search, and employment support programmes.

This paper provides an overview of social protection programme portfolio and the expenditure trends over the last ten years (FY 2011 – FY 2020). The expenditure on social protection has increased each year nominally, as well its share of GDP. Nepal spent an estimated 3.9 per cent of GDP on social protection in FY 2019 (Pandey et al., 2021).

Given the substantial expenditure, it is essential to analyse whether the existing set of programmes address the risks and vulnerabilities that people face and whether they are adequate and effective in mitigating the risks and promoting their resilience. The second part of the paper reviews whether these expenditures achieve the intended outcomes to identify gaps and challenges in social assistance in Nepal. Chapters 3.1 and 3.2 refer to all social protection programmes, 3.3 and 3.4 delve deeper on social assistance. The paper shows that the existing programmes do not address all risks and vulnerabilities comprehensively or adequately by design. Few programmes explicitly target the poor or aim to reduce poverty. Coverage gaps also remain among those eligible for the programmes. Current spending is skewed toward the elderly with relatively little spent on early years. Besides, the programme outcomes could be improved if programmes were designed with flexibility to be scaled up in response to shocks and leveraged to promote economic inclusion. Finally, the increasing expenditure trend can raise questions about fiscal sustainability. The simulations presented in the study suggest that there is fiscal space to introduce the reforms to address some of these challenges.

2. Methods and Materials

The paper uses quantitative data for the expenditure trend analysis and conducts a qualitative assessment of social assistance relying on existing data and literature. The expenditure analysis focuses on the period covering FY 2011 to FY 2020 (allocation data for FY 2020) for national expenditure. The expenditure data was collected mainly from red books across the years from the Ministry of Finance and programme administrative data in some cases.

The assessment of social assistance is anchored in secondary data from various sources including various survey data and macroeconomic projections. Survey data used here include Annual Household Surveys (AHSs), National Living Standards Survey (NLSS), and National Labor Force Survey (NLFS) conducted by the Central Bureau of Statistics, and Household Risk and Vulnerability Survey (HRVS) conducted by the World Bank,[1] and Multi-Indicator Cluster Survey (MICS) 2019 conducted with support from United Nations International Children's Emergency Fund (UNICEF).

The paper presents analysis of expenditure trends, composition of programme expenditure across programmes and their life cycle. It also presents analysis of coverage of social assistance programmes among households across wealth quintiles based on survey data from HRVS 2019 and MICS 2019. The simulations of fiscal implications are based on estimates of coverage covered by the survey data, United Nations (UN) population projections, and macroeconomic projections of GDP and inflation.

Notably, the analysis focuses on pre-COVID-19 expenditures and does not directly reflect the impact of COVID-19. However, the analysis exposes the underlying structural issues in the policy, design, and delivery of social protection that limit the mobilisation of programmes and systems toward shock response in a crisis such as the COVID-19 pandemic.

3. Results and Discussion

3.1 Overview of the social protection programs

Nepal has a wide range of social protection programmes which includes public pensions, cash transfers, cash for work, scholarships, midday meals, and health subsidies. The Social Security Allowance (SSA) is the largest social assistance programme in terms of both number of beneficiaries and expenditure. In FY 2022, it reaches over 3.5 million individuals, with a budget allocation of Nepalese Rupees (NPR) 93 billion. Other key social assistance programmes include scholarships and midday meals implemented under the Ministry of Education, Science, and Technology (MOEST); health schemes under the Ministry of Health and Population (MOHP); and the cash for work through the Prime Minister's Employment Programme (PMEP) under the Ministry of Labor, Employment, and Social Security (MOLESS).[2] Table 1 lists the key sets of programmes.

The smaller social assistance programmes include *Janata Awas Karyakram*, health subsidies including Poor Citizens Medical Treatment Fund (*Bipanna Nagarik Aushadhi Upachar Kosh*), Sanitary Pad Distribution Programme, Social welfare programmes under the Ministry of Women, Children and Senior Citizens (MOWCSC), *Garib Sanga Bisweswor*, public food distribution system, and disaster relief schemes. Nepal has a few labor market programmes as well that promote skills and entrepreneurship. The table below presents the list of key programmes of the Government of Nepal.

3.2 Policy and institutional landscape

Many existing programmes originated during the budget speech of successive governments without a robust legal basis and clear policy direction. More recently, since the promulgation of the new Constitution, Nepal has a robust constitutional and legal basis for social protection. Right to social security, employment, education, health, food, and housing are fundamental rights enshrined in the Constitution. The Constitution also provides space for other fundamental rights reserved for Dalits, women, children, and senior citizens.

1 The Household Risk and Vulnerability Survey (HRVS), a panel survey of 6,000 households in non-metropolitan areas in 2016 and 2018, covered six regular programmes (senior citizen allowance, single women allowance, disability allowance, child grant, safe motherhood programme and public works, and earthquake relief, and other emergency relief).

2 Although it has elements of labor market programmes in its scope, PMEP is considered a social assistance scheme in this report as the current activities have been focused on providing cash for work and subsistence allowance to the unemployed.

