# The Role of Cash Transfers in Post-Conflict Nepal

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# Background and Acknowledgements

Evidence on how cash transfers can reduce poverty remains a hot topic in both development and relief circles. Some development agencies have put cash transfers at the centre of their social protection strategies. However, cash transfers are far from a panacea, and questions around the appropriateness and feasibility of cash transfers in different contexts are important and urgent.

This paper is one of a series of outputs from ODI's research study (2006–09) "Cash Transfers and their Role in Social Protection". The study aims to compare cash with other forms of transfers, identifying where cash transfers may be preferable, the preconditions for cash transfers to work well and how they may best be targeted and sequenced with other initiatives. The study explores a number of issues of interest to donors and governments, including which forms of targeting and delivery mechanisms are most appropriate. This project is co-funded by the Swiss Agency for Development and Cooperation (SDC) and the UK Department for International Development (DFID).

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The views presented in this paper are those of the authors. Any errors are our own.



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## Acronyms

| | |
|---|---|
| ADB | Asian Development Bank |
| CA | Constituent Assembly |
| CPN-M | Communist Party of Nepal-Maoist |
| DDC | District Development Committee |
| DFID | Department for International Development |
| EFA | Education for All |
| GDP | Gross Domestic Product |
| IDP | Internally Displaced Person |
| ILO | International Labour Organization |
| LPC | Local Peace Committee |
| MJF | Madhesi Janaadhikaar Forum |
| MLD | Ministry of Local Development |
| MOPR | Ministry of Peace and Reconstruction |
| NC | Nepali Congress |
| NEPAN | Nepal Participatory Action Network |
| NDSP | National Development Strategy Paper |
| NFDIN | Nepal Foundation for Indigenous Nationalities |
| NPTF | Nepal Peace Trust Fund |
| PPP | Purchasing Power of Parity |
| TYIP | Three Year Interim Plan |
| UML | Unified Marxist-Leninist |
| UNMIN | United Nations Mission in Nepal |
| VDC | Village Development Committee |
| WFP | World Food Program |

## Glossary

| | |
|---|---|
| **Cash Transfer** | Money distributed to individuals and households. |
| **Categorical Targeting** | Selection of programme beneficiaries based on individual, household or demographic characteristics or assets, e.g. age, disability, landlessness. |
| **Conditional Cash Transfer** | Cash distributed to individuals or households on condition that these undertake specified activities, e.g. that children attend school or mothers attend health centres for child birth |
| **Unconditional Cash Transfer** | Cash transferred to individuals and/or households without conditions or requirements. |

## Executive Summary

Nepal is in the midst of a transformation process: the end of the eleven year conflict in 2006 has given way to the end of the monarchy, the development of a new Constitution, and a democratically elected government which emphasises an inclusive Nepali society. However, the peace process has been slow, marred by in-fighting among the political parties, a weak law and order situation, and poor information management, all of which has stood in the way of the faster rehabilitation of the victims of the conflict so far. Recent changes in the leadership of the coalition government have meant political uncertainty and further delays to the peace process and national development of the country.

Whilst poverty dropped a staggering 10 per cent during the conflict (from 41.8 per cent in 1995/6 to 30.8 per cent in 2003/4, mainly as a result of increased remittances) the reduction in poverty has not been even. During this period inequality rose (the Gini index rose from 34.2 per cent to 41.4 per cent), with the majority of the poor continuing to live in rural areas, often in geographically difficult terrain, with limited livelihood opportunities outside of the agricultural sector and limited access to quality basic services. The majority are also disproportionately socially excluded and marginalised groups, made up of the diverse ethnic and indigenous population.

As Nepal moves towards a post-conflict and democratic society, one based on inclusion and economic growth, social protection is taking on an increasingly important role. Whilst social protection as a concept is relatively new in the country, social protection programmes are not – over the years Nepal has implemented a number of cash, food and in-kind transfers, as well as insurance, subsidies and public works programmes.

Cash transfers have been a popular form of social protection programming by the government, and a social security scheme has been implemented since the mid-1990s, targeting the elderly, widowed and disabled. More recently the expansion of the scheme – both in terms of coverage by reducing the qualifying age and including marginalised families, as well as increasing the value of the transfer – appear to reflect the government's increasing commitment to a more inclusive society. The specific role that cash transfers will play within the broader social protection approach as it is developed however is still unclear. Indeed, it remains a challenge for the Government to position and integrate ideas and concepts of social protection for vulnerability and poverty reduction within the context of economic growth and private sector development on the one hand, and peace building on the other.

An examination of existing (and proposed) cash transfer programmes in the country points to a number of key findings relevant to the broader social protection debate. First, the design of cash transfer programmes and implementation problems have led to a minimal impact on poverty reduction so far. Low coverage of poor beneficiaries and low levels of benefits mean that the majority of the poor are excluded from social assistance benefits and the level of benefit is low relative to income per capita. Furthermore, implementation constraints, such as low institutional capacity and funding bottlenecks, have led to irregular and unpredictable delivery of cash transfers, exclusion errors and lower benefit levels.

Second, whilst there have been limited poverty reduction impacts, the social security scheme is reported to have important social impacts. Reports suggest improved family relations for beneficiaries as well as indicative implications for notions of citizenship.

Third, investing in the supply side of infrastructure, services and programmes is vital when increasing the demand through cash transfers. On the one hand there has been a concern that not enough attention has been given to the functioning of markets in Nepal so far, on the other hand, the health-focused maternity incentive scheme provides a good practice example of creating policy, implementation and budgetary synergies between demand-side and supply-side interventions to improve the programme's effectiveness.

Fourth, the dynamic political context in Nepal offers both opportunities and challenges for cash transfer programming in the country. The opportunities arise through an increased recognition of economic, social and cultural rights in the Interim Constitution (2007) since the end of the conflict. Furthermore, the recent increased budg*et* allocations on social protection initiatives appear to provide a positive context for the continued support for cash transfer programming in Nepal. On the other hand, the challenges include changes in the government and a slow peace process. Continued security concerns and polarization among Nepal's various political and ideological communities present a difficult and challenging political environment to further build and sustain long-term commitment towards pro-poor cash transfer policies, as well as building the state-citizen contract.

Finally, it will be important that the future role of cash transfers is contextualised within Nepal's other major priorities of inclusive growth, employment generation for the poor and the peace process.

# 1. Introduction

This report is part of ODI's three year research programme (2006-2009) on "The role of cash transfers in Social Protection" which aims to address urgent research questions about the feasibility, appropriateness, effectiveness and impact of cash transfers to inform and feed into ongoing social protection implementation.

Cash transfers are not new in Nepal and have been supported by the Government and international agencies in recent years. The Government of Nepal has implemented a variety of cash transfers since the mid-1990s including a social pension and allowances to widows and the disabled, education stipends, and cash-based health care incentives. Since the Peace Agreement was signed in 2006 a number of these programmes are set for expansion, and new cash based programmes have been introduced by both the government and international agencies.

The recent move towards peace, stability and democratisation in the country raises some important questions about the role of cash transfers in pro-poor policy in this context. The aim of this paper is to examine the implications of scaling up existing cash transfer programmes in Nepal and the implementation of new cash transfer programmes. In particular the paper looks at the role of cash transfers for addressing poverty, vulnerability and exclusion in the context of an increasing drive in the post-conflict era to promote social cohesion, inclusion and pro-poor growth.

## Conceptual framework

Conceptually, social protection can be defined as encompassing a sub-set of public actions, carried out by the state or privately, that address risk, vulnerability and chronic poverty[1]. Cash transfers are referred to here as a component of social protection in the form of social assistance and refer to cash grants that are transferred to individual households.

Slater *et al*.'s (2008) conceptual framework for cash transfers identifies three areas relating to cash transfer policy and programming. First, *institutions, politics and governance.* They argue that there are two key issues here: i) the overall political feasibility of cash transfers which depends on, for example, the type and extent of political commitment to poverty reduction; and ii) the availability of resources for social transfers. Second, *capacity and implementation*. This focuses on the technical and infrastructural capacity for implementation, both by government and stakeholders. The third area is *economic and social impacts.* Overlapping all three areas includes the political acceptability of cash transfers on a more day-to-day basis which depends on the size and cost of administrative effort to implement cash transfers as well as the perceptions of the electorate where prejudices against perceived 'handouts' may mean that cash transfers in return for e.g. work or other forms of conditions are more acceptable. Importantly beneficiary "voice" and citizenship are also overlapping issues. Voice refers to the way that programmes, schemes and projects are designed and delivered in ways that promote the ability of intended beneficiaries to recognise and claim their entitlements. Citizenship refers to the way the state utilises cash transfer programmes as a means of strengthening notions of citizenship and building a state-citizen contract.

## Methodology

This paper is based on three key research components: i) mapping of existing social protection and cash transfer programmes in Nepal; ii) analysis of institutional attitudes towards cash transfers

[1] We recognise that there a number of other forms of cash transfers, including cash-for-work, disaster-related cash grants, and cash grants given in the context of post-conflict reconstruction and rehabilitation. However, this project focuses on cash transfers in the development context rather than short-term emergency related or post-conflict compensation. Furthermore, we utilise a conceptual distinction between direct cash transfers and cash transfers in exchange for work, therefore although public works programmes are part of social protection, we do not explicitly examine cash-for-work programmes in this study.

in Nepal; and iii) analysis of institutional capacity in Nepal. The research is based on a combination of primary and secondary data collection and analysis. Interviews were held with a number of Government Ministries, donors, UN agencies and NGOs. Published and grey literature on poverty and vulnerability as well as various social protection programme and policy documents were reviewed.

The research was conducted with key stakeholders in Kathmandu in a limited research period. It is therefore recognised that the report contains some limitations especially in the analysis of political and institutional attitudes and perceptions of cash transfers which was compounded by the rapid contextual changes in the political landscape at the time of the research.[2]

The exchange rate of NRs 78.05 to US$1 has been used for currency conversions.

**Structure of report**

The following chapter presents an overview of the socio-political and economic context in Nepal. Chapter three examines the key issues emerging from current and recent cash-transfer programmes, focusing on programme design, programme delivery and implementation capacity, affordability, and institutional coordination. Chapter four discusses institutional and political attitudes towards cash transfers which affect the acceptability and political feasibility of cash transfer programming. Chapter five concludes.

[2] This research was carried out between 25th May and 5th June 2009. The Unified Communist Party of Nepal – Maoists (UCPN – M) suddenly withdrew from the coalition Government on 4th May. A new coalition government led by the United Marxist Leninist (UML) party was formed on 24th May. As a result of these unexpected developments, the bi-annual coordination meeting between the Government and Donors operational in Nepal, the Nepal Development Forum (NDF), initially planned for 12th - 14th May 2009, was postponed. As the report was being finalised the 2009/10 budget was released. Due to time limitations, however, it has not been possible to include an analysis on the new cash transfer commitments that it makes (such as the Child Protection Grant) in this report.

