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Improving the Impact on Human Capital Development through Child Grant in Nepal

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ABSTRACT

The Government of Nepal has made significant achievements in expanding social protection during the last two and half decades. Child grant is one of the entitlement provisioned by the government to enhance nutritional status and overall wellbeing of children which is universal in 25 districts of Nepal. This paper aims to explore how child grant can contribute to human capital development and its rationalization in scaling up throughout the nation. Furthermore, the paper suggests the possible fiscal spaces to leverage resources to expand universal child grant. Investments in early childhood development and nutrition can help break inter-generational 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. Also, the paper urge to increase the investment in children through universal child grant to serve the aging society in future.

1. Introduction

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 (UNICEF & EPRI, 2020). At present, Nepal is facing a youth bulge; with a median age of 24.3 (World Bank, 2021), youths make up 40 per cent 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 (Chalise, 2018). Investing in youth and children is crucial in order to take advantage of demographic dividends and ensure that the country's future workforce is well-equipped to drive socio-economic growth. It is also important to address the burden of aging in Nepal, as the proportion of the population over the age of 60 is expected to increase significantly in the coming years.

Nepal's investment in social protection is about 12 per cent, which is comparatively higher to similar economies. The investment in social protection, particularly social assistance programme, however, is skewed towards the adult population. A recent United Nations Children's Fund' (UNICEF) social protection budget brief reveals that merely six per cent of the total social assistance programme (five schemes) budget goes to children, who comprise 33 per cent of the beneficiaries, whereas 58 per cent of the budget is spent on elderly citizens who constitute only 38 per cent of the beneficiaries (table 1) (UNICEF, 2022). 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.

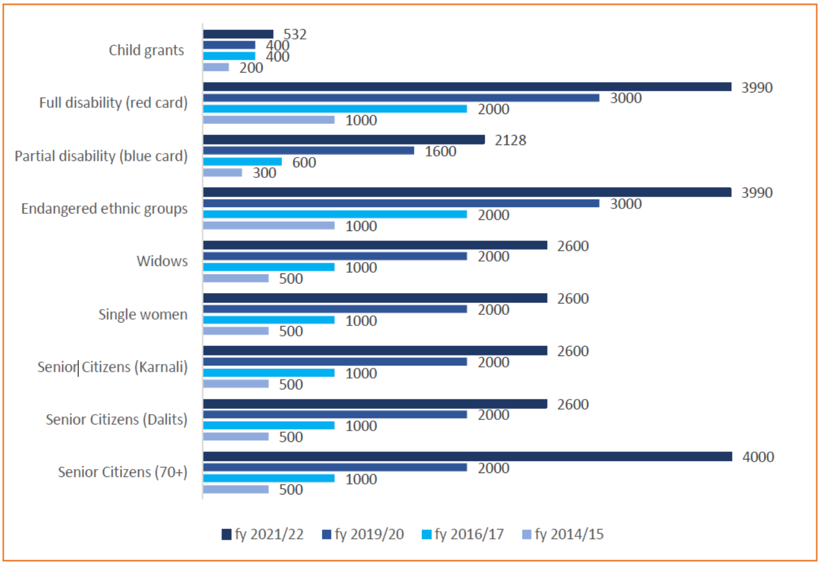

Figure 1: Benefit increment across various SSA schemes.

Source: UNICEF, 2022.

In a similar comparison, Figure 1 reveals that the Government of Nepal increased the old age allowance from Nepalese Rupees (NPR) 500 to 4000 as compared to child grant benefit which was increased from NPR 200 to 532.

Table 1: Trend of increment of old age allowance as compared to child grant benefits (%)

Title of social security allowances	% Beneficiaries	% Expenditure
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%
Total (N)	3.4 million	NPR 96 billion

Source: DoNIDCR (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.