Table 1: Key social protection programmes in Nepal

Program	Description
Social Insurance	
Public Sector Pension	Pensions to civil servants, army, police, armed police, and teachers who have completed minimum years of service: 20 years for civil servants, 16 years for the army and police and 20 years for Armed Police Force. Upon death of the beneficiary the spouse receives 50 per cent of the pension for life.
Retirement Gratuity and other benefits	Retirement gratuity to those who have completed at least 5 years of service. Also provided to non-civil servants. Accumulated leave, medical facility, staff facilities, and deceased staff assistance for all public sector employees.
Employees Provident Fund	Mandatory retirement savings scheme for all public sector employees. Other formal sector workers can participate voluntarily. The fund collects 10 per cent of the salary matched by the employer.
Social Security Fund	Contributory schemes for all workers to provide medical, health & maternity benefit, accident & disability benefit, benefit for dependent family members, and old age benefit.
National Health Insurance	Health insurance with coverage up to NPR 100,000 per household, and per individual for those over 70 years of age. The premium is fully subsidised for households identified as poor and individuals over 70 years of age.
Social Assistance	
Social Security Allowances (SSA)	Cash transfers to senior citizens, single women, those with disability, endangered ethnic groups, and children under the age of five (all Dalit children and those in selected 25 districts)
Prime Minister's Employment Programme (PMEP)	Cash for work programme intended to provide a minimum employment guarantee.
Scholarships (15+ schemes)	Scholarship to Dalits, girls, those with disability, conflict affected, martyr's children, freed Kamalari, and other groups
Midday Meals	Midday meal in schools for school-going children in early childhood development (ECD) to Grade 5
Safe Motherhood Programme (Aama Surakshya Karyakram)	Cash incentives to mothers to deliver at health facilities
Labor market programmes	
Youth and Small Entrepreneur Self Employment Fund	The fund provides collateral free loan up to NPR 500,000 for self-employment activities, which should be in commercial agriculture, agro-based industries or service sector, available to all unemployed aged between 18 to 50 years.
Enhanced Vocational Education & Training (EVENT II)	Skills training and access to apprenticeships and job placement

Source: Different Ministries.

The Right to Employment Act 2018 has formed the basis for the new Prime Minister's Employment Programme (PMEP) launched in FY 2019. The Social Security Act 2018 provides a legal basis for the cash transfer programmes that have been in operation since 1995. Finally, the Contribution-Based Social Security Act approved in 2017 is the basis for a new set of contributory schemes including health and maternity benefits, accident insurance, and old age pensions to contributing workers launched in FY 2020.

However, there is no overarching social protection policy framework to bring together the various laws, policies, and programmes to deliver social protection. The various legislations are largely independent of each other and serve to provide legal basis for specific programmes. For example, the right to employment law does not refer to the right to social security law. No national framework exists to ensure that all poor and vulnerable are covered with adequate levels of support. Absence of such a framework also means that there is a lack of coordination at policy making and implementation level which has led to some duplications, particularly in health-related social protection programmes, as well as clear gaps in coverage of the vulnerable. In addition to the national health insurance programme meant to cover all households, the Social Security Fund (SSF) includes medical treatment and health schemes meant to cover all workers. These two schemes overlap in terms of target groups but have different premiums and cover different levels of expenditure: the national health insurance offers coverage of up to NPR 100,000 for a premium of NPR 3,500 for a family of five while the SSF scheme covers expenses up to NPR 100,000 for a contribution of 0.7 per cent of individual workers' salary.[3] Another gap is in terms of limited programmes for the working age poor.

Similarly, the institutional landscape is fragmented. The key programmes are managed by multiple agencies without effective coordination with each other. None of the implementing agencies have mandate for policy formulation across the social protection sector. The SSA are managed by the Department of National Identity and Civil Registration under the Ministry of Home Affairs, the Prime Minister's Employment programme is under the Ministry of Labor, Employment and Social Security, and several other schemes are under ministries of health and education. There is no institutional mechanism to monitor overall benefits and outcomes at the household level. The National Social Protection Framework currently being drafted by the Government of Nepal could form the basis of integrated and effective social protection framework in Nepal.

3.3 National expenditure in social protection

The Government of Nepal spends a substantial and increasing amount on social protection. Nominal expenditure on social protection has grown over fivefold since FY 2010 reaching upto NPR 134.4 billion or 3.9 per cent of GDP and 11 per cent of the total government expenditure in FY 2019. Social assistance expenditure increased from 0.9 per cent of GDP to nearly 1.4 per cent of GDP in the same period. The allocation in FY 2020 was about NPR 189.4 billion, an estimated 4.8 per cent of GDP (Figure 1). Assuming FY 2011 as the base year, real expenditure has also increased by over three times in 10 years period.

The increase in expenditure since FY 2017 has been mainly due to increase in the size of the SSA programme benefits and the increase in the benefit size of public pensions. With the increase of SSA benefits by one-third in FY 2022, the total allocation is estimated to be over NPR 200 billion.