## 2. Political and socio-economic context

Nepal's population is currently 29.5 million, almost a half of which is under 35 years of age. The population is estimated to increase to 35 million by 2021. In 2003, 31 per cent of the population, almost 9 million people, were living in poverty.

**Political Context**

In 1996, the Communist part of Nepal-Maoist (CPN-M)[3] launched a 'People's War" against the State during which some 14,000 people died. In 2005, a royal coup catalysed an alliance of the political parties and the Maoists against the monarchy. A formal peace accord between the Seven Party Alliance and the CPN-M was signed on 21 November 2006 ending eleven years of conflict in Nepal. An Interim Constitution came into force on 15 January 2007, which was amended at the end 2007 in order to take into account growing demands among Nepal's minority caste and ethnic groups for a federal state structure[4]. Elections for a Constituent Assembly (CA) were held in April 2008, to form a Government and draft a Constitution. The first meeting of the CA on 29 May 2008 abolished the monarchy.

The elections delivered a clear and, to many, surprising result. The Communist Party of Nepal (Maoist, CPN-M) emerged as the largest party by a wide margin, winning more than one-third of CA seats. The largest established parties, the Nepali Congress (NC) and Communist Party of Nepal (Unified Marxist-Leninist, UML), as well as the Madhesi Janaadhikaar Forum (MJF), the party representative of Nepal's excluded Madhesis (see Box 2 for details) formed in 2007, won the next largest number of seats. Lack of clarity about parliamentary procedures under a new political regime – on which the Interim Constitution itself provided little guidance – delayed the formation of a Maoist-led Government by several months. Following the election of the first President of Nepal in July 2008, Pushpa Kamal Dahal (Prachanda), the chairman of the Maoist party, was elected as the new Prime Minister in August 2008. The major coalition partners in the new Government included the UML and MJF parties.

The Maoist-led Government remained in office until the first week of May 2009. During its nine month term in office, and particularly from the end of 2008 onwards, ideological differences among the major parties increasingly stalled parliamentary proceedings reflecting a fissure in the all-party consensus that had spearheaded the official end of the conflict in November 2006. The Maoists began to lose favour with the other parties primarily because of their failure to live up to the commitments they had made to the peace process, particularly on the issue of returning property seized during the conflict and improving the country's security situation. Disagreement on the future of Maoist ex-combatants also meant that the ruling party – in effect – remained an "armed" force. Events came to head at the beginning of May 2009 when Prime Minister Dahal fired the Head of Nepal's Army against the wishes of the major coalition partners (required under the Interim Constitution), a move that was subsequently rejected by the President. This prompted the Prime Minister's resignation and the withdrawal of the Maoists from the Government. By the end of May 2009, more than 50 percent of the parties in the CA came together to form a new Government – this time led by the UML party and without the Maoists - under the leadership of Prime Minister Madhav Nepal.

As part of the peace accord, the Government committed itself to providing compensation payments to families of those killed as a result of the conflict, assisting an estimated 52,000 internally

[3] The Communist Party of Nepal – Maoists (CPN-M) renamed itself the Unified Communist Party of Nepal (UCPN-M) in January 2009.

[4] This demand was put forward most strongly by Nepal's Madhesi community. Madhesis, while Nepali, retain close linguistic, religious and cultural ties with communities in parts of India. The Madhesh (meaning 'country in the middle') refers to areas of the Nepali outer Tarai along the border with India

Displaced People (IDPs) to return home and returning private and public property seized during the conflict to the individuals and authorities[5] concerned. Primary responsibility for the implementation of these commitments was given to the Ministry of Peace and Reconstruction (MOPR), which was established in 2007, together with the Ministry of Finance as the coordinator of the Nepal Peace Trust Fund (NPTF), which was also set up in 2007. A recent needs assessment carried out for the NPTF shows an overall funding requirement of US$ 385.87 million for carrying out critically important peace activities, of which the resource forecast for 2009 is estimated at US$ 127.69 million. In addition, the United Nations has established the UN Peace Fund for Nepal, which is supporting complementary projects that can be implemented by UN agencies. Both the government and donors have felt the need for greater harmonisation of the NPTF and the UN Peace Fund for better results.

However, two years have since passed and progress in the peace process has been slow, primarily as a result of in-fighting among the political parties, weak law and order situation and the absence of record-keeping and documentation of information required to complete rehabilitate and reintegrate the victims of the conflict. Public security is particularly poor in Tarai districts in the Madhesh, large parts of which are suffering from a combination of armed political protest, organized crime and weak policing (International Crisis Group, 2009). Continued instability in these areas has also prevented the effective delivery of basic services and development work (Authors' interviews, 2009).

The new Government has reaffirmed its commitment to complete the peace process as soon as possible. It is most urgent that the Government makes fully operational a series of commissions that are supposed to guide the peace process, including a High Level Peace Commission, a Commission on Disappeared Persons and a Truth and Reconciliation Commission. The most controversial aspect of the peace negotiations, the integration of Maoist combatants into the folds of the Nepali Army, is a process being monitored by the United Nations Mission in Nepal (UNMIN), established in January 2007[6]. Since there has likewise been little progress on this count, UNMIN's mandate has just been extended for a fourth time until the end of January 2010.The Interim Constitution also calls for a parallel approach of streamlining and democratisation of the Nepal Army as part of wider security sector reforms, on which progress is pending. At the same time, the Government needs to discharge and rehabilitate the non-qualified Maoist combatants as verified by UNMIN. Activities targeted at strengthening the Nepal Police and the Armed Police Force and reconstruction of damaged security posts are also required in order to create a sense of safety and security among people living outside the capital city.

In view of the social and economic consequences of continued instability and insecurity, the UN launched a $115 million humanitarian transition appeal at the beginning of 2009 to address weakened social safety nets and the lack of basic services over the next twelve months, a follow-up initiative to a similar one in 2008 (UN Nepal Information Platform). This assistance will be channelled through an existing funding mechanism, the UN Peace Fund for Nepal, which is managed by representatives from the UN, the government and the donor community[7].For its part, the Government has reaffirmed its commitment to operationalise Local Peace Committees (LPCs)

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[5] An estimated 1,000 people disappeared during the conflict and a large number of people were injured, disabled, orphaned, and widowed.

[6] Over 19,000 eligible Maoists have been placed in seven cantonments following the Peace Agreement, with commitment by the major political parties to make regular allowance payments as transitional safety net payments. The eligible Maoists were registered and verified by a two stage process involving the two parties to the conflict and UNMIN, which conducted detailed verification of each potential beneficiary.

[7] The Nepal Humanitarian Transition Appeal for 2009 plans to focus on urgent, on-going support needed within the next twelve months to save lives and protect the vulnerable, particularly food assistance. It includes 69 projects submitted by 18 international NGOs, seven national NGOs and 10 UN agencies and affiliated organisations.

as soon as possible in all 75 districts of Nepal. The LPCs are expected to play a significant role in formulating, implementing and monitoring peace and security activities at local levels as well as facilitate the implementation of the Government's National Policy on Internally Displaced Persons (Authors' interviews, 2009)[8].

Alongside the peace process, the Interim Constitution of Nepal mandates the CA to draw up a new Constitution by 28 May 2010. The CA is an unusually inclusive body which is more representative of Nepal's caste, ethnic, religious and regional diversity than any past parliament. Working through a series of 10 thematic committees, it had initially planned to produce a first full draft of the Constitution for public circulation by September 2009 though this time frame has had to be postponed in view of recent political developments. In the meantime, however, new legislation that seeks to redress historic economic and social inequalities is already coming into effect: a wider framework for equitable development is outlined in the Interim Constitution 2007.[9]

**Box 1: Responsibilities of the State as defined by Nepal's Interim Constitution 2007**

- Restructure the State to eliminate all forms of discrimination
- Ensure the proportional inclusion of under-represented groups in the organs of the State
- Formulate a common minimum programme for socio-economic transformation
- Pursue a policy of adopting scientific land reform programmes
- Establish the rights of all citizens to education, health, housing, employment and food sovereignty
- Provide relief, recognition and rehabilitation for the victims of the armed conflict

*Source*: Interim Constitution (2007a), Government of Nepal

Under the Local Self Governance Act (LSGA 1999) Nepal is governed by elected local bodies at district, municipal and village level. Since local government elections have not been held since 2002, District Development Committees (DDCs) and Village Development Committees (VDCs) are currently not functioning or functioning effectively (Authors' interviews, 2009). This has prevented more effective public service delivery in rural areas, resulting in Nepal's lowest rate of (capital) budget expenditure in recent times: according to the Office of the Financial Comptroller General, only 27 percent of total capital allocated expenditure in the current fiscal year had been spent as of mid-April 2009. Local elections are not likely until after the Constitution-writing process is completed, and interim measures to establish alternative local government structures were stalled since 2008 over questions of political party representation.

**Socio-economic context**

With a GDP per capita of $ 470 (estimate for FY 2009) Nepal is the poorest country in South Asia. This is in spite of a significant reduction in poverty from 41.8% percent in 1995-96 to 30.8 percent

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[8] The Government committed itself to forming LPCs in 2007. As of June 2009 most LPCs are still not yet functional though due to capacity and resource constraints as well as the need to establish the High Level Peace Commission (HLPC) (NRC, 2009).

9 Since mid-2006, the Government has authorized i) a Women's Bill which grants women fuller property rights and the authority to pass on citizenship rights to their children ii) a new Citizenship Act which provides 2.6 million Madhesis (ethnic marginalised group) with Nepali citizenship iii) an amendment to the Civil Service Act 1993 which installs a time-bound reservation system to allocate 45 percent of the total posts in the bureaucracy to women (33 percent); ethnic minorities Janajatis (27 percent), Madhesis (22 percent), Dalits (9 percent); physically challenged persons (5 percent) and people from regions of Nepal defined as "economically backward" iv) a reservation system in the Police and Armed Forces for new recruitments, under which 45 percent of seats are allocated to Madhesis, Janajatis and Dalits v) the ratification of ILO Convention 169 related to Indigenous Nationalities of Independent Nations.

in 2003-04 (World Bank, DFID and ADB, 2006)[10] which took place during the ten year conflict. Indeed, the percentage of people living below the poverty line of $2 per day (adjusted for Purchasing Power Parity (PPP)) declined from 78% to 66% during the same period, and the number living below the extreme poverty line of $1 per day (PPP) declined from 34% to 24%. No doubt, these developments were unexpected. Data from the most recent Nepal Living Standards Survey (NLSS) indicate that poverty fell in part due to an average growth rate of 3.1 percent from 2002-2007, but more significantly as a result of opening up of employment opportunities for Nepalis overseas, primarily in the Middle East and East Asia. In this way, the increase in the number of households receiving remittances grew from 23.4 percent in 1995 to 31.9 percent in 2003/04. In dollar terms, remittances increased from $203 million to $794 million[11].