Figure 2 shows the investment forecasting that was done using the current benefit value of NPR 532 for the Universal Child Grant Programme, and NPR 4,000 for the Old Age Pension, inflation is adjusted to five per cent on average; and the population projection was taken from the United Nations Population Fund

(UNFPA) population monograph for Nepal, published in 2014 (CBS, UNFPA) Nepal's social protection budget for the old age population is depicted in the monograph. While the budget allocated for the old age population is in an increasing trend, in contrast, the cost of child grants is decreasing.

When talking on sustainability of social protection and financing chanllanges recipients of the old age pension increasing significantly as the country is moving towards agoing society. Again investment in olad age significantly high NPR 4000 compare to the child grant which is just NPR 532. Financing on child grant comes with high rate of return, low investment and sustainable as the fetility rate os going down.

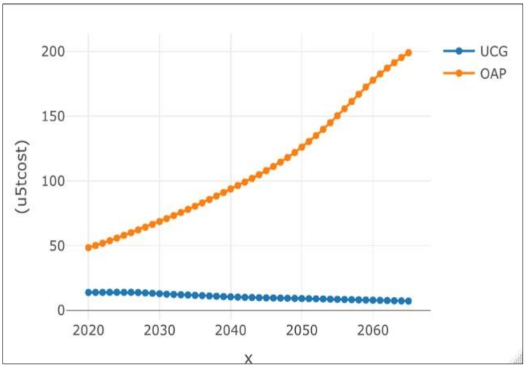

Figure 2: Forecasting estimated investment on the universal child grant (<5) and Old Age Pension (OAP) for next 40 years.

Source: UNICEF (2023), Scaling Up the Child Grant, Improving the Impact on Human Capital Development, Policy Brief 2023.

Social protection programmes create opportunities, empower families to invest in human capital, and break the cycle of intergenerational poverty (World Bank, 2021). 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 (UNDESA, 2013). 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 (Bastagli et al., 2016; De Walque et al., 2017; 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. In this context, this paper aims to assess the investment on children and its role on human capital formation.

2. Methods and Materials

This paper is essentially based on review of literature, including peer reviewed journal articles, published and unpublished reports, policy briefs, and secondary data pertinent to social protection and child grants in Nepal. The secondary data were mostly drawn from the reports published by the Government of Nepal, UN agencies, World Bank and other development partners. Critical review of existing policies and programmes of the government on social protection, especially child grants and their impacts to human capital development were carried out. Furthermore, the possible fiscal spaces were explored to leverage the resources for scaling up universal child grant in Nepal.

3. Results and Discussion

3.1 Investment in children for improved human development

High levels of unemployment, underemployment, and low income prevent families from investing in their children's development, thus hindering economic growth and social cohesion. Because of this, Nepal could be at a risk of falling behind in the global market (World Bank, 2020). 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 long 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 per cent 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 (World Bank, 2018). These disadvantages can follow children into adulthood and affect their future. It is therefore important for Nepal to increase investment in youth and children to minimise the impact of poverty on future generations and develop a quality human resource.

The Child Grant Programme, in early years in South Africa and Indonesia has consistently demonstrated positive long-term effects on families with young children (World Bank, 2018). 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 results in positive outcomes for children and their families. Malnutrition among children has decreased significantly, which is primarily attributed to the Child Grant Programme (MoHP, 2022).

A study by UNICEF found that if children in Nepal under the age of 17 were to receive a small monthly allowance starting from under the age of five and increasing over time, the poverty rate could be reduced by 16.8 per cent at a cost of less than 0.7 per cent of the Gross Domestic Product (GDP) per year (UNICEF, 2021). Moreover, the evaluation of Child Grant Programme conducted in 2020 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 have received the grant. The mothers were found to have increased mobility and exercised their agency to make their household and personal decisions (UNICEF 2020).

3.2 An instrument to achieve universal birth registration

The early Impact Evaluation of the child grant shows that the Child Grant Programme, which provides financial assistance to families with children, has had positive impacts on the recipients and its family. It has significantly contributed in increasing birth registration rates and enabled families to afford basic necessities like food and clothing (UNICEF 2020) .. The programme has also reduced the likelihood of child labour among recipients and their siblings. However, currently, only about 46 per cent of children under the age of five and six per cent of all children in the country have been receiving the grant (UNICEF, 2016) (Figure 3).

