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THE ROAD TO RECOVERY

Cash Transfers as an Emergency Response to Nepal's Earthquake of 2015 and a Catalyst for Consolidating Nepal's Social Protection Floor

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EXECUTIVE SUMMARY

On 27 May, the Nepal Ministry of Finance issued a decision: “Approval of top up cash transfer for early recovery for vulnerable population affected by the Earthquake”. This marks the beginning of a crucial intervention.

Proposed interventions:

This paper outlines a proposal to address the economic impact of the two earthquakes experienced in Nepal in April and May 2015 and possible further natural disasters connected to the earthquakes. It makes the case for two interventions in 2015:

- An immediate top up, in the 11 earthquake-affected districts, to existing cash transfer programs provided by the Government of Nepal (GoN) for senior citizens, widows and single women, Dalit children, and people living with disability. The top up is proposed to be disbursed in two instalments, in June and September 2015. The cost for the 2 instalments is calculated at approximately \$US 16 million, and would need to be funded from donor funding or other special provisions.
- A universal child grant to all children under-5 in the same districts. This could be introduced as early as September 2015. The cost is calculated to range between at \$US 555 thousand and US\$ 1.4 million, depending on the benefit amount introduced.

The costs are a very modest share of the overall amount calculated in the OCHA consolidated appeal of April 2015.

These two interventions would be based on Nepal’s existing government-funded social protection system. The proposed universal child grant, geographically targeted to the earthquake effected districts, would gradually be merged into the Social Protection Framework that is under preparation by the GoN.

The disbursement of the cash transfer emergency top ups will be accompanied by behavioural change messages that can contribute to reducing the household’s vulnerability to disaster. These messages will be targeted both to specific vulnerable groups and to specific sectors, and linked to relief and recovery outcomes.

The interventions would be closely monitored and evaluated, with a complaints mechanism and scope for immediate adjustments.

Rationale:

The rationale for these interventions is obvious: the 2 earthquakes killed 8,631 people, and 11 districts with difficult access were severely affected. 2.8 million people are in need of humanitarian assistance. Over 860,000 people are in immediate need due to loss of shelter, limited road access and poverty. 1 million children are in urgent need of support, and over 360,000 children and 185,000 women require micronutrients supplementation and urgent health and nutrition attention. Almost half a million homes were destroyed. 870 million children are without classrooms to return to. Many children are traumatized and need psycho-social support. Moreover, in a country ranked 28 out of 199 in terms of

multi-hazard risk, the earthquake has compounded vulnerability and increased risk posed by further earthquakes, floods, landslides and other shocks.

Even before the earthquake, children were among the country's most vulnerable group. More than a third of Nepal's 12.6 million children live below the national poverty line, and almost 70 per cent are deprived of at least one of the seven basic human needs - shelter, sanitation, water, information, food, education and health. In addition, under-five malnutrition stands at 41 per cent at the national level, with even higher prevalence when disaggregated regionally, by wealth quintile, or by gender, caste and other factors of disadvantage.

The interventions based proposed cannot alleviate the material and emotional suffering of the children affected, but are intended as an attempt to help supplement the most immediate household expenditure requirements, and then phase in a reliable, predictable form of income support for the medium term, firmly situated the government's Framework for Social Protection, which follows the vision of a social protection floor for all.

Finally, it is hoped that the success of the proposed intervention during this emergency will constitute a tested mechanism that can be integrated into the menu of response options ready to be activated swiftly in the wake of another future emergency.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
1. INTRODUCTION	6
1.1. BACKGROUND	6
1.2. MAIN OBJECTIVES	6
1.3. RATIONALE	7
2. THE CURRENT SOCIAL PROTECTION SYSTEM, AS A BASIS FOR THE EMERGENCY RESPONSE	8
2.1. SCOPE AND INSTITUTIONAL ARRANGEMENT	8
2.2. BUDGETARY ALLOCATIONS	8
2.3. GOVERNMENT COMMITMENTS AND ENGAGEMENT IN SOCIAL PROTECTION FOR CHILDREN	9
2.4. THE CURRENT CHILD GRANT PROGRAM IN NEPAL	9
3. DESCRIPTION OF THE PROPOSED SOCIAL PROTECTION INTERVENTION	11
3.1. COMPONENT 1: SHORT-TERM EMERGENCY RELIEF	11
3.2. COMPONENT 2: MEDIUM AND LONG-TERM CASH TRANSFER COMPONENT	14
4. FINANCING THE PROPOSED INTERVENTION	17
4.1. SHORT-TERM MEASURES	17
4.2. LONG-TERM MEASURES	19
5. LINKING THE MEASURE TO THE VISION OF COHERENT SOCIAL PROTECTION SYSTEM IN NEPAL	21
6. MONITORING AND EVALUATION (M&E)	22
7. OUTLOOK	24