Despite the conflict, Nepal has also made progress on social development indicators. In the last decade, the net enrolment ratio of primary education increased from 67.5% in 1995 to 89.1 percent in 2006 (UNDP, 2007) and the gender parity index for net enrolment (the ratio of net enrolment of girls to net enrolment of boys) increased from 70 in 1995-96 to 98 2006 (WB, DFID and ADB, 2006; NDHS, 2007). Health outcomes have improved as well – the maternal mortality ratio has come down from 538 per thousand to 281 per thousand, while the infant mortality ratio has fallen from 79 per thousand in 1996 to 48 in 2006 per thousand (NDHS, 2007).

But much remains to be done: inequalities in major economic and social indicators remain and highlight the fact that Nepal's growth and development has not been equitable thus far (see Box 2 for dimensions of exclusion in Nepal). Whilst the poverty gap ratio fell from 0.12 to 0.075, indicating a fall in relative poverty as well as absolute poverty over the last ten years, income disparity nonetheless increased as reflected in an increase in the Gini index for Nepal from 34.2 percent to 41.4 percent. Nepal is also not on target to meet many of the MDG goals on time[12]. Furthermore, continued high food prices have increased food insecurity in Nepal. It is estimated that 41 percent of Nepal's population are undernourished, and UNICEF estimates that the number of people at risk of hunger is estimated to have risen by 50 percent (from 6 million to over 9 million people) in just 6 months last year (UNICEF, 2009).

There are a number of reasons to explain why growth has not benefited the poorest in Nepal. While the caste system was officially abolished in 1964, social exclusion is one major reason for persistent unequal access to resources, rights, and opportunities in Nepal. Groups that are officially recognized as being socially excluded in terms of caste and ethnicity currently comprise of the Madhesi, Janajati, Dalit and Muslim communities[13].

[10] Poverty data in Nepal is based on Nepal Living Standards Survey (NLSS) exercises conducted by the Central Bureau of Statistics in 1995/96 and 2003/04 with World Bank support. A third NLSS exercise is planned for FY 2009/10.

[11] It is estimated that the remittance share of GDP in Nepal is currently 17.4% - compared to 12% in the Philippines, 10% in Bangladesh and 8% in Sri Lanka.

[12] Nepal will find it challenging to meet the goals on hunger (Goal 1) universal primary education (goal 2), gender equality (Goal 3), maternal health (Goal 5) and halting HIV/AIDS (goal 6) (UNDP, 2005).

[13] According to the 2001 census, 46 different groups of people (positioned within a caste hierarchy) self-identify themselves as Madhesis, who make up 23.01% of the population. The Janajati are Nepal's indigenous nationalities of Tibeto-Burman ethnic and cultural origin, and comprise of 37.21% of the population within which there are 59 distinct ethnic groups. Likewise, Nepal's Dalit communities (historically ranked lowest in the Hindu caste hierarchy) comprise of 11.8% of the population. Muslims are also defined as an excluded community of Nepal, and comprise of 4% of the population.

**Box 2: Dimensions of exclusion in Nepal**

| Excluded groups | Economic Status | Services | Social Status |
|---|---|---|---|
| Caste/ethnicity (Dalits, Janajatis, Madhesis, Muslims and other minorities) | Lower income, fewer opportunity-shaping human and physical assets. | Language-based exclusion in educational system, isolation due to remote locations (for Janajatis), less ability to pay for private services when public services fall | Lower self-perceived status (due to lack of respectful treatment or cooperation with other groups); restricted access to public places; very low representation in legislature, executive judiciary and civil service; lack of local political influence. |
| Gender (women and girls) | Lower initial human capital, unequal asset ownership, restrictions on right to migrate for employment. | Households favour boys' education; female-specific services (maternal and reproductive) often under-funded. | Limited rights in household decision making (control over fertility, self-earned Income); domestic violence; restricted mobility (need permission to travel alone). |
| Location (those in remote areas) | Few economies of scale, few markets high costs due to poor connectivity. | Higher unit costs of provision due to remoteness and low population density. | Poor representation (power is centralised in Kathmandu; effects of civil conflict. |
| Income poverty (vicious circle) | Low assets, less ability to manage income volatility less access to credit, fewer opportunities | Poor publicly provided services, poor purchasing to buy services in private markets. | High cost of political and judicial institutions. |

*Source*: World Bank, DFID and ADB, 2006

Nepal's population is predominantly a rural one, with over 66%of the total population living in rural areas. Poverty is higher in rural areas (35%) as compared to urban areas (10 percent) and highest in Nepal's Mid-Western Hills (45%), an area also known as the Karnali region. Furthermore, the structure of Nepal's economy has also constrained inclusive development so far. While economic growth has been concentrated in urban areas and in the non agricultural sector, agriculture's contribution to GDP is still high at 32%. Over 80%of the rural population is currently engaged in agriculture, but agricultural productivity is among the lowest in South Asia, and the agricultural sector retains the highest concentration of the poor as compared to other sectors. There is also a strong correlation between landholding size and poverty, and an estimated one million households are currently landless (World Bank, DFID and ADB, 2006). Furthermore, women face specific gender-based constraints and inequality - women represent 60% of the workforce in agriculture and less than 11% of women own land. Similarly women have lower access to paid work, and of those who do work, earnings are generally lower than men's. Lack of economic status in turn severely constrains access to credit facilities further increasing already high social and economic vulnerability.

Contrary to expectations, the economy has not taken off since the end of the conflict. Political instability, intermittent unrest in the Tarai-Madhes (see Annex 1 for map of Nepal) and electricity shortages have contributed to maintaining a poor investment climate since 2007. GDP grew by 5.3% in 2007/08 but is estimated to have increased by only 3%in 2008/09. Data for the first quarter of the 2009 financial year suggest that the impact of the global financial crisis on the economy has been negligible so far, although given the sharp economic slowdown in the developed countries, some weakening in remittance inflows, tourist arrivals, export and foreign direct investment inflow are likely in the months ahead (ADB, 2009). Given the importance of remittances to the Nepal economy and gains in poverty reduction, the prediction of a fall in remittances due to the global economic downturn is of significant concern. Given still rising food prices, average inflation at the end of FY 2008/9 stood at an estimated 12%, up from 8% in 2008[14].

The Government is currently in the process of implementing the Three Year Interim Plan (TYIP) which runs from 2008-2010. A second planning document was developed by the Maoist-led Government in April 2009[15]. A third strategy document is likely to be formulated by the new Government soon, which will determine the course of the Government's policies and priorities until at least the second half of 2010, when general elections are planned.

The budget released in September 2008 set out three major policy priorities, namely: i) the completion of the peace process and immediate relief; ii) accelerated economic growth; and iii) social security and inclusion. It made an ambitious expenditure outlay allowing for an estimated 52% increase from planned expenditure in the previous fiscal year. Amongst others, it:

- doubled block grants to local bodies;
- provided debt relief for small farmers and entrepreneurs;
- substantially increased social security allowances, cash compensation and incentives for conflict-affected households;
- emphasized post-conflict reconstruction and rehabilitation activities.

[14] Although international prices have declined since 2008, food prices throughout South Asia are still higher than in 2007 due to low agricultural productivity rates in the region.

[15] This was the Nepal Development Strategy Paper 2009-12.

The draft budget for the fiscal year 2009/10, estimated at $ 3.7 billion (currently awaiting parliamentary approval), maintains the equity focus of the previous year's budget. It proposes an expenditure level that is 33.87% higher than the revised expenditure estimate in fiscal year 2008/09. Expenditure in the social sector in the 2009/10 budget is estimated to amount to 45.59% of the total budget ($1.67 billion), Within this, an estimated 17.3% of funds ($ 634 million) have been allocated for women's development and social empowerment, 16.2% ($ 596 million) for education, 6.52% ($ 239 million) for health and 2.72% ($100 million) for social security. The Ministry of Women, Children and Social Welfare receives 3.38% of the total budget.

Nepal's economy however remains heavily dependent on development assistance, which funds more than 60% of the development budget and more than 28% of total budget outlays. While the tax to GDP ratio increased by 1.5 percentage points to 15.6% during the 2008/09 financial year, it remains one of the lowest in South Asia. At the same time, sustained macro-economic stability, even during the conflict years, has kept debt ratios low at an estimated 1-2% of GDP. Total revenue (including taxes, non-tax revenue, and grants) grew robustly by 24.5% in FY2008 — even after an increase by 21.2% a year earlier – which helped finance public spending. In the context of the altered economic climate, Nepal's current financial situation is of course more precarious. Nonetheless, the draft budget for 2009/10 aims for a revenue collection rate that is 24.11 percent higher than that which was set in the last fiscal year, to be attained by improvements in tax administration and structuring. 27.45 percent of planned expenditures ($ 1 billion) for the fiscal year are to be financed by foreign assistance (loans and grants).

# 3. The development of social protection in Nepal

Social protection programmes are not new in Nepal, a wide range of social protection instruments – such as cash, in-kind and food transfers, as well as insurance, subsidies and public works programmes - have been implemented over the years in the country. The concept of social protection as a comprehensive approach to reducing poverty, vulnerability and risk however is new, and it is emerging as an important policy intervention in the post-conflict context.

Nepal is ranked poorly amongst other countries in the region in terms of social protection expenditure, coverage, poverty targeting and impact (Baulch *et al*. 2006). To date, government-led social protection initiatives in Nepal have focused mainly on tax-financed social assistance in the form of social security: cash transfers to the elderly, widows and disabled (Government of Nepal, 2009). According to the most recent budget, the Government of Nepal finances 95% of this national social security scheme, with just 5% financed from external sources (2009 Budget Speech Annex).

At the same time, however, there continues to be confusion as to the objectives and types of projects and programmes which might constitute social protection (Samson 2008) as well as a fragmented approach to social protection programming by various actors within the country (Authors' interviews, 2009). There is however a movement towards a more coherent understanding of social protection as the Ministry of Women, Children and Social Welfare starts to take the lead in developing policy in this area. Social protection is already discussed in the Third Year Interim Plan and the National Development Strategy Paper (NDSP) and greater clarity within the Government occurring alongside the legal institutionalisation of social protection by means of the Constitution and parliamentary acts (such as the forthcoming Social Security Act) will be an important next step for the development of the social protection strategy.