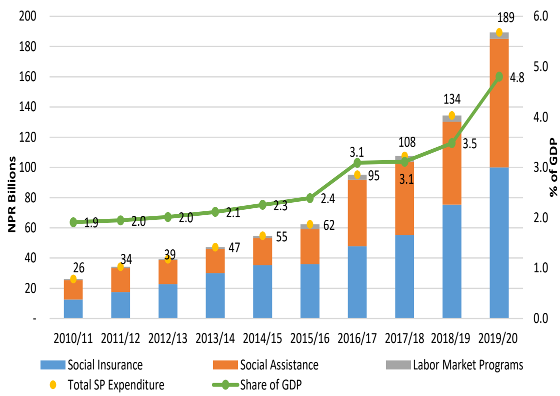

Figure 1: Social Protection Expenditures (Nominal and as Share of GDP) over the Last 10 Years

Source: Red Book, Ministry of Finance (MOF), various years.

The social insurance, composed mainly of public sector pensions, continues to constitute the largest share of social protection spending (56% of the total) followed by social assistance at 41 per cent of expenditure in FY 2019. Labor market spending remains low, accounting for only 3 per cent of the total social protection expenditures in FY 2019 (Figure 2).

3. The total contribution to SSF is 31 per cent which is divided as follows: old-age pensions (28.33 percent); accident and disability (1.40%); dependent family security (0.27%); and medical, health, and maternity (0.7% on medical and 0.3% on maternity).

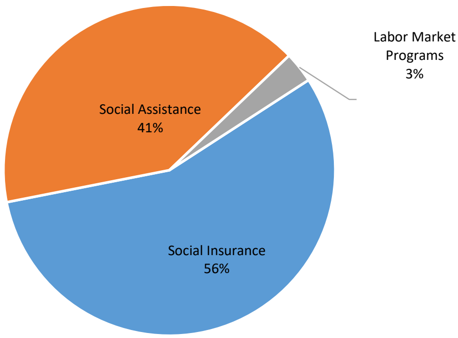

Figure 2: FY19 social protection expenditure by category
Source: Red Book, Ministry of Finance, 2020.

The SSA is the largest social assistance programme with an expenditure of NPR 41.2 billion in FY 2019, which constituted 48 per cent of the total social assistance spending. In FY 2022, SSA is allocated at NPR 93 billion. Figure 3 shows the evolution of key programmes, with the total social assistance expenditure at the top of each column.

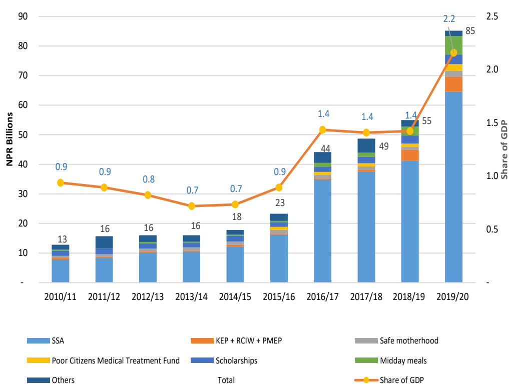

Figure 3: Trend of key social assistance expenditures (Nominal and as Share of GDP) over the last 10 years
Source: Red Book, Ministry of Finance, various years and program reports.

At 1.4 per cent in FY 2019, Nepal spend a higher share of its GDP on social assistance than other countries in South Asia but at par with the average in lower-middle-income countries (1.4% of GDP) and just below the average for all developing countries at 1.5 per cent of GDP (World Bank ASPIRE database) (Figure 4).

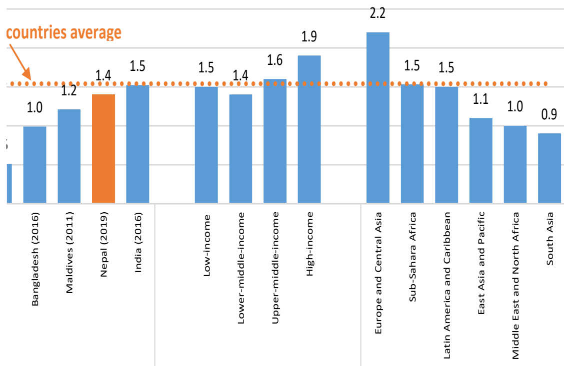

Figure 4: Social assistance expenditure as a share of GDP
Source: World Bank, State of Safety Nets 2018.

3.4 Assessment of social assistance programmes

About one-third of the country's population is estimated to be covered by social protection programmes, with social assistance programmes' beneficiaries constituting around two-thirds of those covered.[4] The government's 15th Periodic Plan (FY 2020–2024) aims to cover 60 per cent of the population with some form of social protection within its five-year period.

Investment in social assistance in Nepal has helped achieve some notable gains. For example, safe motherhood programme is estimated to have led to an increase in the rate of facility delivery by 25.5 per cent points in Terai and 13 per cent points in hills and mountains (Ensor et al., 2017). Similarly, the child grant has helped increase rates of birth registration in districts where it is universal. Birth registration rates in Karnali and Sudurpaschim Province where child grant is universal are 84.4 per cent and 89.1 per cent respectively compared to the national rate of 77.2 per cent (MICS, 2019).