LIST OF TABLES

Table 1: Total Beneficiaries of Social Assistance program, Cost per Beneficiary per Instalments NRs, and Total Cost in USD, 2015	13
Table 2: Total Population, Under 5 Population, Monthly Cost of Scaling Up Child Grant NRs and USD.	15
Table 3: Funds Required to Fund the Child Grant for 3 or 6 months, USD	17
Table 4: Costing Options for Scaling Up the Child Grants Nationally.....	21

LIST OF FIGURES

Figure 1: Distribution of the Social Protection Allocation across the Different Programs, 2014/15.....	9
Figure 2: Number of Children under 5 in thousands, 1980-2050	16
Figure 3: Workers' Remittances and Gross Official Reserves, Millions USD, 2010/11- 2014/15	18
Figure 4: General Government Gross National Debt as a per cent of GDP, 2013.....	19

1. INTRODUCTION

1.1. Background

The 2 earthquakes in Nepal that hit the country on April 25 and May 12, 2015 killed 8,631 people. 2.8 million people are in need of humanitarian assistance. Over 860,000 people are in immediate need due to loss of shelter, limited road access and poverty. Half of those who died in the earthquakes were women, and one person out of four was a child under the age of 10. It was recorded in late May that at least 300 children were orphaned by the earthquake. 1 million children are in urgent need of support, and over 360,000 children and 185,000 women require micronutrients supplementation and urgent health and nutrition attention. Almost half a million homes were destroyed. 870 million children are without classrooms to return to. Many children are traumatized and need psycho-social support (UN OCHA Nepal earthquake reports No 17 and 18 and UNICEF Nepal, May 2015). Moreover, in a country ranked 28 out of 199 in terms of multi-hazard risk (InfoRM multi-risk database, 2015), the earthquake has compounded vulnerability and increased risk posed by further earthquakes, floods, landslides and other shocks.

These statistics show the order of magnitude of the two earthquakes' impact. They can only superficially convey the horror experienced by the survivors, but they do show that children are disproportionately affected and in special and urgent need of support. The interventions based on this proposal will not entirely alleviate the material and emotional suffering of the children affected, but are intended as an attempt to help supplement the most immediate household expenditure requirements, and then phase in a reliable, predictable form of income support for the medium term. The road to recovery will be long and steep. This lays down the basis for a protection floor as a first among many steps needed in many areas – education, health services, and physical care and emotional nurturing for children who have lost family members, notably parents and siblings.

The proposal has two elements – one is to offer immediate cash transfers linked to behavioural change messaging to strengthen resilience in the 11 districts most affected by the earthquake. The focus is on the people most vulnerable because of their age, gender or caste, hence the Dalit, widows and single women, people living with disabilities, and children. The second is to introduce a program of universal child benefits, for all children under 5, in the earthquake-affected districts, as part of Nepal's social protection system and the emerging larger social protection framework.

1.2. Main Objectives

The intervention aims to provide short-term assistance to the population affected by the earthquake, as well as reinforce and expand the existing social child grants program. We argue that the fastest and best way to respond to the most pressing needs following the earthquake and to help the poor and vulnerable households build their resilience capacities is to have a strategy in two phases:

- **Provide short-term emergency relief using existing social assistance programs as the base for the emergency “top-up”.** This temporary benefit will provide an increment to the current benefit program for these vulnerable groups: Senior citizens, widows and single women, Dalit children, orphans, and people living with disability. It will cover the 11 most affected districts by the earthquake, using the methodology as well as distribution mechanisms of existing social transfer programs already in place in those districts.

- **Use the short term emergency relief as a catalyst to expand, reinforce, adapt and progressively scale-up and universalize the existing child grant program** to play a proactive role in helping the poor and vulnerable households build their resilience capacities, and to make the program flexible and scalable so it can play a reactive role in case of future natural hazard strikes.

1.3. Rationale

Evidence has shown that linking the emergency response to existing social protection programs carries the potential to:

- Provide timely, effective and efficient, and transparent humanitarian action;
- Provide an opportunity to reinforce, scale up and gradually universalize the existing social protection system.

2. THE CURRENT SOCIAL PROTECTION SYSTEM, AS A BASIS FOR THE EMERGENCY RESPONSE

2.1. Scope and institutional arrangement

Nepal has a well-established system of cash transfers which we describe briefly in this section, since it forms the methodological and institutional basis for the “emergency top up”. The Social Protection Task Team in 2012 recorded 11 cash transfer programmes, three in-kind programmes, and five livelihood- and employment related schemes (UN System Task Team 2012, UNDG Asia-Pacific 2014). A full list of these benefits including eligibility and benefits levels are attached in the Annex. They have grown out of decisions of different government coalitions. An early social protection innovation was the universal tax-funded social pension introduced in 1995, one of the first globally. Another significant shift in social protection was driven by an interest to improve the country’s socio-economic conditions after the end of the civil conflict, and at the same time by the generally expanding social policy interest in social protection observed in South Asia since the early 2000-noughts (Khatiwada and Koehler 2014; Koehler 2014c).