The new government, reporting its "deep commitment to social justice and equity" is proposing to expand safety nets and social protection coverage (Government of Nepal, 2009). The commitments to social protection are made in the context of the state's aim to tackle the large number of Nepalis living in poverty and the multiple risks they face in the context of the peace process (Government of Nepal, 2009). The recent budget made a large increase in the allocation to social protection (over 400 per cent) which includes a substantial increase in the coverage and value of the social security allowances for the elderly, widowed and disabled, as well as expanding it to include marginalised families (Government of Nepal, 2009; Government of Nepal, 2007b). The objective of social protection as stated in the NDSP is to "provide social protection to very poor, economically vulnerable and socially marginalized, individuals, groups, and communities as well as enable them to better manage risks and vulnerabilities" (Ibid: 51). There is also an underlying broader role that social protection is expected to play in consolidating the peace process (e.g. see Samson 2008).

How the objectives of social protection are to be met – and through which type of social protection instruments - is yet to be seen. The development of a coherent social protection strategy will be an important step towards defining the design and implementation of social protection initiatives, and the roles and responsibilities of Ministries, donors and NGOs.

# 4. Cash transfers in Nepal

Table 1 below summarises the details of the objectives, target groups, coverage and cost of selected cash transfer interventions in Nepal. The table shows that cash transfers are being used to meet a variety of objectives in Nepal, including improvement in access to schooling, improvements in maternal mortality and morbidity rates, providing financial support to the poor, addressing the poor's urgent needs and promoting social (national) and family cohesion.

The government finances the social security scheme which has been implemented in Nepal since the mid-1990s. More recently there has been an increase in the number of short-term donor-led initiatives (both implemented and proposed), mostly in collaboration with the government (see Table 1 for details). These include the maternity incentive scheme, school scholarship scheme and other smaller-scale pilots.

The key issues emerging from these cash transfer programmes are discussed in more detail below.

## 4.1 The design of cash transfers in Nepal

### Targeting and coverage

The current coverage of cash transfer programmes amongst the poor is low. It is currently estimated that 2.3 million poor people are beneficiaries of some form of social assistance – but this still constitutes just a quarter of the total population living in poverty (UNICEF, 2009).

It is interesting to note that while the actual coverage of the various cash transfers programmes (see Table 1 below) reach a maximum of 260,000 through any one programme, and most often only a few thousand, WFP's activities of food aid delivery dwarf this: in 2008/9 WFP aimed to provide food aid to 3.5 million vulnerable people living in 40 districts.

Part of the reason that the coverage of cash transfers is so low is because of the targeting approach taken to cash transfer programming[16] in the form of social categorical targeting which renders many of the poor ineligible to receive transfers. While categorical targeting by social group tends to disproportionately benefit the non-poor they are politically accepted by the government. Targeting can be time-consuming and difficult, requiring significant administrative capacities and can result in social tension and a sense of injustice in the community (Jha *et al*. 2009). However, in a country facing resource constraints, targeting can provide a way to ensure that the benefits reach the very poorest and various targeting mechanisms require different types of administrative and financial resources and capacity (see Table 2).

[16] See Slater, R. and Farrington, J. (2009) for a useful discussion on targeting social transfers.

**Table 1: Comparative advantages, disadvantages and cost requirements of alternative targeting methods**

| Type | Description | Advantages and disadvantages | Level of cost requirement |
|---|---|---|---|
| ***Individual/household level*** | | | |
| **Income means test** | Involves direct assessment of whether a household is eligible for the programme based on independent verification of income (usually salary or tax records) | Provides most rigorous indication of eligibility but impractical in developing countries with large informal sectors | High |
| **Simple proxy means test** | Usually requires a household visit by a programme social worker using simple proxy indicators such as housing quality, food stocks, etc. to determine eligibility | More practical in countries without formal records of household income; less demanding than proxy means tests, but less rigorous and prone to large inclusion and exclusion errors | Medium |
| **Proxy means test** | Generates a score for applicant households based on observable characteristics (according to a formula derived from statistical analysis of data from household surveys) such as location and quality of dwelling, ownership of durable goods, demographic structure of the household, education and/or occupation of adult members | Provides the most rigorous proxy measure of means, but requires highly trained staff and also produces significant exclusion and inclusion errors | High |
| **Community-based targeting** | Uses community members/leaders to decide who in the community should benefit | Lower demands on human capacity than means tests conducted by government social workers or using proxy means test, but normally has to be accompanied by some form of means test; risks of bias resulting from social cleavages or power relations within communities; difficult to apply in urban areas | Low-medium |
| ***Other approaches*** | | | |
| **Social categorical targeting** | Defines eligibility in terms of broad social categories such as age, gender, ethnicity, caste, economic or occupational status (e.g. landless), social status – can target universally in the identified categories or be poverty targeted | Low/no demands on staff capacity but can incur significant inclusion and exclusion errors if not poverty focused | Low |
| **Geographical targeting** | Defines eligibility in terms of geographical regions - can target universally in the identified categories or be poverty targeted | Low/no demands on staff capacity but can incur significant inclusion and exclusion errors if not poverty focused | Low |
| **Self-selection** | Access to programmes is unrestricted but the design (e.g. low wages on public works, timing of benefits, subsidies on or transfers in inferior goods, location of pay points) makes the programme attractive only to the poorest | Low/no demands on staff capacity but may incur errors of exclusion and/or stigma | Low |

*Source*: Adapted from Farrington *et al*. (2007).

**Table 2: Summary of cash transfer programme details in Nepal**

| Cash transfer mechanism | Time frame | Objective | Target group and coverage | Value/type of transfer | Administrative Arrangements | Cost |
|---|---|---|---|---|---|---|
| **Unconditional cash transfers** | | | | | | |
| Pension and allowance for widowed, disabled and endangered indigenous peoples | Pensions started in 1994; widows allowance in 1997, endangered indigenous groups in 2009 | Support family-based support systems | Over 70s; all single women over 60; quota for fully and partially disabled. 2001-2: 245,000 elderly; 258,000 widows; disabled unknown | Rs 500 per month (US$6.40)<br><br>Rs 1000 (US$12.81) for fully disabled; Rs. 300 ($3.84) for partially disabled. | Delivered three times a year. Policy and coordination by MWCS and implemented by MLD. | Tax revenues; 2006/07 0.23 per cent of Nepal's GDP |
| Child Grant cash transfer | Proposed | Child grant to promote right-based approach and social cohesion | Propose pilot target children 0 – 3 or 0 – 5 in Mid and Far West Districts | Rs. 250 (US$3.20) per month per child. Linkages to birth registration and nutrition | UNICEF; ADB; MWCSW and MLD key GoN partners. | Est. US $2mil for pilot |
| **Conditional cash transfers** | | | | | | |
| Reaching the Most Disadvantaged Groups in Mainstream Rural Development | Completed: 2007-9 | To help meet the urgent needs of the ultra poor | 1,000 households | Up to $350 cash and in-kind. (one-off over two years) | Funded and designed by ADB. | $685,000 |
| Strengthening Decentralised Support for Vulnerable and Conflict-Affected Families and Children | 2008-2012 | Investment for a sustainable livelihood | 4,000 conflict affected and vulnerable families | Family cash allowance of $120 plus $87 seed money allocated for one year | Funded by ADB and JICA. Executing agency MoWCSW, implemented by DWD | $2 million |
| Pilot conditional cash transfer for education | Proposed | Improve primary education outcomes | 6,000 ultra-poor households | Maximum of Rs. 900 per month (US$11.53) depending on number of children | Funded by UNCDF, WB and Ministry of Education. Payments to be made four times a year. Implemented by the MLD, funded by UNCDF | USD $3,772,670 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Support to Safe Motherhood Programme (SSMP) / Safe Delivery Incentive Programme (SDIP) | 2004 ongoing | Reduce maternal mortality and morbidity | All women who have delivered in a public health facility.<br>Free health care in 25 low HDI districts. | 1500 NRS (US$20) in mountain districts; 1000 NRS ($12.81) in hill districts; 500 NRS ($6.40) in Terai districts | DFID; Ministry of Health; | DFID committed £5m for the 4 year period (2004-2009). |
| Education scholarship | 2004 – ongoing | Improve education amongst dalits and disadvantaged girls | Dalits and disadvantaged girls (50% of those in disadvantaged groups) | Rs. 500 (US$6.40) a year | The primary scholarship programme is funded by donors but funds are channelled through the Government. | Component of Education for All Program sector-wide program with national coverage and annual budget of about US $20 m. |

Only recently the Government's Tenth Five Year Plan (2002-2007) for the first time identified poor and excluded communities and regions of Nepal. With the exception of education, no affirmative measures had previously been introduced to improve the access to these groups to basic social services and the planning process by and large remained untargeted to the poor.

During FY 2008/09 however, the Government of Nepal has increased investment in both poverty-targeted as well as categorically targeted activities, indicating that there are arguments in favour of both approaches[17]. To the extent that they specify beneficiary populations, and in some cases, prioritise regions and districts of the country, Nepal's major social assistance programmes are socially categorically targeted. The social security scheme, until recently, has been largely based on age. The correlation between poverty and age in Nepal however is not a strong one, and it is estimated that whilst the government's social security scheme reached approximately 516,337 beneficiaries total in 2007 (Ayala, 2009) the ineligibility rate of the poor due to the high age limit and low life expectancy of the poor is high (HelpAge International *et al*. 2009). Samson (2009) estimates that only 10% of the pension population are poor. With the recent inclusion of members of ethnic marginalised groups into the eligibility criterion and a reduction in the age criteria, it is expected that the coverage level will increase. Due to lack of data however it is unclear by how much.

Other cash transfer programmes have high exclusion errors. With no targeting mechanism, the safer motherhood maternity incentive scheme is reported to have disproportionately reached wealthier families, as they are more likely to use health facilities. Indeed, Powell-Jackson and Wolfe (2008) report that the wealthiest 20% of women received 60% of the cash benefits, reflecting the fact that women who use government maternity services are disproportionately wealthier. The manner in which the primary school stipend is distributed at the VDC level is likewise not considered specifically poverty-oriented and is thought to be diluted at the community level because it is distributed to many households thereby not ensuring that all eligible children for the support do in fact receive it (Authors' interviews, 2009).

[17] Improved understandings of poverty in Nepal underline its strong correlation with gender, caste and ethnic exclusion. As a result, caste and ethnicity-based targeting in development programmes is becoming more common, particularly in the context of the TYIP. For example, 20% of trainings provided by the Ministry of Labour to people below 35 years of age are allocated for women and Dalits (interview with the Ministry of Labour). The eligibility age for Dalits for the old age pensions has likewise been reduced in relation to other groups, and a new cash transfer has been introduced for highly marginalized indigenous communities. These are the communities of the Kusunda, Raute, Surel, Raji, Meche, Hayu, Bankariya, Kisan, Lepcha and Kuswadiya.