However, challenges remain in addressing all risks and vulnerabilities, in terms of coverage, adequacy, and impact. Existing programmes do not address all risks and vulnerabilities comprehensively or adequately, by design or due to challenges in implementation. This section focuses on analysing whether the main social assistance programmes are in line with existing vulnerabilities, and whether they are commensurate with the issues that they are designed to address.

3.4.1 Addressing poverty

While poverty declined significantly in Nepal in the 2000s, the national headcount poverty rate according to NLSS III (2010–11) was 25 per cent. Likewise, 17.4 per cent of the people are multidimensionally poor (NPC, 2021). In addition to chronic poverty, a large percentage of Nepali households are vulnerable to shocks—natural disasters, health, or economic shocks—which can exacerbate poverty (Walker et al., 2019).

The existing set of social assistance programmes does not effectively target or cover the poor and vulnerable, which limits their impact on poverty and vulnerability reduction. By design, most programmes focus on demographic categories associated with some vulnerabilities—the elderly, children, and so on—rather than the poor. Nepal does not have a cash transfer programme that is targeted to the poor, similar to the Benazir Income Support Programme (BISP) in Pakistan or the *Pantawid Pamilyang Pilipino Program* in the Philippines. In the absence of explicit goals to reduce poverty, there is little conversation about the impact of programmes on poverty. Few programmes explicitly target the economically poor or aim to reduce poverty. These include the PMEP, the flagship cash-for-work programme targeted to the working poor, which is still nascent and is not currently financed at the level required to cover all those who may be eligible for the programme.[5]

Among the cash transfers, the child grant is the only programme which in practice disproportionately covers the poor, largely because it currently covers all Dalit children nationwide and all children in 270 local levels in selected 25 high-poverty districts.

According to HRVS, less than 40 per cent of the poorest asset quintile were covered by social assistance programmes in rural areas in 2018 (Walker et al., 2019) (Figure 5). The Multiple Indicator Cluster Survey (MICS) 2019 suggests an improvement in the estimated coverage of households in the poorest quintiles: poorest quintile (51%) and second poorest quintile (43.6%) (CBS, 2020).

The SSA for the economically poor (SSAEP) which is included in the new Social Security Act 2074 (2018) is yet to be operationalised. The operationalisation of the proposed SSAEP and the expansion of the PMEP could support poor households at scale.

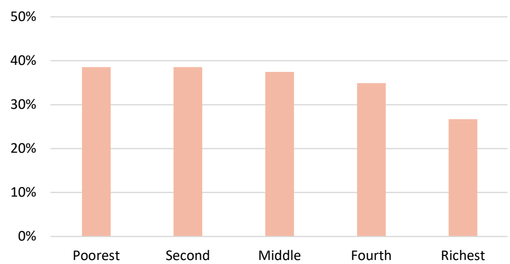

Figure 5: Coverage of social assistance by asset or wealth quintile

Source: HRVS (World Bank, 2019).

Coverage gaps remain among those eligible for existing programmes, mainly due to implementation challenges. Among the SSAs, coverage rates are particularly low

5 The number of people who apply for PMEP greatly exceeds the government's target in the budget. For example, in FY 2021, about 750,000 individuals applied for minimum employment while the government target was to cover 200,000 individuals.

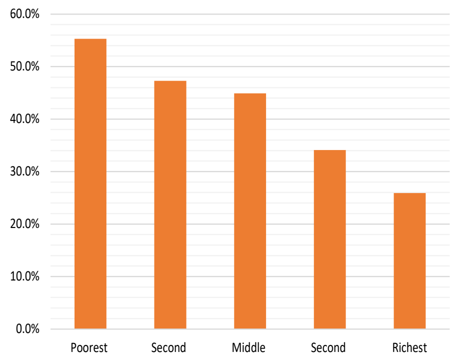

Figure 6: Coverage of social assistance by asset or wealth quintile
Source: MICS 2019 (CBS and UNICEF, 2020).

for the disability grant (estimates of under coverage range from 13 per cent (OPM, 2019) to 47 per cent (HRVS, 2019) as well as the child grant. Coverage of health-related shocks is also not adequate despite the high risks of catastrophic health expenditures due to an illness or injury. As a result, households had to bear 55 per cent of total health spending directly out of pocket in FY 2016 (MOHP, 2018). The national health insurance programme is supposed to eventually cover all households; however, the coverage remained around 16 per cent of households nationwide in 2020 (Health Insurance Board).

3.4.2 Addressing risks across the life cycle

Looking across the lifecycle, there are programmes that nominally address the risks across each stage. However, social assistance spending is heavily skewed towards the elderly, and the limited expenditure on early years and children limit the programmes' impacts on human capital development. Countries with advanced social protection systems typically have programmes centered on children in poor households aimed at promoting human capital. For example, the Pantawid Pamilyang Pilipino Programme in the Philippines provides conditional cash grants to the poorest households with children to improve health, nutrition, and education of the children.