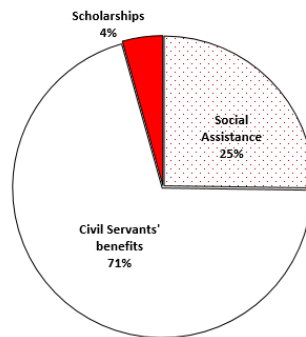
Institutionally, the Ministry of Federal Affairs and Local Development (MoFALD) manages the majority of the cash transfer schemes (i.e. social old age pensions, grants for single women, indigenous groups, and the Child Grant). MoFALD is responsible for the Karnali employment scheme, while the Ministry of Agricultural Development (MoAD) runs other livelihood schemes. The Ministry of Education (MoE) manages the education grants. There is a food distribution system under the leadership of the MoAD and Cooperatives. The Ministry of Peace and Reconstruction (MoPR) administers social pensions for those affected by the conflict (IDS 2014; UNDP 2014; Koehler et al., 2009).

The National Planning Commission (NPC) is currently preparing a National Framework for Social Protection (2069-2079 BS), under an effort led by an inter-ministerial National Steering Committee. This is a crucial process, since one important effect of the framework would be to come to a common strategy, such as one based on a lifecycle approach. The framework would obviously create an umbrella mechanism for the various social protection transfers. The Child Grant is acknowledged as the key policy to support children in the draft of the new Framework (NSCSPF 2012).

2.2. Budgetary Allocations

The relatively strong commitment of the Nepal Government to broad social security is reflected in its fiscal budget patterns. Fiscal year 2014/5 allocation to social protection was projected to reach 11.29 percent of overall public spending and 2.67 percent of GDP (Ministry of Finance, 2014). This is higher than the South Asian regional average of 2.4 percent of GDP (The World Bank, 2013). However, the bulk of the social protection spending is on formal social security programs to the civil servants. This means that social assistance is biased toward the formal sector, and towards male employees (Koehler 2014b). Nevertheless, the social assistance program increased significantly over the past few years, starting from very low benefit amounts, and is projected to increase by 17.82 percent in real-term for the fiscal year 2014/15 (Ministry of Finance, 2014).

Figure 1: Distribution of the Social Protection Allocation across the Different Programs, 2014/15.



Source: Based on data from Ministry of Finance (2014)

2.3. Government Commitments and Engagement in Social Protection for Children

In Nepal's Interim Constitution of 2007, Article 22 on the right of child commits that "every child shall have the right to get nurtured, basic health and social security." Article 35 on state policies deepens this provision, promising that "The state shall pursue a policy of making special provisions of social security for the protection and welfare of single women, orphans, children, helpless, the aged, disabled, incapacitated persons and the ... tribes." (Interim Constitution of Nepal 2007, emphasis the authors).

In the Three Year Plan Approach Paper (2010/11 - 2012/13) the Government devoted a noteworthy portion of the plan to child protection (GoN 2010), while the Approach Paper to the Thirteenth Plan reconfirmed "...the four key rights of children, survival, protection, development and meaningful participation" (GoN 2013), under reference to the Ten-Year Children's National Action Plan. Particular concerns are with malnutrition, child labour, and children suffering from the aftermath of the civil conflict.

The GoN first introduced the Child Grant in fiscal year 2009/2010, in the context of an expanding set of social policies provided in that budget (for an overview see Upreti et al., 2012). As stated in the National Budget speech, the objective of this program was specifically to improve the nutrition of children (MoF 2009). In addition, from 2012 onwards MoFALD proscribed that 35 per cent of the annual block grant disbursed to village development committees is to be allocated to measures devoted to the empowerment of children (10 per cent), women (10 per cent) and disadvantaged groups (15 per cent) (GoN 2013; MoFALD 2012). These two social policy measures combine to signal a notable government commitment to child wellbeing and rights.

2.4. The current Child grant Program in Nepal

The Child Grant was first introduced in fiscal year 2009/2010 with the objective of improving the nutrition of children (MoF, 2009). Eligible children, up to two per family in the current approach, are entitled to a benefit of NRs 200 per month which would sum up as 2400 rupees per child per year, with a maximum of 4800 rupees per family where there are two under-5 children, to be paid in trimesterly instalments. Since inception of the program, none of the design elements have been

revised and the benefit amount has not been raised; there had been no indexing to the national CPI, nor pegging to local food prices. ¹

The Child Grant is currently geographically targeted to all under-5 children in the five Karnali districts², which are the poorest in the country in terms of per capita income, and have the lowest human development index outcomes (UNDP 2014), and to under-5 children from low-income Dalit families across the entire country. However, the government at the time of introduction indicated its intention of scaling up the program nationally to reach universal coverage of all children under 5 in due course ³ (Khatiwada and Koehler 2014). In fact, GoN in its Budget speech 2012/ 2013 announced the intention to expand the Child Grant to Bhanjang and Bajura districts, though the implementation is yet to start (MoF 2012).

A survey conducted in 2012/3 showed that the Child Grant covered a total of 551,916 children in Nepal (90,349 in Karnali and the others are from Dalit background across the country), which is slightly more than one out of five children under five years-old (Adhikari et al., 2014). Compared to early-phase outcomes of child benefits programs in other countries, and considering Nepal's economic challenges as a least developed country (LDC), this is a remarkable achievement, in terms of the absolute number and share of child population reached.