As of 2008/9 financial year all the programmes being implemented by local line agencies are being monitored and audited from the perspective of inclusion and gender responsiveness. The Government has recently started an initiative to issue identity cards to below poverty line families in districts where poverty programs are ongoing[18], to prepare “family folders” at the VDC level and commits itself to strengthening monitoring and evaluation and adopting the District Poverty Monitoring and Analysis system (DPMAS) within the course of the fiscal year (Government of Nepal, 2008). Further areas for investigation around the appropriateness of targeting might include detailed analysis of geographical targeting and its correlation to poverty, as well as an assessment of the possibility of complementing the positive impacts of remittances for other households.

### Value of transfers

The values of cash transfers in the country vary. According to data in 2006 the average basic needs poverty line is NRs 7,695.7 (approximately US$100) a year amounting to Rs. 642.3 per person per month (US$ 8) WB, DFID and ADB, 2006)[19]. This does not account for recent food price increases.

Table 1 indicates the value of select cash transfer programmes in relation to an estimated monetary requirement to meet a family of five’s basic needs (determined by the basic needs poverty line).[20]

**Table 3: Value of selected cash transfer programmes**

| Programme | Payment level | % of Basic Needs National Poverty Line per annum for a household of five |
|---|---|---|
| Old level social security allowance | NRs. 200 per month | 6.23 |
| New social security allowance | NRs. 500 per month | 15.6 |
| New disability allowance (full) | NRs. 1000 per month | 31.19 |
| Proposed child grant cash transfers | NRs. 250 per month per child | 7.8 |
| Reaching the Most Disadvantaged | NRs. 27317.5 one-off annual grant over two years (US$350) | 35.5 |
| Pilot conditional cash transfer for education | NRs. 300 per month | 9.36 |
| EFA education scholarship | NRs. 500 per annum | 1.3 |

[18] The 2009/10 Budget states that the "State Privileged Identity Card" will be introduced and given to families living below the poverty line with the objective of providing them with "privileged access to health services, education and the public supply system". The scheme will aim to target the absolute poor i.e., those 31% identified as living below the poverty line according to the Nepal Living Standards Survey, however the design and implementation issues have yet to be agreed.

[19] The poverty status of a household in any particular year is determined by comparing its per capita expenditure with a year-specific poverty line derived by the Nepal Central Bureau of Statistics using the Cost-of-Basic-Needs (CBN) approach. The CBS methodology takes into account differences in cost of living in different areas of the country by dividing the nation into six regions and deriving both food and non food price indices for each region. Expressed in terms of 1995/96 prices in one of these six regions - rural Eastern Terai - the CBN poverty line for NLSS II is Rs. 7696 per person per year ($ 98.60) (CBS 2005). In monthly terms this works out to Rs. 642.3 per person per year ($ 8.23).

[20] Assumption of one transfer per household for a household of five (based on average household size in 2003/4 cited in WB, DFID and ADB, 2009)

Palacios and Rajan (2004) estimated that the real value of the pension (at the old allowance rate) fell from about 12% of income per capita in 1999 to 10% in 2003. Most recently it appears to have fallen further to approximately 7% of household expenditure. They argue that the benefit is too low relative to income per capita and does not maintain purchasing power. Indeed, two recent small studies (Jones *et al*. 2009; HelpAge International, 2008) find that pensioners report that the transfer is insufficient to be self-sufficient and do not report any significant economic gains from receiving the pension, although they do suggest that there are important social impacts, including improving relationships with family members.

The new allowance rate has now improved significantly for the disability allowance (although it suffers from low coverage), and has also improved for the pension, widow and marginalised family allowance. Representing 15% of household expenditure (as in the elderly and widow allowance) however is still relatively low - it can be assumed that any benefit transferred to a household is likely to be diluted because it may be used for the benefit of the overall household, prices vary significantly between geographic areas, and higher food prices have not been accounted for in this calculation.

Furthermore, other transfer benefits for other programmes have been set partly in relation to the social security scheme benefit level, and it is a concern that the transfer level has not been calculated on empirical evidence on the basis of specific development or poverty reduction outcomes. Whilst there has been a study about what households would buy if they were to receive cash grants, there needs to be a better understanding about how much households can buy in different geographical areas in reality (Jha *et al*. 2009). The forthcoming WFP analysis on markets will be a useful tool to inform such programming, especially as cash transfers are not price-index linked and the continued increase in food prices effectively erodes purchasing power of already small values of transfers.

Evidence from the safer motherhood maternity incentive scheme (a joint Government and donor funded programme which gives cash incentives ranging from USD6 to USD20 depending on geographical location to mothers to give birth in health care facilities) also suggests that the current transfer amount is insufficient to meet the programme objectives. Whilst an evaluation from the scheme in Makwanpur showed that it has led to a substantial rise in the use of maternity services and skilled attendants at delivery and has encouraged women to deliver in facilities, the actual cost of delivery care is substantial and a high proportion of families incur catastrophic health care payments when they utilise the health care facilities due to the incentive scheme (Powell-Jackson and Wolfe, 2008). The amount of cash offered by the scheme covers only a fraction of the household cost of delivery care and therefore, by incentivising greater use of institutional delivery, it risks exposing more households to catastrophic payments (Ibid).

Whilst the majority of the existing cash transfer schemes (both government and donor funded) aim to cover only basic subsistence needs or specific education and health needs, the ADB funded “Reaching the Most Disadvantaged Groups in Mainstream Rural Development” is the only programme which transferred a substantially higher amount of money to meet both *protection and promotion* needs[21]. However it only represents just over thirty per cent of the poverty line. This may bring into question how far the value of this transfer, as a one-off grant, can achieve promotional objectives. It does however also highlight the importance of seeing cash transfers as more than simply a singular programme and as part of a broader development package where linkages with complementary programmes are services are vital.

[21] (i) 25% of the grant ($87.50 equivalent per household) will cover basic needs (such as food during the lean period, house repairs, equipment for cooking and sleeping, clothing, and health care [basic]); (ii) 25% of the grant ($87.50 equivalent per household) will cover the opportunity cost related to beneficiaries attending community-based activities; and (iii) 50% of the grant, to be provided either in cash or in-kind over the last 12 months, will facilitate basic economic activities, such as livestock raising and microbusinesses and small-scale agriculture and off-farm employment (ADB, 2005)

**Design and linkages for achieving objectives**

Evidence from cash transfer programmes being implemented in other low income countries suggests that maximising the impacts of cash transfers requires complementary services or programmes in place, for example, supply of basic services and functioning markets. A WFP report produced in February 2007 found that market functioning in Nepal had been severely impaired by the ten years of civil conflict which resulted in a sustained impact on local markets including complete market closure, induced shortage of goods and services, destruction of physical infrastructure, and price instability due to taxation, donation and transport strikes (WFP 2009). To date, there has not been a rigorous evaluation of the role of markets in ensuring cash transfers can meet their objectives (WFP 2009). There is evidence however, that the price of food, for example, continues to fluctuate significantly between areas[22] and that there is a need for better market integration in rural areas to reduce supply shortfalls and encourage greater levels of price convergence between areas (WFP 2009).

The case of the safer motherhood programme provides a good example of a programme which has successfully created synergies between demand-side and supply-side interventions to improve the programme's effectiveness. After a report highlighted the low impact of the incentive scheme alone to support mothers' attendance at health clinics for delivery (as mentioned above, the cash incentives were not adequate to cover the costs of services), the government decided to provide free delivery in 25 districts with the lowest Human Development Index ranking, and provide Rs 1,000 ($ 12.81) to health institutions to compensate for the costs. This decision was made as a result of a report which demonstrated evidence that in districts where there was free delivery, institutional delivery increased tremendously. Furthermore, the programme also recognises that other factors are at play – not just cost of services – which affect women's health, especially low decision-making and low status within the household. The programme is therefore embarking on an awareness raising programme which also focuses on raising women's capabilities and skills to address other factors that keeps women away from services (Authors' interviews, 2009).

In the case of the ADB project "Reaching the Very Poorest"; it is one of the only programmes which explicitly discusses "graduation" and the need for a larger grant to meet the dual objectives of household protection and livelihood promotion. It is also one of the only cash transfer programmes which combines cash and in-kind to meet its objectives. Moreover, the project evaluation emphasises the need to think beyond "cash" and also ensure that other mechanisms, such as sufficient levels of facilitator/mobiliser support are in place to support the extreme poor because of their particularly difficult conditions, especially in some remote areas of Nepal (Jha *et al*. 2009).

Indeed, Jha *et al*. (2009) argue that ensuring pathways and opportunities to enable extreme poor households to move out of social transfer arrangements to being able to access mainstream development opportunities has been absent in programmes to date (Jha *et al*, 2009). Other gaps in programming include recognising the different experiences of poverty and vulnerability by gender whereby the opportunities available are different for men and women (Authors' interviews, 2009). Furthermore, important issues around intra-household decision making and control over income have not been explicitly addressed. International evidence on cash transfers points to the importance of awareness of these issues in programme design and implementation to support more equitable distribution of transfers within the household (Slater and Mphale, 2008).

It is also unclear how cash transfers, by virtue of their design, contribute to achieving social cohesion and peace processes. Whilst it is recognised that targeting specific ethnic groups is in line with the government's policy to increase social inclusion there is an assumption that receipt of social transfers themselves will be able to overcome social and economic exclusion (Jha *et al*. 2009). Cash transfers, through a broader based target group, may support the development of the citizen-state contract,

22 Recent analysis has shown that when compared to the Terai, the price of rice in the Western Mountain region is 177 percent higher, the price in the Eastern Mountain region is 123 percent higher, and the price in the Central Mountain region is 37 percent higher (WFP, 2009).

although evidence suggests that there is a level of distrust and low level of expectation from the citizenry to the state in Nepal (Authors' interviews, 2009). Jha *et al*. (2009) argue that there should be a clear and sustained relationship between the mobilisation support provided to extreme poor households through the social transfer process and the mobilisation processes for wider citizen engagement (Jha *et al*, 2009).

These gaps stress the need for strengthened linkages to support not only complementary infrastructure and service delivery but also the non-income aspects of poverty for the success of cash transfer programming. In the meantime, it appears that Nepal's altered political landscape has opened up new spaces for civic engagement and action than have existed in the past, for example through the new Right to Information Act (2007). Since social protection is currently fragmented in Nepal (Authors' interviews, 2009), it is now important that these and other processes are channelled into strengthening institutional coordination to ensure that both policy and implementation linkages are in place.