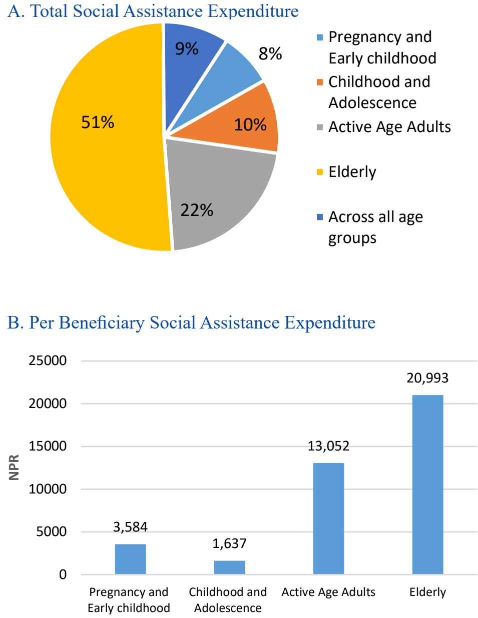

Figure 7: Total and per beneficiary social assistance expenditure by life cycle in FY19 [6]
Source: Estimates based on Red Book, Ministry of Finance, various years and program reports.

In Nepal, over 50 per cent of the social assistance expenditure goes to the elderly who make up less than 20 per cent of the total beneficiaries. This disproportionate focus

6 Programs included (a) pregnancy and early childhood: safe motherhood programme and child grant; (b) childhood and adolescence: midday meals and scholarships; (c) active age adults: higher education scholarships, public works programmes, single women allowance, Garib Sanga Bisweswor programme; (d) old age: senior citizen allowance; and (e) across age groups: endangered ethnicity allowance, disability allowance, poor citizen medical treatment fund, Nepal food corporation, people's housing program, food subsidies, some programmes under the Ministry of Women, Children, and Social Welfare (MOWCSW). Senior citizen allowance in FY 2019 was NPR 2,000. The difference in per capita benefit would be starker in FY 2020 when the senior citizen allowance was increased to NPR 3,000.

on the elderly is mainly because benefits for children are significantly lower than senior citizen allowances. From FY 2022, the child grant benefit will be NPR 532 per month compared to senior citizen allowance which is NPR 4,000 per month (the child grant is also not yet nationwide). Figure 8 shows the evolution of the SSA benefits. Similarly, the scholarship for girls and Dalits for basic education is only NPR 400 for eachyear. These benefits remain low despite the growing consensus about the need to invest in early years for human development outcomes.

delivered COVID-19 relief by expanding existing programmes (Gentilini et al., 2020). Such expansion requires that the programmes are scalable in design.

Crucially, existing social assistance programmes do not have the flexibility in policy and design to be scaled up in response to shocks including national disasters, economic shocks or pandemics (Pandey and Lakhey, 2018). Programmes are designed to address chronic or static vulnerabilities and cannot scale up to respond to shocks.

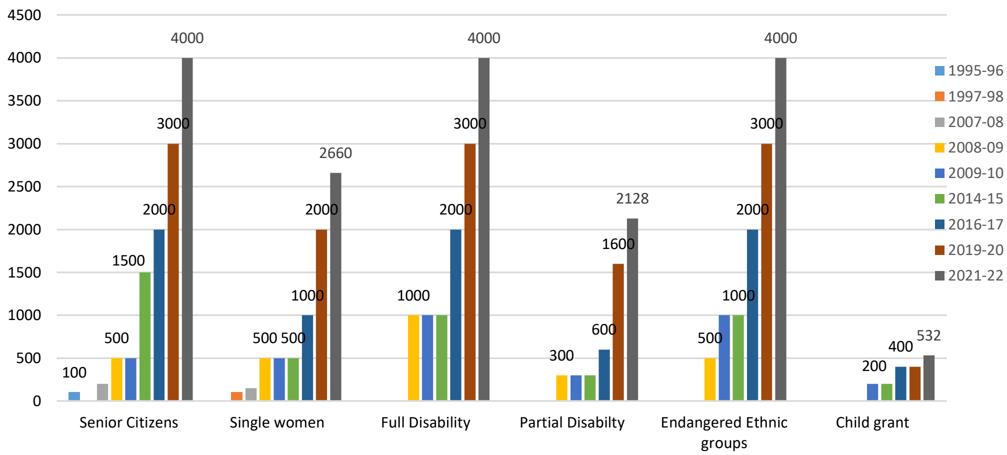

Figure 8: Evolution of monthly SSA benefits to different groups over the years (Nominal)
Source: DoNIDCR.

3.4.3 Responding to shocks

Nepali households are highly exposed to shocks. According to HRVS, one in three households face at least one shock in any given year (Walker et al., 2019). However, shock response in Nepal tends to be ad hoc and implemented in parallel to the social protection programmes (Pandey and Lakhey, 2018). Social protection programmes and delivery systems – beneficiary registry, payment systems, etc. - can be mobilised to deliver response more efficiently (Bowen et al., 2020). Many countries around the world

For example, SSA provides cash transfers aimed to address demographic vulnerability such as age or disability and PMEP is meant to address chronic poverty. Neither of these programmes can expand during times of crisis to cover more beneficiaries or deliver additional benefits. Any response to a shock, like the economic impacts of COVID-19, is complicated by the absence of databases that would allow to quickly identify the most vulnerable, by the inability of existing programmes to temporarily add beneficiaries (or increase support to existing beneficiaries), and by the absence of a financing strategy which would ensure that contingent funds are readily available for these temporary measures.