The Child Grant uses the same registration and delivery mechanism as Nepal's other cash transfer programs, such as the social pension, transfers to people living with disability, the education grants and others. At the central government level, MoFALD is responsible for implementation. Registration and delivery of the grant are managed by the Village Development Committees (VDCs) with supervision from the District Development Committees (DDCs) (IDS 2014).⁴

Although the design does not have an explicit conditionality, the implementation process has facilitated birth registration, which is obviously a prerequisite to claiming the grant. Birth registration for children below 5 years on average increased to 90 per cent in the Karnali districts, which is more than double the 2010 rate of 42 per cent for the same districts (UNICEF and NTAG, 2012). However, an effort is still needed to increase the coverage of the Child Grant among children below 12 months of age, which is significantly lower. For example, the birth registration rate among infants younger than 12 months was 63.2% compared to 98.4% of children aged 48-59 months (GoN, UNICEF & VaRG, Forthcoming).

¹ The remote regions in Nepal, including the Karnali Zone, experience a particular effect of high food prices due to transportation costs, which may be different from the general level of food price inflation. Therefore, Adhikari et al (2014) recommend pegging the grant to local food prices.

² These districts are: Jumla, Humla, Dolpa, Kalikot and Mugu.

³ The original intention of the program was to be a universal measure from the start, covering all children in Nepal under the age of 5. Policy discussions decided to introduce a limit of 2 children under 5 per family, and budget constraints made it necessary to introduce geographical and categorical targeting.

⁴ For a more in-depth review of the delivery mechanics and its shortcomings, see IDS 2014.

3. DESCRIPTION OF THE PROPOSED SOCIAL PROTECTION INTERVENTION

In this paper, we argue that any proposed cash transfer program needs to address the immediate needs of the population, but at the same time avoid short-term ad-hoc measures that will cause new economic vulnerabilities when they are discontinued, and that jeopardize the long-term economic and political sustainability of social sector interventions. It is technically and politically important to build on, but extend, the existing social protection system, and at the same time include emergency response and risk reduction considerations into the vision for the emerging National Framework for Social Protection.

It is against this background that the paper identifies that the fastest, most efficient and transparent way to link the immediate needs to the long-term vision of a coherent and socially inclusive social protection framework is to pursue a strategy at two levels:

- Short-term emergency relief: using the existing government system of social assistance as the base for the emergency “top-up”. This temporary benefit provides an increment to the current benefit program for these vulnerable groups: Senior citizens, widows and single women, Dalit children, orphans, and people living with disability. It covers the 11 most affected districts most affected by the earthquake, using the existing government distribution mechanism for social transfers.
- Medium-term component contributing towards an effective social protection floor: scale-up and universalize the existing child grant in the 11 most effective districts⁵ to cover all children under the age of 5. This is age-based “categorical”, combined with geographical targeting. The experience accumulated so far from the Karnali districts make it administratively simple and politically unifying because most families tend to have children, so that many households will be covered by the benefit automatically, and it is understood as a right. In the long run, the cash grant could help achieve the goal of minimum social protection for all in the context of the National Framework for Social Protection (NSCSPF 2012), and in tune with global consensus around a social protection floor based on a life-cycle approach.

3.1. Component 1: Short-term emergency relief

Proposed intervention

One immediate emergency response needs to be to assist affected households through income support. There has accordingly been significant interest in emergency cash transfers as an instrument in the aftermath of the two earthquakes in Nepal. Recent market assessments showed that more than 50 percent of the markets are functional in the 11 affected districts (Cash Coordination Group, Market assessment report).

⁵ Namely: Sindhupalchok, Nuwakot, Dhading, Gorkha, Rasuwa, Kavhrepalanchok, Dolakha, Sindhuli, Ramechhap, Makawanpur, and Okhaldhunga

The proposed intervention will complement measures that have already be put in place by the Government, which focus on the labor constrained affected population. The government responded with short-term cash transfer measures. For instance, the Prime Minister's relief fund provides cash support of NRS100,000 per person (USD 1,000) to the families who lost their family members, and additional NRS 40,000 (USD400) for funeral expenses (both measures are one time support). Another decision put forward by the government is to provide NRs 25,000 (USD 250) for house repair (no guidance on criteria as of late). For other losses, the relief fund under the leadership of the Chief District Officer will collect all the information and decide on the type of support (often reconstruction), benefit amounts and eligibility. The government, with support from development partners, has developed guidelines and programs for cash-for-work schemes. Other small-scale and donor-funded cash transfers are also reported. There is a gap of coverage for those who are unable to work in the typical cash-for-work programs. This includes persons with disability, senior citizens, and children-headed households, among other vulnerabilities.

In light of systemic social exclusions observed in Nepal (Bennett 2006), safeguards will be put in place to ensure that the intervention is fully inclusive of Dalit, Muslim and other systemically disadvantaged populations, and does not discriminate against women-headed households, widows, or child-headed households⁶.