### 4.2 Programme delivery

Nepal's system of governance continues to be highly centralised. Apart from line agencies, the Ministry of Local Development is the only body with extensive outreach to the districts and villages of Nepal. This system of government has provided a valuable mechanism through which to implement the major ongoing cash transfer initiatives.

Implementing programmes during the conflict was a challenge in Nepal (Armon *et al*. 2004) and local government's functional efficiency was significantly hampered during the most disruptive phase of the conflict. Whilst the conflict has largely subsided, in some areas insurgency and armed conflict continue to be a problem for effectively delivering cash transfers (Authors' interviews, 2009). Furthermore, there has been an absence of elected local government officials in office since 2002.

Whilst DDCs and VDCs have been receiving "block grants" for the investment in local development activities, the amount of which has doubled in the current fiscal year, the effective delivery of services and programmes continue to be a challenge for the Ministry of Local Development[23] (Authors' interviews, 2009). Evaluations from existing cash transfer programmes demonstrate that institutional capacity constraints, limited accountability and transparency, poor service delivery and funding and disbursement bottlenecks present just some of the difficulties in effectively delivering regular and predictable cash transfers through the government. Nevertheless, there is a common consensus among donors and international agencies to use existing government structures to run pilot or proposed cash transfer programmes. Indeed, in the medium to long run it is important that government structures are used to support the ownership and potential transfer of programmes to the government (Harvey and Holmes, 2007), however, it also raises important questions about the existing capacity of local bodies and overburdening already overworked local government officials in the shorter-term (Authors' interviews, 2009).

The capacity at the district level is not uniform and the physical facilities and human resources vary significantly. The mountain districts of Nepal and particularly their remote areas have very difficult working conditions due to inaccessibility and lack of communication facilities. Some of the VDCs in the districts are very far from the district headquarters and need 2-5 days walk to be reached (Institute for Integrated Studies, 2008). Furthermore, not only is there a lack of data and information on poverty and vulnerability to assist the delivery of programmes by VDCs, monitoring and evaluation of ongoing programmes is significantly poor constraining the future design and effectiveness of programmes in the longer term (Authors' interviews, 2009).

VDCs are also not always aware of the official programme guidelines or procedures for implementing cash transfers (Jones *et al*. 2009). There are also conflicting reports about whether the elderly, widows and disabled are aware about their eligibility for the social security scheme (Authors' interviews, 2009)

[23] The Ministry of Local Development is responsible for delivering other Ministries programmes at the local level.

which is also compounded by the fact that the government does not actively promote awareness for the scheme (Authors' interviews, 2009).

Uncoordinated donor activity has also prevented more efficient performance on the part of VDCs. Both DDCs and VDCs have found it difficult to execute their role of coordinating diverse inputs as projects/programmes often work without informing them, even those operated by NGOs (Jha *et al*. 2009) which has made it more difficult for VDCs to better monitor programme activities to ensure accountability.

Budgets are often cited as not being sufficient for effective programme delivery, and there are many reports of disbursement bottlenecks from the central to the local level. Part of the problem for the social security scheme is that budg*et* allocations from the central government in certain years are insufficient to meet the mandate and to pay the full annual benefit promised (Palacio and Rajan 2004; Jones *et al*. 2009). Whilst there seems to be little discussion or evidence of corruption in dealing with cash (some reports indicate that this is because the amount is so small), some interviews suggested that in the absence of a better law and order situation in spite of the peace process, cash amounts dispatched to VDCs that do not have access to banking facilities or are subject to monitoring mechanisms are susceptible to theft[24] (UNESCO, 2008; Authors' interviews, 2009).

These capacity, knowledge and funding problems lead to the poor implementation of existing cash transfer programmes, which result in targeting errors, irregular delivery of cash transfers and dilution of the benefit amount – all which present barriers to fulfilling the objectives of the programmes.

For example, in their study, Jones *et al*. (2009) found that there were a number of complaints that the elderly were not receiving a pension even though they believed they were eligible. In Kapilbatsu elderly men complained about the citizenship card process whereby officials had not taken the time to assist illiterate applicants to calculate their correct birth date and had apparently assigned them arbitrary ages (Ibid.). In the safer motherhood maternal incentive programme in Makwanpur district, only two-fifths of eligible women received the cash incentive after childbirth, with those delivering at a health post being least likely to actually receive the benefit. Women with no education were less likely to receive the benefit possibly because they found it more difficult to complete the form required to apply for the funding (Powell-Jackson and Wolfe, 2008). Similarly for the donor-funded conditional cash transfer programme "reaching the very poorest" a small budget meant that the criteria used for selecting households inevitably excluded many households as poor as the ones that had been selected (Institute for Integrated Studies 2009 *et al*).

Limited funding and disbursement bottlenecks also create significant problems for delivering cash transfers regularly and predictably. VDC offices house poor household databases resulting in an underestimation of the actual money requirements at the local level, which leads to the rationing of cash amounts among eligible beneficiaries. For example, the pension is supposed to be distributed three times a year, but there are reportedly significant delays in delivery, often there is not enough cash to distribute and VDC staff reportedly are not prompt in informing beneficiaries that they could come to pick up their cash (Palacio and Rajan, 2004; Authors' interviews, 2009). In Jumla it was found that women who met the criteria for widow or senior citizen pensions had been told that only a certain number of pensions could be funded and that they would have to wait for a year or more (Jones *et al*. 2009). Delays and irregular payments in the safer motherhood maternal incentive scheme and education scholarship programme are also reportedly common (Ayala, 2009). This has led to problems in reimbursing mothers (only 38% of women attending a health facility for delivery received the cash transfer) and increasing school drop-out rates (Ayala, 2009). Indeed, despite sufficient budgetary allocations for girls in theory for the education scholarship, actual allocation of instalments to households throughout the school year tend to decrease (Ayala, 2009).

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[24] According to Transparency International's Corruption Perceptions Index 2008 Nepal scores 121st out of 180 countries - thereby faring worse than India and Sri Lanka but better than Bangladesh and Pakistan (Transparency International, 2008)

There also appears to be substantial dilution of the actual benefit which is delivered to beneficiaries. A 2006 evaluation of the education scholarship found that many Dalit children were receiving a benefit amount smaller than they should (Ayala, 2009). The same evaluation also found that in certain areas, namely the Karnali Zone and the Eastern and Central Terai, girls enrolment rates were cause for concern in part due to lower actual than intended scholarship payment levels which were not sufficient to off-set direct and opportunity costs of schooling (Ayala, 2009). Whilst the Maoists recently committed NRs 500 ($ 6.40) to citizens our interviews suggested that the overall amount is only sufficient for 8/9 months and that beneficiaries would in fact only receive approximately NRs 300/400 ($ 3.84 – $ 5.12) a month for 12 months (Authors' interviews, 2009).

The effectiveness of existing cash transfers are also hindered by poor service delivery. For example, the proximity to a health facility within 30 minutes ranges from 48.5% up to only 66.5% across regions. The risks associated with poor road systems (Armon *et al*. 2004; Ayala 2009), as well as the lack of skilled staff in health care facilities (Powell-Jackson and Wolfe, 2008) also present a hazard to women in labour.

Where local government bodies have been unable to implement and deliver services, NGOs have played a role in filling the gap. It is estimated that there are approximately 30,000 NGOs operational in Nepal. Whilst there are problems with poor internal governance and poor accountability towards development outcomes, partnerships that build on the comparative advantages of NGOs have in cases contributed to development impact, particularly in the continued absence of elected local government officials (ADB 2005; Authors' interviews, 2009). There is a role for NGOs to play in the short-term at least in cooperation with the local government, including awareness raising about citizens' entitlements to cash transfer programs and supporting the process to claim these entitlements such as helping the family to the local magistrate and advocating for their right to a cash transfer – especially important where stigma and discrimination are a barrier (Jha *et al*. 2009).

In the longer term with a Constitution being drawn up for a federal system, the future of governance in Nepal lies in the balance. While the exact details of the process are still being worked out, there is no doubt that one major reason why federalism now appears to be a necessary option for Nepal is in order to fill in the gap between the citizenry, local and central government (UNDP, 2008). With new reservation policies in place, information gaps among Government staff about Nepal's diverse caste and ethnicities are likely to be removed and Government commitment to inclusive development should increase. If the security situation can also be improved by the time these other processes are in place, and local government reactivated, then there is a greater likelihood that the planning and delivery of government services will improve in the short to medium term.

### 4.3 Cost of cash transfer programmes

Although this financial year has seen a relatively large increase in the budg*et* allocated to social security spending, Nepal is characterised by low expenditure in the social sectors in general, and on social protection in particular. While social sector budget allocations have been gradually increasing throughout the Tenth Plan and currently in the context of the Three Year Interim Plan, spending remains low in terms of GDP (UNDP, 2007). During this time, donor support too has grown more significantly in the social sector as compared to the economic sector (DFID, 2009).

With respect to social protection spending, the ADB ranks Nepal low among 32 countries in Asia at 0.19 (the highest is 0.96 and the lowest is 0.01) (Baulch *et al*. 2006). According to the social protection index, total social expenditure on social protection (which includes micro-insurance) amounts to 2.3% of GDP in 2002/03 (or $ 5.5 per capita). Nepal's ranking is higher than that of Bhutan's and Pakistan's but lower than that of other countries in South Asia. Since only an estimated 26% of the country's poor population is benefiting from this spending, the proportion of GDP being spent on pro-poor social security is much less.

Indeed, the Social Protection Steering Committee in Nepal estimates that 0.3% of GDP (just under 14% of total budget outlays) are currently being allocated for pro-poor social protection interests and just 0.3%

of the budget is estimated to be allocated for social assistance under the Ministry of Women, Children and Social Welfare.

Spending on social assistance programmes specifically was increased by over 400% in FY 2008/9. Whilst the fiscal sustainability of cash transfer programmes is a concern for many policy makers, the government however has committed to recurrent expenditure on the social security scheme and indeed taken the step to increase the budget allocation of the existing scheme to scale up both in terms of coverage and value of transfer. The government, however, remains cautious in the short term with respect to committing resources to new social assistance schemes which remain heavily supported by donors. The Support to Safer Motherhood Programme for example is approximately 80% funded by donors and the pilot conditional cash transfer for education is approximately 90% donor funded[25].

In the end, however, cash transfers in Nepal are long-term measures and require commitment over time. When donors hesitate to make more long-term aid commitments, this can hamper Government planning efforts since they add an element of insecurity to the planning process and impinge on the Paris Principles. In the longer-term, of course, the aim should be to make Nepal financially able to implement social protection initiatives from its own resources – this will require both available resources and political will.

