

# Nepal's Senior Citizens' Allowance: A Model of Universalism in a Low-income Country Context

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**Universal social pensions open the door to more expansive social protection in Nepal.** The significance of social pensions has grown in recent years, particularly in southern Africa and South Asia. Nepal's universal non-contributory Senior Citizens' Allowance represents a classic example of how this instrument tackles poverty and promotes social development in a low-income country context. Early criticism of Nepal's initial programme focused on low benefit levels (about USD2 per month) and limited coverage—only for people 75 years and older. Evidence of success inspired the government to substantially increase benefit levels (by 150 per cent during the 2008/09 fiscal year), expand coverage (to people 70 years and older, and from 60 years of age for the most vulnerable groups) and extend social grants to other vulnerable groups. The expanding social protection system enables the government to share the benefits of economic growth and strengthen social cohesion as the country rebuilds from decades of conflict.

In 2012 this programme provided a monthly benefit of Rs500 (less than USD5)<sup>1</sup> universally to all people 70 years of age and older, and to all Dalits and residents of the Karnali Zone (one of Nepal's poorest areas) from their 60<sup>th</sup> birthday. (In November 2012 the government announced its intention to further increase the benefit to Rs750 per month and to reduce the eligibility age to 65 years.) The social pension delivers Constitutional rights while strengthening the social contract between the State and the people of Nepal. The government has built on this instrument's success in tackling poverty, vulnerability and social exclusion to develop an integrated system of cash transfers that protect many vulnerable groups.

Nepal's Senior Citizens' Allowance effectively tackles poverty and vulnerability, raises the status of older people and contributes to a range of developmental outcomes in poor households. The benefits are well targeted to the intended beneficiaries, with low inclusion and exclusion errors compared to other social transfer programmes around the world. The tax-funded social pension is affordable—it cost about 0.25 per cent of Gross Domestic Product (GDP) in 2007/08—although this cost has risen with the government's expansion of coverage and benefit levels in the past several years.

These recent increases reflect the government's recognition of the programme's success and political popularity. The government values the programme's universal and unconditional character, a rights-based approach which allows the programme to provide financial assistance while strengthening the dignity and social standing of the beneficiaries. All older people who reach eligibility age are entitled to the benefits, without any conditionalities imposed by the government. The government employs transparent registration and delivery systems that, while facing important challenges in Nepal's difficult environment, demonstrate the potential of a rights-based non-contributory pension to promote social protection objectives.

Overall, the targeting performance of Nepal's Senior Citizens' Allowance represents a remarkable achievement by the Government of Nepal, given the institutional and financial constraints and the difficult environment created by conflict and political challenges since the programme's inception. The take-up rate for the social pension is close to that of well-run programmes

in countries with more substantial resources and administrative capacity. While reports of alleged fraud and corruption warrant government attention, the problem appears limited, and most of the allocated resources reach the intended beneficiaries. The universal nature of the categorical targeting approach makes it easier for beneficiaries to claim their entitlements and limits the potential for corruption.

The cost of the programme is affordable—both now and if scaled up in the future. Coverage can be extended to all older people from their 60<sup>th</sup> birthday at a cost of about 1 per cent of national income (as measured by Gross Domestic Product—GDP). Depending on economic growth, this cost could fall to as low as 0.4 per cent of GDP by 2050.

Nepal's experience offers four main lessons to developing countries around the world:

- Universal non-contributory social pensions can work in low-income countries. The social pension can be a first step towards a comprehensive system of social protection.
- A low-income country can initiate a social pension with limited coverage and low benefits, and then progressively increase the size of the transfer and the number of older people eligible as the programme demonstrates success and builds political will.
- Programme design and implementation capacity matter. Universal approaches reduce the administrative burden on government and create transparent entitlements that reduce fraud and corruption.
- The social pension can serve as a key instrument for nation-building and ensuring a developmental approach to pro-poor and inclusive economic growth.

Although this social pension provides a remarkable model for other low-income countries, Nepal faces a number of challenges with respect to the programme:

- With ever more binding fiscal constraints, the government struggles to protect the social pension's budget allocation to ensure that the benefit is dependable for the older people who rely on it for social protection.
- With limited capacity in the most remote rural locations, local government requires capacity-building and strengthening in a number of districts.
- The government and beneficiaries will benefit from better systems for independent monitoring and rights protection, which can help strengthen the integrity of the social pension's universal rights-based approach.
- The programme can be further improved by progressively lowering the eligibility age and further increasing benefit levels, as well as consolidating the Senior Citizens' Allowance's position within a more comprehensive system of social protection.

#### Reference:

Samson, M. (2012). 'Nepal's Senior Citizens' Allowance: A Model of Universalism in a Low-Income Country Context' in S.W. Handayani and B. Babajanian, eds. *Social Protection for Older Persons: Social Pension in Asia*. Manila, Asian Development Bank: pp. 214-245.

#### Note:

1. NPR101.11 = USD1.