3.4.4 Promoting human capital and economic inclusion

The Existing programmes focus on singular interventions (for example, providing only cash, service, or training on their own) and are implemented in isolation from each other, which limits their impact. Most vulnerabilities or low human capital outcomes are associated with multiple constraints, and the most effective programmes typically combine various elements—cash transfers plus information sessions on nutrition and care for early childhood development (ECD), training plus seed capital, and so on—to address these multiple constraints. For example, Bolsa Familia in Brazil explicitly specifies three conditions around school attendance, vaccination, and prenatal care for the cash transfer beneficiaries to ensure that cash is complemented with services essential for human capital.

To date, most existing programmes offer only one of the benefits—cash, service, or training. In addition, for early year programmes, interventions are not coordinated with each other to ensure that a child receives all the benefits and services for which s/he is eligible across social protection, health, and education categories. This is evidenced by starkly different coverage rates across programmes. For example, 77.5 per cent of children are now born at health facilities but the birth registration rate of children under 12 months is 59.5 per cent (MICS, 2019). Linking birthing centers to birth registration at wards would help increase birth registration rates.

Finally, current programmes do not focus on economic inclusion in a comprehensive manner, thus limiting their transformational potential. Economic inclusion programmes are a bundle of coordinated, multidimensional interventions which include a combination of cash or in-kind transfers, skills training, coaching, access to finance, and links to market support. The interventions are aimed at supporting individuals, households and communities so they can raise their incomes, build their assets and strengthen their resilience (Andrews et al., 2021). The poor and vulnerable are more likely to be engaged in low-earnings informal jobs or subsistence activities. They typically face multiple constraints to improve their earnings, including low productivity, skills mismatch, limited access to information and the job market, limited assets and financing, and lack of socioemotional skills. Social protection interventions need to focus on addressing these multiple constraints in a comprehensive manner to enhance the income generating capacity of such groups. BRAC's Graduation approach provides such a holistic combination of interventions. The Ultra Poor Graduation programme for women under 50 combines transfer of productive asset such as livestock or partial loan; enterprise development training; financial services, life skills training in a range of topics related to child welfare, health, safety, and women's issues; household coaching on topics like financial management; community mobilisation; and links to health care, over a 24-month period (Andrews et al., 2021: 213).

While there is a range of livelihood programmes in Nepal, they tend to be limited in size and scope and fail to provide a comprehensive package. The existing skills training programmes tend to focus on urban and peri-urban areas and often do not reach the poorest.

3.5 Fiscal implications of social assistance reforms

Social assistance expenditure increased from 0.9 per cent to nearly 1.4 per cent of GDP between FY 2009 and FY 2019, with allocations for FY 2020 estimated at 2.2 per cent of GDP. This is likely to have increased further in FY 2022. This can raise concerns about the fiscal sustainability of these expenditures. Using empirical data, this section analyses how the fiscal burden of existing social assistance programmes could change over the next 10 years under different scenarios.[7] These simulations help assess the fiscal implications of social assistance reforms.

The scenarios presented seek to address two key challenges identified in the above analysis: the inadequate investments in children and the limited coverage of the poor, and limited impact on poverty. The scenarios simulate in turn the expansion of the child grant in benefit size and coverage, the expansion of the PMEP, and the initiation of the SSAEP. The projections cover the five largest programmes in terms of number of beneficiaries and expenditure (namely the SSA, including the SSAEP, scholarships, midday meals, the safe motherhood programme, and PMEP) and assume expenditures of all other programmes remain at their FY 2019 level in real terms. These five programmes constituted about 94 per cent of the total social assistance expenditure in FY 2019. These simulations consider expected demographic changes as well as projections related to GDP growth and inflation. All scenarios presented assume that benefits are indexed to projected inflation.[8]

Overall, while these scenarios are simple estimations, they suggest significant improvements in the impact of social assistance on poverty and vulnerability that can be achieved with moderate increase in expenditures. This is particularly the case if Nepal is able to progressively increase its resource mobilisation rate. Table 2 and Figure 10 summarise the fiscal impact of each proposed change as well as that of all these changes combined. Note that this simplified analysis does not take into account possible overlaps between beneficiaries of the PMEP and SSAEP, suggesting that the figures overestimate the actual cost. It also assumes full coverage of the PMEP and SSAEP and therefore overestimates the cost as large coverage gaps are likely to remain.

In scenario A, which is considered the baseline, each programme's eligibility and coverage rates are assumed to remain the same, and the benefit amount is indexed to inflation. The number of beneficiaries is assumed to grow in line with the population while the unemployment rate is assumed to remain the same. Total expenditure would increase from an estimated NPR 83 billion in 2020 to NPR 106 billion in 2025 and NPR 116 billion in 2030. According to the World Bank's economic projections, as a share of GDP, the cost would decline from 2.10 per cent in 2020 to 1.67 per cent in 2025 and 1.15 per cent in 2030 (World Bank, 2020). The nominal increase is driven by the increment in the number of beneficiaries, particularly senior citizens, as the population ages. The number of children is expected to decrease over this period, thereby reducing the number of beneficiaries eligible for child grant and scholarships (Table 2).