Policymakers in Nepal must become clearer on the links between economic development and social equity, and the role of cash transfers in this process. Currently the evidence base on existing programmes is weak and the small amount of transfer and poor implementation makes it difficult to claim large poverty reduction and growth results. Indeed, in the absence of institutionalised impact assessment of Nepal's cash transfer programmes, it is difficult to evaluate the poverty-reduction effect of current initiatives among programme beneficiaries.

### 4.4 Institutional coordination of cash transfers

It remains a challenge for the Government to position and integrate ideas and concepts of social protection within the context of economic growth and private sector development on the one hand, and peace building on the other. In particular, confusion remains about the ways in which social protection initiatives, including cash transfers, fit into the larger picture of growth and peace building among government departments, ministries and sections, among politicians and among donors and civil society.

The implications of this include inter-ministerial bargaining for funds rather than cooperation during the budget formulation period; politically-motivated, rather than evidence-based, programmes introduced by the Government in budget documents and strategy statements; and un-coordinated, short-term and at times divergent approaches adopted by donor-supported initiatives.

Big-picture and long-term thinking that places risk and vulnerability reduction at its core – and begins the planning process from there – needs to be the way forward for Nepal. This essentially means prioritising goals rather than methods and, within this framework, identifying the extent to which social protection initiatives involving cash transfers provide a solution to poverty and vulnerability reduction in Nepal. For instance, there is mounting evidence that improved connectivity, including better road and market access and improved economic and social service delivery, is a prerequisite for improved development outcomes in Nepal (ADB, DFID and ILO, 2009). Employment generation too is increasingly emerging as a Government priority, levels of human capital are low (even in comparison to neighbouring countries) and there is recognition that an adequate response to food security has been lacking so far (Authors' interviews, 2009). Ensuring that there are greater links between social protection objectives and the economic development objectives will also help challenge prevalent notions – particularly within the Government – that cash transfers represent an unproductive expenditure (Authors' interviews, 2009). Others are already considering the possibility of adding a cash transfer element to ongoing food security and employment generation initiatives to achieve greater outcomes (Authors' interviews, 2009).

[25] Ministry of Education budget is US$396,000 out of total budget for the pilot of US$3,772,670.

Likewise, considering possibilities for sustainable cash responses to disaster management could emerge as an effort to work on climate change in Nepal (Government of Nepal, UNDP, EC and NSET, 2008).

In the above process, decisions about the timing, sequencing and targeting of particular activities – particularly weak aspects of Nepal's planning processes so far - are likely to be decisive.

Moreover, institutional coordination will be vital. In the context of the Paris Principles, donors in Nepal are working better together (DFID, 2009). The establishment of the Social Protection Task Team is likely to further strengthen donor cooperation on social protection issues, and improve the coherence of donor inputs that are provided to the Government. Donor-government planning and coordination is expected to expedite in autumn 2009, when the Government plans to host the first Nepal Development Forum following the CA elections.

# 5. Institutional and political attitudes towards cash transfers

### Acceptability of cash transfers

Despite limited evidence of the impact of cash transfers in Nepal, cash transfers are a popular programming mechanism. They are a relatively well accepted tool by the government, donors and the public however the reasons underlying this acceptance vary.

The government has been implementing cash transfer programmes since the mid-1990s. The social security scheme was introduced by the UML-led Government of Nepal in 1995 and is the main ongoing and regular cash transfer which is fully financed (tax-based) and implemented by the government. Other cash based programming, such as the Ministry of Education's scholarships schemes and the Ministry of Health's maternal incentive schemes, have largely been introduced as a result of international agreements such as the global Education for All policy and the MDGs.

It is widely perceived that the government's commitment to the social security scheme has continued because of their perceived potential to enhance the political capital of the existing government. Cash is seen as a visible and direct transfer from government to people. Whilst some interviewees suggested that there is political consensus and acceptability on the allowances, one ex-government official suggested that most governments succeeding the UML have been cautious over social security expenditure because of sustainability concerns. Regardless of political preference in terms of the cash allowances however, the programmes have continued throughout a varied political history over the last fifteen years, and they have been institutionalised enough to survive different political parties with different ideologies. There is a general agreement that while some programmes will change as government changes "welfare programmes" are unlikely to be entirely removed from the policy agenda because of their political benefits.

The number of donor-led cash transfer initiatives has increased in recent years. Many interviewees suggested that this is in part due to the recognition that previous types of programming were not reaching the very poorest, for example, infrastructure-type programming, microfinance and income generating activities, and therefore there has been a push for direct cash transfer programming. Delivering cash directly to the community is seen as a better way of directly addressing poverty – both in terms of impact and cost-effectiveness. Furthermore, international experience (mainly from non-conflict middle income countries, and to some extent other low-income countries), rather than national experience, has been much more influential in terms of international agencies taking up cash transfer programming. In addition, existing experience of implementing cash transfers at the local level (through the Ministry of Local Development (MLD) and VDCs) has also been another influential factor affecting the choice of instrument.

Anecdotal reports suggest that social security allowance programmes are well received by civil society in Nepal. The pension is reported to be very popular among the people and there is a wide perception that it has helped empower recipients. The public realise its importance, especially for both social integration and also economic activities. There is a view that the elderly receiving the pension are no longer a burden on their families but earners in their own right, even though the amount is low. There is a varied discussion however on whether the scheme should be targeted. Some are critical of the universal approach and believe that it should be targeted because of the inclusion errors of the non-poor. At the national level however there is support for the existing scheme (HelpAge International, 2009). The pension serves not only as social welfare for the most vulnerable but also as recognition of the importance of older people in Nepali society and their inclusion in family and community life (HelpAge International, 2009).

### Perceived role of cash transfers in post-conflict Nepal

Our information on the role of cash transfers in Nepal has largely been based on assumptions and impressions rather than rigorous data collection and evaluation (Authors' interviews, 2009). Even though there is increasing evidence from other countries about the role of cash transfers in addressing poverty and vulnerability, there is little empirical evidence to date from Nepal. However, our interview respondents discussed a wide range of roles that cash transfer programming could potentially play in Nepal.

It is largely assumed that cash can contribute to boosting economic growth: Cash is seen as an asset and can enable households to buy inputs e.g. seeds and fertiliser. It is also perceived that cash will create multiplier effects in the local economy, and the government and private sector would be motivated to take commodities to those areas where cash transfers are being implemented. There are limited perceptions about potential problems with inflation.

Cash is seen to empower recipients economically and socially: There is an assumption that the amount of money transferred is good for the elderly not only economically, but also socially and morally (e.g. grandparents being able to spend on their grandchildren). Even small interventions are seen to give poor people choices – even small amounts of money mean that people can buy things without recourse to money lenders.

Cash transfers are seen as cheap and simple to implement: Cash is seen as the cheapest way of delivering a programme (especially where there are no conditionalities) and small amounts of cash are seen as a simple tool to implement with only a small risk of corruption or theft.

Cash transfers are seen by some as a right: The Ministry of Women, Children and Social Welfare see the social security scheme as the citizen's right – they reflect state's recognition of its responsibilities towards its citizens; however, in practice there is no active awareness raising from the government about the allowances – neither their objectives nor entitlements. Whilst there are provisions in the constitution in the political domain, such as the Right to Social Security Act, this has not yet been fully formulated.

Linked to the above point, one interviewee noted that in general, policies and plans are being implemented keeping in mind the interests of the party rather than the State and that, especially in the post-conflict transition, there is the need to reconceptualise the State as one that protects and provides for its citizens. This however, will take time, as alongside this process there is the need for those in power to take on responsibilities to provide for social protection and people's welfare effectively, which is not the case at the moment where effective implementation of existing allowances is low.

The potential pitfalls of cash transfers appear to be less of a concern to our interviewees. Some interviewees mentioned concerns around the potential mismanagement of cash especially by young households and/ or men who would spend it on alcohol; that cash cannot be implemented where there is no market and fears about inflation; concerns around the fiscal sustainability of committing to recurrent expenditure on cash transfers; and concerns of security, especially in areas where armed groups are active.

Interestingly, there was little discussion amongst our interviewees, from both government and donors, about concerns of cash transfers creating dependency or providing a disincentive to work. The reasons for this may include the fact that a number of existing cash transfer programmes have conditions applied to them to be used for specific purposes, namely health and education or because of the value of the transfer is quite low. Indeed, the social security scheme has is a relatively small amount of money and until recently was targeted at the elderly and those not expected to work (e.g. the disabled). Even so, the social security scheme is targeted at individuals rather than households, so an elderly person or widower can live with households with working age members with available labour and still be entitled to receive the grant. Moreover, families from marginalised groups are now also entitled to the grant.

**Ownership and drivers of cash transfers in Nepal**

Different types of cash transfers are being driven by different stakeholders. As discussed above the Government of Nepal has committed to the social security scheme over the last fifteen years and has been driving its expansion. Reports do suggest however that the centrally driven allowances scheme (the Ministry of Women, Children and Social Welfare) is implemented but not "owned" by the implementing ministry – the Ministry of Local Development[26]. The Ministry of Education officials feel that the Education for All scholarship programme, as a social protection initiative and cash transfer programme, lies outside its own mandate to ensure access to and quality of education. They would prefer that the education scholarship programme be removed from their budget as they do not perceive it as their "core" business and would be able to make a better case to the Ministry of Finance if they had a smaller overall budget to increase their funding and expenditure on infrastructure and teachers (Authors' interviews, 2009; Ayala, 2009).

Civil society has played a role in lobbying for increased commitment to social security, especially for particular groups. For example, a number of NGOs (such as NEPAN and NFDIN) have played a role in advocating for increased inclusion of the elderly (reduction in age) and arguing in favour of targeted programmes that empower Nepal's 59 indigenous communities. However, many civil society movements in Nepal are largely based on group interests and there has not been a coherent civil society voice in the social protection debate.

Donors have previously been influential in affecting development investment and priorities in Nepal[27] and more recently donors have been having an increasing influence on the development of social protection more broadly and cash transfers in particular. For example, pilot programmes led by donor funding are a key "push" factor in government departments taking up different types of cash transfers. For example, the ADB-funded "Reaching the Very Poorest" conditional cash transfer was the first of its kind implemented by the Women's Development Department of the Ministry of Women, Children and Social Welfare (See Box 3).

