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Why a universal Child Grant makes sense in Nepal: a four-step analysis

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Why a *universal* Child Grant makes sense in Nepal: A four-step analysis

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Abstract

Whether cash transfers should be poverty targeted or universal within certain social categories remains a hotly debated topic. Recent plans to expand Nepal's Child Grant programme brought this question sharply into focus. Using available secondary data, this article presents a four-step analysis that examines the costs and benefits of different approaches. Given the country's poverty profile, the theoretical results of different targeting models, government capacity and overall costs, a universal (age-cohort targeted) approach achieves the best outcomes for children.

Whether cash transfers should be poverty targeted or universal within certain social categories remains a hotly debated topic.[1] Recent plans to expand Nepal's child grant programme brought this question sharply into focus. The Child Grant – an unconditional cash transfer – was introduced in Nepal in 2009 to support better nutrition for children under 5 years of age. During its first 6 years, the Child Grant was limited to all households in the geographically remote *Karnali* region and to poor Dalit households in the rest of the country. In 2016, the Government took the decision to initiate expansion of the programme nationwide. Targeting was one of the central questions to be addressed. Here, I make the argument that a universal rather than a poverty-targeted approach will achieve better outcomes for children and is affordable.[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 the misidentification of those who are poor; complex and expensive implementation; reduced incentives to work; and the creation of social and political tensions between those who qualify and those who do not (Devereux, 2016; Slater and Farrington, 2009). Universal approaches, on the contrary, are by definition more inclusive and are less demanding to implement – an important consideration in countries with widespread poverty and limited administrative capacity. In reality, most social protection systems – and many individual programmes including Nepal's Child Grant – utilise a combination of targeting approaches.

Which targeting approach(es) to use should primarily be an empirical question about which is the most effective (in terms of outcomes) and feasible (in terms of implementation and cost) to achieve the programme objectives. When data are limited, assessing the benefits and costs of different approaches can be done in four steps: first, understand the country poverty profile; second, using available datasets, model the theoretical targeting outcomes; third, review any existing empirical evidence; and fourth, calculate the total cost.

Poverty and targeting

In Nepal, around 25% of the population live under the official poverty line with an even greater number of near poor. Under-fives experience an even higher level and greater depth of poverty. Moreover, nearly 80% of under-fives live in a household with per capita consumption of less than NRs 40,000 (US$374) (Mathers, 2016). Although double the official per capita poverty line of NRs 19,261, this is far from being economically secure.[3] In this context, the 'leakage' of benefits to well-off households – one of the problems that targeting aims to address – is of less concern.

What do different targeting approaches achieve in theory?

Table 1 shows the exclusion and inclusion errors, benchmarked against the national poverty line, under universal, caste- and poverty-based targeting designs and assuming perfect implementation. Logically, a universal Child Grant results in zero exclusion of poor under-fives, compared with an exclusion error of more than seven in every 10 poor children for both the Dalit option (72%) and the simple proxy means test (PMT) (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.

Inclusion errors (grant recipients who are 'non-poor') are more comparable across the different approaches. All three targeting options are slightly regressive with more than 50% 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, it has been shown that the majority of these non-poor under-fives are in fact 'near-poor' and economically insecure.

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

Child Grant targeting design	Percentage of poor under-fives excluded	Percentage of under-fives included who are non-poor
Universal	0	64
Dalit	72	52
Simple PMT	71	67

Data source: Nepal Living Standards Survey (NLSS), 2010.
PMT: proxy means test.

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 pp reductions in the poverty rate, respectively. The simple PMT performs worst, with a 4.9 pp reduction.

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 results in unreasonably high benefit levels for a small number of recipients and is unlikely to occur in practice. The universal option also 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.

Table 2. Poverty reduction impacts under-fives under different targeting designs.

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

Data source: Nepal Living Standards Survey (NLSS), 2010.
PMT: proxy means test.
Significance of text in Italics is to distinguish the poverty rates from the pp change in poverty rates.

How does targeting work in practice in Nepal?

The previous analysis assumed that no additional exclusion and inclusion errors result from poor implementation and that the targeting approach incurs 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 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 (Hagen-Zanker and Mallett, 2016).

Implementing a more complex PMT is even more challenging in Nepal. Data collected for this purpose in 25 districts remained contested and unused for programming several years later.[6] Moreover, in a pilot cash transfer project in two districts that employed a PMT, the financial cost of targeting was estimated at 22% of total project costs (Acharya et al., 2010), considerably more than the average of 4% estimated for programmes in middle-income countries (Slater and 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 and Wylde, 2011). International experience supports this analysis. In low-income countries, means-tested and PMT-targeted programmes have been shown to perform no better than universal child grants in transferring resources to poor households, despite being specifically designed to do so (Coady et al., 2004).[7]

Geographic targeting can provide a useful option when there are specific problems to be addressed, such as food insecurity, 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 of or absolute number of poor or vulnerable households.

What is the financial cost of a universal Child Grant?

Assuming an incremental expansion to reach national coverage within 10 years, the cost of a universal Child Grant for under-fives at current benefit levels is estimated to be NRs 14.2 billion (US$117 million) in 2025 (Mathers and Mshvidobadze, 2016).[8] Accounting for an inflation-indexed increase in benefit levels after 5 years will result in a total budget of NRs 21.2 billion (US$175 million). Once national coverage has been reached, the overall cost is projected to decline due to falling fertility rates. While these sums are certainly not small, they are affordable, representing between 0.25% and 0.38% of gross domestic product (GDP), depending on the scenario. Within the context of the 2016 national budget, an immediate nationwide expansion would see the Child Grant's share of the budget grow from 0.2% to 1.3%. Social security as a whole would grow to 10.2% – still well within the Government's own target under the Sustainable Development Goals to achieve 15% of total expenditure on social protection by 2030.

Conclusion

When deciding the most appropriate targeting approach for a particular policy, it is important to use all available evidence to assess the costs and benefits in the specific context. The four-step approach presented here provides a rounded and logical analysis for policy makers and is feasible in most developing countries considering data availability. In the case of Nepal's Child Grant, the evidence suggests that a poverty-targeted approach will be practically very difficult and costly, as a share of programme resources, to implement and will result in an unacceptably high level of exclusion of the poor, including the poorest. On the other hand, a universal approach is inclusive, locally acceptable and affordable.

Notes

1. 'Universal' is sometimes used to refer to blanket coverage of the entire population (a universal benefit or basic income). Here, as commonly understood, it refers to benefits that are available to all within a defined social category regardless of income status.

2. This article presents analysis that was produced as part of UNICEF's technical support to the Government of Nepal for the Child Grant expansion strategy in 2016.

3. The poverty line is based on the cost of basic needs (CBN) approach and constitutes (a) a food basket adequate to meet minimum dietary requirements and (b) a non-food item basket based on the actual average non-food item consumption of borderline food insecure households. As such it represents the bare minimum for survival rather than the resources required for an acceptable standard of living.

4. Caste-based targeting refers to the selection of Dalit households, an historically oppressed group at the bottom of the Hindu caste system. The simple proxy means test (PMT) that is applicable to the Dalit Child Grant requires that households do not own their own house, or have less than a certain area of farmable land, or can only produce adequate food for less than 3 months of the year.

5. 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.

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

7. World 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.

8. International Labour Organization (ILO) undertook a costing exercise when the Child Grant was first under consideration, coming to similar results regarding its cost and affordability (see ILO, 2008).

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Author biography

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