During crisis, communities and people become vulnerable to different kinds of

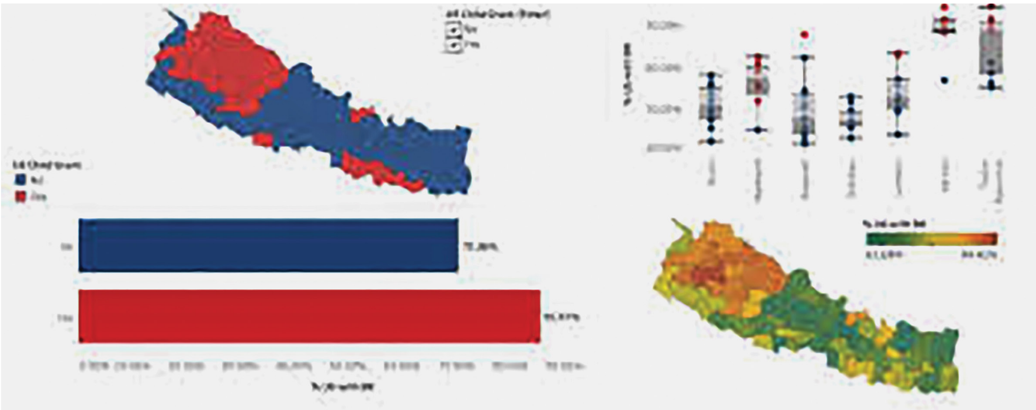

Figure 3: Districts with child grant have significantly higher birth registration.
Source: CBS, 2021 (https://cbs.gov.np).

situations. The economic vulnerability caused by the COVID-19 pandemic saw significant fall in people's living standard. Universal schemes like the Child Grant Programme helps to provide emergency response during crisis by acting as an economic stimulus and offering everyone a regular and predictable income to sustain their well-being (Kidds & Sibun, 2020).

3.3 Fulfillment of international and national commitments

Expansion of the Child Grant Programme is not only economically, socially, and politically imperative but also important in terms of fulfilling the 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 (UNICEF, 2016).

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 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 also provides a bundle of rights to children, including the rights to a dignified life, appropriate care, nutrition, and free basic health services (Niti Foundation, 2019). The Act assigns primary responsibility of fulfilling these rights to parents and guardians and the responsibility of providing a conducive environment to the state. Additionally, in the 15th Five Year Plan, the Government of Nepal made a commitment to expand and strengthen social security programmes including the Child Grant

Programme nationwide, by expanding the scope of social security tax and contribution-based social security system (UNICEF, 2016). The Government aims to expand the social security programme from 17 per cent of the population in FY 2018/19 to 60 per cent by the end of 2024. It also intends to increase the share of social security expenditure from 11.7 per cent to 13.7 per cent in the national budget (UNICEF, 2016).

3.4 Fiscal space and financing universal child grant in Nepal

Countries across the world are facing the brunt of global financial crisis and Nepal is not an exception. The nation's economic condition is continually deteriorating. The revenue generated by the government is hardly enough to meet the recurrent expenditures. 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 form 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 per cent 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 rupees.

(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. Altogether 22 per cent children (21,81,519) are multi dimensionally poor in Nepal and could benefit from the Child Grant Programme (NPC, 2021)

(iii) The third approach to finance the universal Child Grant Programme is by imposing a minimum additional tax on schools running under the Company Act 2006. According to the annual report of the Department of Education for FY 2020/21, there were 3,988 schools operating under the Company Act 2006 in Nepal. Imposing a minimum additional tax on these schools could generate additional revenue that could be utilised to finance the Child Grant Programme.

(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.

4. 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 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 five per cent of its social protection budget on children who make up 34 per cent of the country's population UNICEF & EPRI. (2020). 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 prioritise 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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