The existing categorical social assistance programs' targeting and delivery mechanisms will be used to deliver the short term transfer that will be given as an emergency top-up. We propose to focus on six vulnerable groups: Senior citizens, widows and single women, Dalit children, orphans, and people living with disabilities, covering the 11 most affected districts. We further propose two rounds of emergency top-ups, with each top-up amounting to NRs 3,000 (USD 30) per beneficiary. It is noted that households might qualify for more than one of the categories, so they are eligible for several transfers - which in theory correlates the benefit level the household receives to the level of vulnerability.

The first instalment should be transferred to the right holders as soon as possible, ideally 15 June. As for the second payment, it should be delivered in September 2015 right before the major festival season in Nepal (Dashain). The disbursement dates should be announced publicly as soon as the decision is made, so that recipients can factor this transfer into their household budget planning.

Given the high risk of further shocks in Nepal including landslides linked to the aftermath of the earthquake as well as monsoon floods that can instantly set back any reduction in general poverty and specifically in child poverty, it is proposed that the first round of emergency top ups is accompanied by behavioural change messages that can contribute to reducing the household's vulnerability to disaster. These messages will be targeted both to specific vulnerable groups and to specific sectors, and linked to relief and recovery outcomes. Such messages will also be relevant since the top up, or other source of income, might well be used for housing reconstruction. For example, simple shelter guidance already developed by the Shelter cluster, household preparedness measures, checklists to protect water sources from contamination and key health messages relevant to the rainy season or further earthquakes and other natural disasters will be developed and made available at the time of the

⁶ There is anecdotal reporting in the press and private conversations of the difficulties that socially disadvantaged groups experience in accessing the emergency cash transfers.

first disbursement. Messages on gender awareness and the risk of child labour also need to be reinforced.

Administratively, eligible beneficiaries can be identified from the government list of social assistance beneficiaries available in all VDCs and DDCs. This is the most efficient and transparent option for identifying the beneficiaries in the emergency situation and in a short period of time.

It is to be noted that the earthquake has affected a large share of the population and many households are displaced and temporarily seeking shelter in makeshift accommodation, as well as tents, tarpaulins and worse. If alternative targeting (other than the proposed) or beneficiary identification approaches were used, it is likely to take 3 to 4 months and could further create division within communities. This is one of the reasons we believe using universal coverage (within a category) is the most appropriate measure at this stage.

Costing of component 1

Based on the most recent administrative data obtained from the department of Social Protection and Vital Registration, MOFALD, the total benefit amount to be disbursed can be calculated as the product of beneficiaries multiplied by the benefit amount for each instalment. The following table estimates the cost of one instalment.

Table1: Total Beneficiaries of Social Assistance program, Cost per Beneficiary per Instalments NRs, and Total Cost in USD, 2015

	District	Widows	Senior Citizen	Senior Citizen (Dalit)	Single Women	Fully Disabled	Disabled	Endangered Community	Dalit Children	Total beneficiaries
1	OkhalDhunga	2901	6600	0	1739	226	412	0	2434	14312
2	Dolakha	4765	9063	1581	16	139	113	190	1606	17473
3	Ramechhap	3630	9766	702	3480	669	465	1020	2453	22185
4	Sindhuli	7262	7744	1857	20	525	53	1885	3786	23132
5	Rashuwa	507	1993	130	654	182	53	0	122	3641
6	Dhading	7586	17284	3963	32	574	877	0	5107	35423
7	Nuwakot	3778	14226	1798	4715	427	442	0	4156	29542
8	Kavrepalanchowk	8825	15021	1271	50	495	400	66	2029	28157
9	Sindhupalchok	4731	13565	1779	4242	605	499	0	2265	27686
10	Makawanpur	7637	8953	942	225	282	258	76	1183	19556
11	Gorkha	8686	14035	3791	48	517	700	7	4766	32550
	Total Beneficiaries (11 districts)	60308	118250	17814	15221	4641	4272	3244	29907	253657

Cost of one instalment of NRs 3000 per beneficiary.

Benefit amount (NRs)	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Total cost (USD)	\$ 1,809,240	\$3,547,500	\$ 534,420	\$ 456,630	\$139,230	\$ 128,160	\$ 97,320	\$ 897,210	\$ 7,609,710	

Source: Authors' calculation based on administrative data from MOFAL (2015).

Exchange rate: USD1 = NRs 100

In summary:

- Cost of first top-up payment: USD 7,609,710
- Cost of second top-up payment: USD 7,609,710
- Cost of the proposed emergency cash transfer program: USD 15,219,420

This amount will be marginally increased by the cost of a benefit to orphans – children who have lost one or both parents due to the earthquake. The approximate amount for fundraising purposes is USD 16 million.

It is noted that benefit amounts are to be distributed through the existing delivery mechanism, so it is assumed that no additional administrative costs will arise. However, there will be a need for spot-checks and monitoring mechanism, which can be a stand-alone program that will require supplementary funding.