7 Note that these estimates are based on data up to FY 2020 and do not account for the increase in SSA benefits in FY 2022.

8 The estimates presented here are taken from the Pandey et al.,(2021). Please refer to the report for details on the assumptions made as well as the methodology used to estimate the distribution of beneficiaries across quintiles used in this section. Available at: http://documents.worldbank.org/curated/en/917101631781781565/Main-Report-FY11-FY20

Table 2: Scenarios, Assumptions, and Impacts of Simulated Projections

	Scenarios (and Key Assumptions)	Cost as % of GDP			Gaps and Expected Impact
		FY20	FY25	FY30	
A	Baseline: Current programs, constant coverage rates, benefits indexed to inflation (changes in costs are linked to projected demographic changes and GDP growth)	2.10[1]	1.67	1.15	• Inadequate investment in children • Limited coverage of the poor and limited impact on economic poverty
B	B1: A + child grant increased to NPR 1,000 per month for current beneficiaries	+0.10 (2.20)[2]	+0.05 (1.72)	+0.03 (1.18)	• Significant impact on child nutrition • Significant impact on birth registration • Some impact on poverty as households with young children are poorer[3]
	B2: A + nationwide child grant at NPR 1,000 per month	+0.75 (2.85)	+0.48 (2.15)	+0.27 (1.42)	
C	A + expanded PMEP Benefit of NPR 51,700 per year (100 days of work paid at minimum wage of NPR 517 per day); target population of all unemployed individuals in the bottom two quintiles	+0.24 (2.34)	+0.19 (1.86)	+0.13 (1.28)	• Significant impact on economic/income poverty Assuming a household size of 4.6, the annual transfer value covers about 58 per cent of the 2010 poverty line of NPR 19,261 per person.
D	A + SSA for the economically poor (SSAEP) Benefit of NPR 2,000 per month; targeted to all households in the bottom quintile, excluding those that receive senior citizen or single women allowance	+0.40 (2.50)	+0.29 (1.96)	0.18 (1.33)	• Significant impact on economic/income poverty Assuming a household size of 4.6, the annual transfer value covers about 27 per cent of the 2010 poverty line of NPR 19,261 per person.
	Total: A + nationwide child grant, PMEP, and SSAEP	+1.40 (3.50)	+0.96 (2.63)	+0.60 (1.75)	

Source: Pandey et al. (2021).

Scenario B seeks to address the inadequate investment in early years by increasing the child grant from NPR 400 to NPR 1,000 per month and expanding its coverage nationwide. Increasing the benefit for the current beneficiaries adds NPR 5 billion to the cost or 0.10 per cent of GDP in FY 2020 increasing the total to NPR 87 billion in FY 2020 and NPR 109 billion in 2025. Expanding the coverage of child grant nationwide at NPR 1,000 per month would increase the spending by 0.48 per cent of GDP in FY25 and 0.27 per cent in FY30. This would reach over 2.7 million children under five across the country (Figure 8).

Scenario C expands the coverage of the PMEP to cover all the unemployed in the bottom two quintiles. This implies an estimated number of beneficiaries of

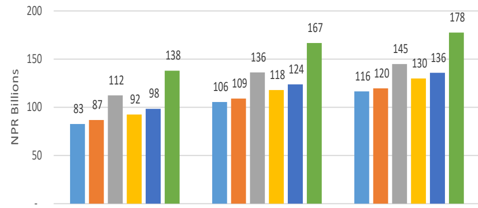

Figure 8: Projected Social Assistance Spending under Different Scenarios, Nominal and as Share of GDP.

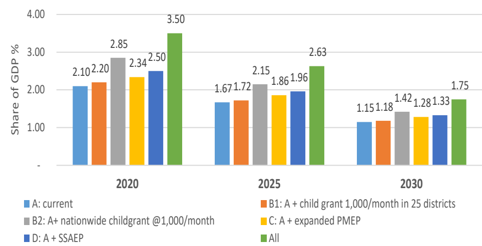

Figure 9: Projected Social Assistance Spending under Different Scenarios, Nominal and as Share of GDP.

Source: Pandey et al.(2021).

[1] The actual FY 2020 allocation is NPR 85 billion, about 2.2 per cent of GDP. The difference of NPR 2.5 billion between the actual and estimated based on beneficiary figures is likely owing to inefficiencies in some of the programs and discrepancies in population estimates across the main data sources: NLFS III and UN population estimates.

[2] Figures in parenthesis represent the total cost of SP including the proposed reform.

[3] Households with more than three children under the age of 6 have nearly three times the poverty rate (46.6%) compared to households with no children (12.3%).

370,000 individuals, a significant increase from the current coverage, aimed at 200,000 individuals in FY 2021. Each beneficiary is expected to work 100 days in a year. This would add NPR 9 billion or 0.24 per cent of GDP in 2020 but only about 0.13 per cent of GDP by 2030.