**Box 3: Role of pilots in building acceptance for cash transfers**

The Department of Women's Development in the Ministry of Women, Children and Social Affairs showed scepticism at first to use cash in ADB's pilot "Reaching the Most Disadvantaged Groups in Mainstream Rural Development" (see Table 1 for programme details) because of a concern that it might be misused by beneficiary households. Furthermore, there was concern that there would be selection problems because the cash amount was very high (US$350 per household). However, ADB continued to push for the programme in its original design ultimately on the basis of the needs for a direct transfer to households for basic needs, healthcare and productivity. It is one of the only cash transfer programmes which aims to use cash transfers to improve household labour productivity and have an exit (i.e. "graduation") strategy. The programme also includes the development of a household development plan, and the Department agreed to try. After the pilot, despite severe implementation delays which hindered the impacts of the programme, the Department became very interested in the programme and found that it can be a good way of reaching out to groups who have been left out for years. Although this project finished in 2008, the Department is interested in replicating it. More than just the cash component, the Department also liked the household plans and visions, the fact that it was targeted at women and that it involved husbands too. Whilst the Ministry of Finance had committed additional funds to the programme (the government has allocated budget to scale up the program in 10 additional districts (out of 75 districts) (SPTT, 2009), it remains to be seen as to whether the new Minister will continue to support the expansion of this programme to other communities.

*Source:* Authors' interviews, 2009

International influences are not just from donors, but also from international agreements. The MDGs have been one of the motivations for the government to commit to the DFID supported Safer Motherhood Programme. This programme is one of the key programmes which has been jointly designed by the government and donors (Ensor *et al*. 2008). It has also been longer standing than some of the new cash transfer programmes, and has a longer time frame. In 2004 the government was influential in pushing the programme to go to a national scale rather than be piloted in a few districts due

[26] For this reason the CCT pilot (funded by UNCDF) is sharing responsibility through a lump sum amount to be paid to the local government to increase its autonomous decision making with the aim increase ownership and transparency at the local level.

[27] E.g. impact of donor preference on stopping fertiliser subsidies, reduction in food aid (WFP)

to the political situation and potential conflict between regions. In 2005 the government had not committed any funds, but in 2009 it is financing almost 20% of the scheme as well as funding free healthcare in 25 districts with the lowest HDI ranking (out of 75) to improve the benefits of the scheme as identified by a recent evaluation report.

# 6. Conclusions

Social protection is developing as an important policy in post-conflict Nepal. The Three Year Interim Plan (2008-2010) and the National Development Strategy Paper (2009) state that the government will "provide social protection to very poor, economically vulnerable and socially marginalized individuals, groups, and communities as well as enable them to better manage risks and vulnerabilities" (Government of Nepal, 2009: 51). There also appears to be an increasingly clear targeting focus from the government which uses social protection as a mechanism for social inclusion, reflecting the government's post-conflict commitment to a more inclusive society, though the extent to which these initiatives are effective on the ground remains to be seen.

Whilst the concept of social protection is relatively new in Nepal, social protection instruments are not. A number of cash, in-kind and food transfers, as well as insurance, subsidies and public works programmes have been implemented over the years in the country. How these types of social protection instruments are to be used and defined under the emerging *concept of social protection* as laid out in recent policy documents, however, is not yet clear. The development of a national social protection policy by the Ministry of Women, Children and Social Welfare will be an important step in the process towards clarifying the objectives, roles and responsibilities of social protection in Nepal within the country's broader policy framework for growth, poverty reduction and a more equitable society.

In the meantime, an examination of the existing (and proposed) cash transfer programmes in the country points to a number of key findings which will be relevant in discussion taking forward the social protection debate.

First, there is limited evidence that cash transfer programmes have had a positive impact on reducing the incidence of poverty or the poverty gap. While there is a dearth of empirical evidence on the impact of existing programmes, what does exist indicates that low rates of poverty reduction is due to a number of factors, including low coverage, low levels of benefit and implementation constraints. Indeed, the proportion of the poor who are recipients of cash transfers is low – up until recently the largest cash transfer programme (the social security scheme) used categorical age-based targeting for which the vast majority of the poor are ineligible. The new criterion – which has lowered the pension age and included members of marginalised indigenous groups regardless of age – is relatively more pro-poor because it targets groups of people correlated with higher poverty rates. Other cash based programmes only reach up to a few thousand households but are more focused on targeting the poor. Overall, only a quarter of the 9 million poor are estimated to receive any form of social assistance, although this is potentially set to increase given the recent increased budg*et al*locations to social security.

The benefit levels of the cash transfers are also set at a low level and do not maintain purchasing power - a key concern in the context of increasing food prices – it is estimated that the benefit of the social pension and widow's allowance has been too low relative to income per capita. Indeed, a broader concern is that, for the social security scheme and some of the other cash transfer programmes at least, the value of the transfer is based on an arbitrary calculation, rather than to meet its objectives. This is exacerbated in a geographically diverse country like Nepal where prices for basic food stuffs can vary significantly between areas. Only one programme has been designed explicitly that uses cash transfers to bring people out of poverty in a shorter time-frame, most notably the ADB funded "Reaching The Very Poorest" programme. However, this programme faced significant implementation constraints (it only ran for one year instead of two) which effectively reduced its potential impacts. Implementation constraints are not unique to cash transfer programming, although all the cash transfer programmes faced similar implementation and capacity challenges. Limited institutional capacity on the part of Village Development Committees and Ministry of Local Development to deliver programmes effectively, funding bottlenecks, lack of up to date and reliable data, continued presence of local level violence in some areas, and difficult geographical terrain all contribute to irregular and unpredictable delivery of transfers, exclusion and inclusion errors and lower levels of benefits reaching beneficiaries.

Second, while there have been limited impacts on income poverty, the social security scheme in particular is reported to have important social impacts. Findings from the pension scheme in particular suggest that it has contributed towards improving relationships with other family members and reduced beneficiary's dependence on their family. Moreover, anecdotal evidence suggested that the sense of citizenship derived from receipt of the social security scheme from the government was important. This has a potentially important place in post-conflict Nepal as the country moves towards a more democratic and inclusive society.

Third, consistent with evidence from other parts of the world on the impacts of demand-side cash transfers, investing in the supply of goods and services are vital for the effectiveness of the programme. There is concern that there has not been sufficient attention yet to the functioning of markets in Nepal, especially given that market functioning had been severely impaired by years of civil conflict. The maternal incentive scheme however, provides a good example of a programme which is successfully creating synergies between demand-side and supply-side interventions to improve the programme's effectiveness. It has done this by rigorously reviewing the value of the transfer in relation to its objective and identifying the need to invest in health care provision to increase the proportion of poor women utilising the scheme.

Fourth, the changing political landscape in Nepal provides both opportunities and challenges for cash transfer programming in the country. On the one hand, there is a more enabling political environment for policy development since the end of the conflict in 2006, increased recognition of economic, social and cultural rights in the Interim Constitution (2007), the formation of the Constituent Assembly in 2008, the development of the forthcoming Social Security Act, as well as the increased spending allocations on social protection initiatives in budgets of the last three years. The longevity of the existing government-run social security scheme through various political upheavals, budgetary constraints and multiple governments is testament to its importance in the government's policy.

Indeed, the increased national budget to the social sector in general as well as social security in particular appears to demonstrate a positive commitment to establishing a system of social protection in Nepal based on cash transfer programming. This is thought to be a trend initiated by the Government to take into account the public sentiment following the People's Movement of 2006 and triggered particularly by the Maoist budget of 2008. It has also been facilitated by growth in the economy as well as the role of national civil society groups who have played an important role in advocating for specific target groups to be included in the social security scheme. Importantly, the social security scheme has moved from a strict aged-based targeting criterion of the elderly, to one where (in addition to the pension), regardless of age, members of hitherto-marginalised ethnicities, dalits and single women will also receive a monthly allowance. The government is therefore willing to support an unconditional cash transfer to households with available labour. Whilst there appears to be increasing support for other types of cash transfer programming (child grants, productive cash transfers) the government's budgetary commitment to cash transfers for a broader set of target groups (i.e. outside of the social excluded) remains cautious, and other forms of cash transfers, such as the maternity benefit scheme, the education scholarship and other small scale cash transfers continue to be largely funded by donors. There is a broad level of consensus, from government, donor and civil society alike, that the benefits that cash transfers bring to beneficiaries are positive.

On the other hand there are a number of challenges which face cash transfer programming in Nepal. The changing government as well as a slow peace process, continued security concerns, prolonged development of the constitution and polarization among Nepal's various political and ideological communities present a difficult and challenging political environment. Not only with respect to determining building and sustaining long-term commitment towards pro-poor cash transfer policies, but also in moving forward from a post-conflict state to one which focuses on building a state-citizen contract. To date the scheme has not been an explicit poverty reduction tool, it has, instead, been seen as an important political tool. Although there has been an increase in budgetary allocation to the scheme, the extent to which this increase reflects a medium-term shift in government perception of the utility of cash transfers with particular reference to poverty reduction is yet to be seen. Whether it does or not is likely to have important implications for the broader role of social protection in post-conflict Nepal and whether the state is willing to support and commit to a broad-based poverty reduction approach.

Currently there is also limited evidence on the impacts of the scheme, and assumptions mainly drive the design of the programme – where a third of the population live in poverty and face diverse risks and vulnerability (this is a key concern). Whilst there is discussion about the improvement of data collection and monitoring and evaluation of existing programmes there is no clear direction that these will materialise in the very near future. A monitoring and evaluation system within Government offices and better collection and analysis of disaggregated data (by age and sex) on poverty and vulnerability is urgently needed to inform policy and programming design. Indeed, designing programmes on assumptions and without clear objectives will only result in sub-optimal impacts at best, and further create and/or fuel community tension and mis-trust at worst. Furthermore, institutional capacity constraints present a key challenge. This is not necessarily specific to cash transfer programmes, but with the increasing number of new cash transfers initiated by donors which aim to use existing structures through the MLD and the VDCs, there is a concern that already limited staff will come under even more pressure, leading to implementation and delivery errors. The recent increase in budget for the expansion of the social security scheme did not include any additional provision for implementation or capacity strengthening.

Finally, when considering the role of cash transfers in the development of social protection policy in Nepal it will be important to ensure that the instrument is the most suitable tool to respond to need and achieve stated objectives. Cash transfers need to be contextualized against Nepal's other major priorities of inclusive growth with employment generation, poverty reduction and the peace process. Overall, social protection programming in Nepal needs to respond to both immediate and short term needs as well as ensure longer term sustainable poverty reduction and a more equitable society. Without a clear objective of the appropriate role that social protection instruments can play in the larger policy goal of achieving inclusive growth, poverty reduction and social equity, the potential impact of social protection on poverty reduction will be not be maximised. There is arguably a need for cash transfers currently (and more broadly a social protection framework) to give greater attention to the processes needed to move people out of poverty than there has been to date. Explicitly linking cash transfers to other services and programmes – and the possibilities of combining cash transfers with other instruments - will be vital here, as will be a better understanding about what types of needs should be prioritised in the short to long term.

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## Annex 1: Map of Nepal