3.2. Component 2: Medium and Long-term cash transfer component

Proposed intervention

While the short-term emergency top-ups are implemented, the process of identification of all children under 5 years old in the 11 earthquake-affected districts will be initiated. It is expected to take 1-2 months. This will allow the government to scale up and universalize the Child Grant to the 11 districts severely affected by the earthquake, starting from autumn 2015. This can build on the institutional arrangements for social protection transfers currently in place. A move in this direction gives a signal to the population that the government is doing what is in its capacity to provide support. It responds immediately to the economic needs of the affected population, and at the same time maintains coherence in the system of social protection, and thus can contribute to the vision of a consolidated, coherent system under the planned social protection framework.

The proposed universal under-5 child grant for the 11 earthquake affected districts is a developmental intervention. It responds to Nepal's poverty profile, and notably to the pressing issue of child poverty. A study published in 2010 showed that more than a third (35.6 per cent) of Nepal's 12.6 million children live below the national poverty line, and almost 70 per cent are deprived of at least one of the seven basic human needs - shelter, sanitation, water, information, food, education and health (UNICEF, New Era and NPC 2010). In addition, under-five malnutrition is a persistent problem. It stands at 41 per cent at the national level, with even higher prevalence when disaggregated regionally, by wealth quintile, or by gender, caste and other factors of disadvantage (UNICEF, New Era and NPC 2010). Moreover, tragically, children under 10 were the highest casualty group in the earthquake for reasons that still require analysis.

Thus, a cash transfer to children addresses child poverty and if used well, can address child malnutrition and other deprivations, and contribute to overcome vulnerabilities based on social exclusion. It is essential to accompany the child grant program with support to pregnant women and young mothers, and with public health messages and support around child nutrition.

Costing of component 2

Two different scenarios with three amount levels are discussed, so as to provide options, and respond to additional funding opportunities as they may arise.

- First, to replicate the current benefit level as implemented in Karnali districts, which stands at NRs 200 per child per month (15.54 percent of the food poverty line as of 2014).
- Second, alternatively, an increased amount of NRs 300 per child per month (23.17 the food poverty line as of 2014);

- or NRs 500 per child per month (38.62 the food poverty line as of 2014), which would correspond to other social assistance programs such as disability or pension grants.

It must be noted that this is a per child benefit, which implies that poorer households who tend to have more children will have cumulative child grant inflows and notionally benefit more, if one assumes that there are some economies of scale in terms of household food expenditures.

The total benefit amount spent under each scenario is calculated as the product of the beneficiaries and the benefit amount. As a new program, administrative cost (and possibly inclusion error) is assumed conservatively at 20 per cent of the benefit amount.

For the data on the beneficiaries, the study uses the data from the census 2011. The population of children under 5 are projected in year 2015 by employing the medium-variant population projection model developed by the United Nations Department of Economic and Social Affairs, Population Division (UN DESA 2013).

The following table summarizes the cost of the proposed scaled-up system per month.

Table 2: Total Population, Under 5 Population, Monthly Cost of Scaling Up Child Grant NRs and USD.

	Districts	Total Population	U5 population as of 2011	U5 population as of 2015	Cost: Monthly PMT (NRs 200)	Cost: Monthly PMT (NRs 300)	Cost: Monthly PMT (NRs 500)
1	Sindhupalchok	287,798	23,524	22,171	4,434,288	6,651,432	11,085,719
2	Nuwakot	277,471	21,784	20,531	4,106,297	6,159,445	10,265,742
3	Dhading	336,067	30,082	28,352	5,670,475	8,505,712	14,176,187
4	Gorkha	271,061	23,204	21,870	4,373,968	6,560,951	10,934,919
5	Rasuwa	43,300	3,755	3,539	707,820	1,061,730	1,763,549
6	Kavrepalanchok	381,937	28,013	26,402	5,280,467	7,920,700	13,201,167
7	Dolakha	186,557	15,737	14,832	2,966,434	4,449,651	7,416,084
8	Sindhuli	296,192	30,927	29,149	5,829,758	8,744,636	14,574,394
9	Ramechhap	202,646	16,029	15,108	3,021,532	4,532,298	7,553,830
10	Makawanpur	420,477	38,209	36,012	7,202,419	10,803,628	18,006,047
11	Dokhaldhunga	147,984	13,999	13,194	2,638,874	3,958,311	6,597,184
Total		2,851,490	245,264	231,162	46,232,329	69,348,494	115,580,823
Total Monthly Cost including 20% administrative cost and inclusion error, NRs					55,478,795	83,218,193	138,696,988
Total Monthly Cost including 20% administrative cost and inclusion error, USD					\$ 554,788	\$ 832,182	\$ 1,386,970

Source: Authors' calculation based on census (2011) and UN DESA (2013)