Scenario D simulates the rollout of the SSAEP, as per the 2018 Social Security Act. We simulate a scenario in which all households in the bottom quintile benefit from the SSAEP, with benefits of NPR 2,000 per month, excluding households who already benefit from senior citizen or single women allowances. This scenario shows that the rollout of the SSAEP would increase nominal expenditure by NPR 16 billion, or about 0.40 per cent of GDP in 2020. By 2030, it would only increase expenditure by 0.18 per cent of GDP.

Overall, introducing all these changes would result in moderate increases in the expenditure. In FY 2020, total social assistance is estimated to cost 2.10 per cent of GDP. Introducing all changes— expansion of the child grant benefit and coverage (scenario B2), the expansion of PMEP (scenario C), and introduction of the SSAEP (scenario D)—would increase the cost by 1.40 per cent to about 3.50 per cent of GDP in FY 2020. Even in this scenario, however, the cost as a share of GDP would decline to 2.63 per cent of GPD by 2025 and to 1.75 per cent by 2030. This suggests that the proposed reforms would not present a major fiscal challenge in the medium term. Focusing some of the programmes on the poorest households would create significant fiscal space, to enable the proposed changes. One way to create fiscal space could be to change the eligibility criteria of some programmes, to ensure that they are even more focused on the poorest and most vulnerable. To illustrate the types of potential savings which would be achieved, we simulate a fictional scenario whereby allowances for senior citizens and single women would be provided only to those in the poorest two quintiles. In such a case, the total SSA cost would decrease by about NPR 45 billion (from NPR 68 billion to NPR 23 billion, see Figure 9 left panel). The difference could easily cover an increase in the child grant to NPR 1,000 per month as well as its nationwide expansion at that benefit level. Total cost would still decrease from NPR 68 billion to NPR 47 billion. Even assuming full coverage of SSA programmes (Figure 9, right panel), the targeting of senior citizen and single women allowances would be more than financing the expansion of the child benefit to NPR 1,000 per month for all children. While targeting benefits would be politically complex and require progressive implementation, the analysis serves to illustrate the possible savings and how these gains can be mobilised to address existing gaps.

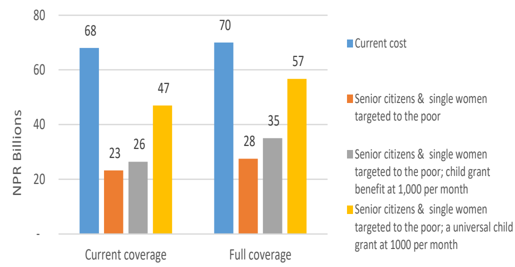

Figure 10: Cost of SSAs under Various Scenarios, FY20.

Source: Pandey et al.,(2021).

4. Conclusion

Nepal has a robust constitutional and legal basis for social protection. There are several legislations and programmes to translate the constitutional rights related to social protection enshrined in the constitution. However, there remains a need for an overarching policy framework to define the broad objectives of social protection to ensure that the various laws, policies, and programmes do not always come together effectively to deliver the objectives.

The Government of Nepal spends a substantial and increasing amount on social protection. Nominal expenditure on social protection has grown over fivefold since FY 2010 reaching NPR 134.4 billion or 3.9 per cent of GDP and 11 per cent of total government expenditure in FY 2019. Of this, 1.4 per cent is spent on social assistance, which is higher than other countries in South Asia but at par with the average in lower-middle-income countries (1.4% of GDP) and just below the average for all developing countries (1.5% of GDP) (World Bank, 2018).

While investment in social assistance has achieved some notable outcomes, challenges remain in addressing the risks and vulnerabilities, in terms of coverage, adequacy, and impact. First, existing programmes do not effectively target or cover the poor and vulnerable, which limits their impact on poverty and vulnerability reduction. Few programmes explicitly target the economically poor or aim to reduce poverty. Operationalising the SSAEP and scaling up the PMEP would help address this. In addition, coverage gaps remain among those eligible for existing programmes. Simulations suggest that these are fiscally feasible.

Second, social assistance spending is heavily skewed toward the elderly, and the limited expenditure on early years and children limit the programmes' impact on human capital development. Reviewing the benefit amounts and coverage of existing programmes, such as the child grant, would help address this. Simulations suggest there is fiscal room to do this with phased expansion across the country.

Third, existing social assistance programmes, such as the PMEP and SSA, do not have the flexibility to be scaled up in response to the mshocks. Fourth, existing programmes focus on singular interventions (for example, providing only cash, service, or training on their own) and are implemented in isolation from each other, which limits their impact. Programmes for children could be coordinated around shared human capital objectives. For example, the child grant could be leveraged to facilitate access to information and training on good practice around early childhood development. It is also critical to coordinate the various programmes dedicated to early years—safe motherhood, birth registration, child grant, and early childhood education and development (ECED)—to ensure every child receives all the benefits s/he is eligible for by referring beneficiaries between programmes.

Finally, current programmes do not focus on economic inclusion in a comprehensive manner, thus limiting their transformational potential. In addition to deploying integrated programmes on a large scale, the government could also systematically integrate or link beneficiaries from existing cash transfer programmes or cash-for-work programmes with other services—skills, entrepreneurships, access to credit, and so on.

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