Exchange rate: USD1 = NRs 100

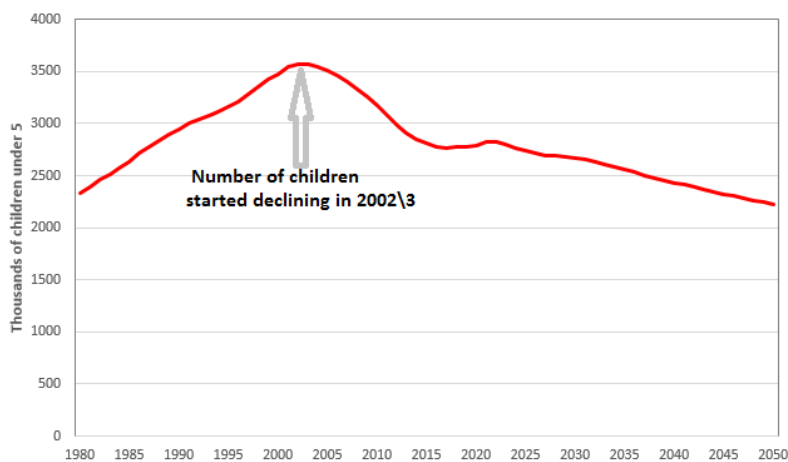
The total monthly cost would range between roughly NRs 55 million (\$555 thousand) and NRs 116 (\$1.4 million), depending on the benefit amount introduced. On an annualized basis, this would comprise between 0.12 - 0.31 percent of the total public spending, as it currently stands. This is an

important consideration, since over the medium term, the financing of the child benefit would revert to the Government.

Two observations on the cost:

- 1- As an entitlement program, this child grant will continue after the emergency ends. This is in tune with the government's intention to scale up and universalize the child grant over time, and can play a modest role in helping households with children to recover, over time, economically from the loss of assets and income as result of the earthquake. In terms of fiscal burden, it benefits from an observed favourable demographic environment where the number of children per family has started to decrease in 2002/3, which makes the system more affordable over the longer time horizon, assuming constant benefit amounts.

Figure 2: Number of Children under 5 in thousands, 1980-2050



Source: Authors' calculation based on data from UN DESA (2013)

- 2- While it is preferred to cover the above most affected districts as a priority, another policy scenario can be to focus on a subset of the above districts, in case there is an issue on available funding (details on financing is discussed later). For instance, an objective geographical selection criteria for eligible districts could combine the impact of the earthquake with Human Development Indicator levels. An additional, but complicated measure, would be to factor in the district's average remittance inflows or other factors.
- 3- Because of the very low benefit amount, the child grant should not be seen as a stand-alone measure. Nepal at this point has a system of cash transfers and in-kind benefits that respond to a wide range of needs (see annex 1). The system, while fragmented, allows for multiple coverage, which creates flexibility and can address the various vulnerabilities that stem from poverty and deprivations. It should be conveyed to the general public that the objective of this benefit is to function as a top up for other benefits and to respond to the special needs of households with children.

4. FINANCING THE PROPOSED INTERVENTION

Several options are conceivable to finance the proposed interventions (short-term and long-term). The study recognises the need for immediate short-term measures to fund the proposed benefit at this critical time, but at the same time identify other long-term measures within Nepal’s fiscal envelop without jeopardising the sustainability of its budget position or the stability of the economy.

4.1. Short-term measures

The most feasible short-run measures include:

- **Donor funded:** the proposed benefits can be part of the donor community commitment to support Nepal to cope with one of the worst crises in Nepal’s history.

For the **short-term relief measure to the vulnerable groups**, the two payments cost less than USD 16 million (see section 3.1 above). This is a miniscule 3.8 per cent of the amount of US\$ 423 million estimated in the Consolidated Appeal (UN-OCHA 2015). For the long-term **scale up of the child grant to cover all children in the 11 earthquake-affected districts**, the cost would range between US\$ 3 to 8 million to cover 6 months, depending on the benefit amount (see table 3 below). For these disbursements in 2015, again donor-funding is recommended. This would give the time for the government to free up fiscal space to continue the child grant measure and integrate it in its system of social protection. The government showed interest in integrating the universal under-5 child benefit into its budget from 2015/2016.

The below table shows the needed funds for a period of 3 and 6 months to cover the emergency benefit.

Table 3: Funds Required to Fund the Child Grant for 3 or 6 months, USD

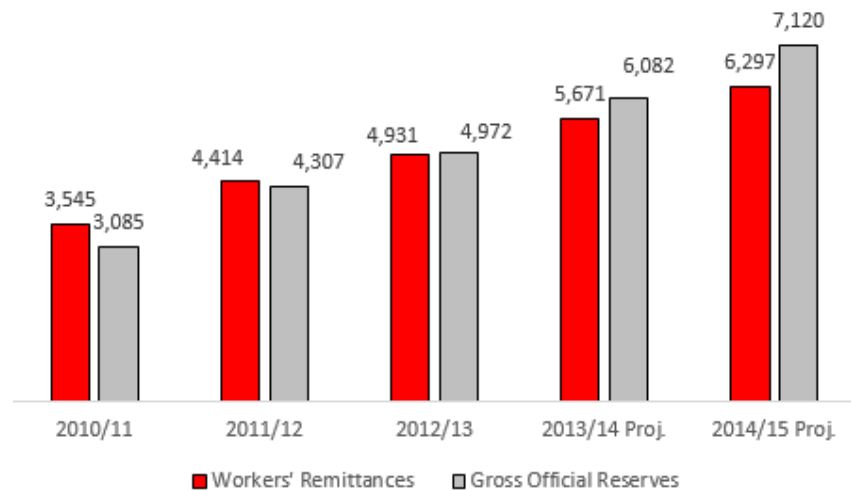
	Cost to cover the benefit for 3 months	Cost to cover the benefit for 6 months
Monthly Payment of NRs 200	\$ 1,664,363.86	\$ 3,328,727.72
Monthly Payment of NRs 300	\$ 2,496,545.79	\$ 4,993,091.57
Monthly Payment of NRs 500	\$ 4,160,909.64	\$ 8,321,819.29

Source: Authors’ calculation based on data from census (2011), UN DESA (2013)
Exchange rate: USD1 = NRs 100

- **Debt Swap:** Nepal can benefit from debt swaps possible agreements that allow Nepal to commit injecting the equivalent amount of the public sector debt into social sector projects.
- **Borrowing from the International Reserve held by the Central Bank:** Foreign exchange reserves are accumulated through foreign exchange market interventions by central banks within the context of current account surpluses and/or capital inflows. Countries build up foreign exchange reserves usually to self-insure against economic and financial shocks and also as part of broader efforts to stabilize the macro-economy, especially exchange rates

(Ortiz, Chai, & Cummins, 2011). Continuation of growth in remittance inflows, estimated to have reached about 30 per cent of GDP in 2013/14 as compared with only 9 per cent of GDP in 2000, has boosted the build-up of Nepal's Net International Reserve, which is currently totalling US\$ 5.846 billion as of March 2014 (IMF, 2014). This amount could be used to secure the payments from the fiscal budget.

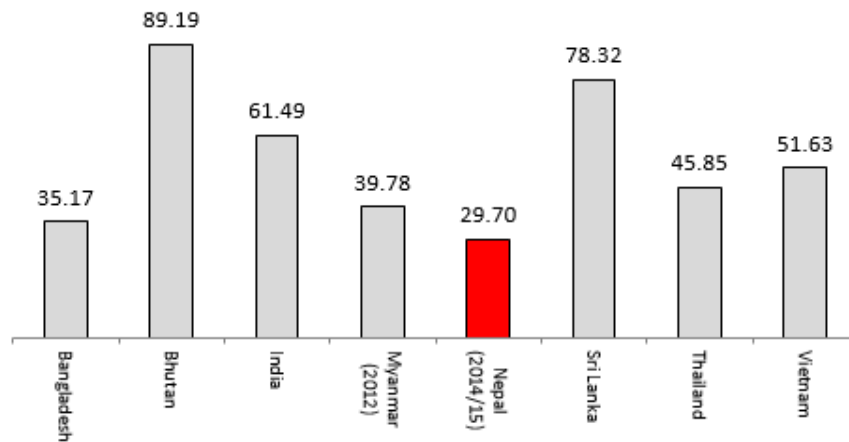
Figure 3: Workers' Remittances and Gross Official Reserves, Millions USD, 2010/11- 2014/15



Source: Based on data from IMF (2014).

By any measures, the gross official reserves are very high. For instance, they cover almost 8.1 months of prospective imports as of March 2014 (IMF, 2014) - significantly higher than the conventional three-month safe level benchmark. It is worth noting that Nepal enjoys a low public debt projected to decline to only 29.70 per cent of GDP by end of fiscal year 2014/5 (Ministry of Finance, 2014), which is half of the ratio of around 60 per cent a decade ago (IMF, 2014). It also compares favourably with regional comparators. Given the low public debt in Nepal, the government has an ample room to create fiscal space by borrowing from the central bank's reserve to increase public spending.

Figure 4: General Government Gross National Debt as a per cent of GDP, 2013



Source: Based on data from Ministry of Finance (2014) and IMF (2014).

4.2. Long-term measures

Any long term financing mechanism must be thoroughly looked at to ensure consistency of the several interventions, sustainability, and contribution to the long-term path of balanced growth. Fiscal space is defined as “the room in the government’s budget that allows it to provide resources for a desired purpose without jeopardising the sustainability of its financial position or the stability of the economy” (Heller, 2005).

In a study on Nepal’s fiscal envelope (Rabi, 2014), several options were discussed in detail. The core conclusion is that Nepal enjoys a comfortable fiscal environment that allows it to increase allocation to key social sectors within its long-term sustainability and balanced growth path.

Key highlights:

- Nepal over the past couple of years enjoyed a budget surplus due to improved tax compliance combined with low budget execution levels, especially with respect to expenditure on the capital budget. As a result, Nepal enjoys a low public debt (see above).
- Even if this changes as Government budget is allocated to earthquake recovery, there is still ample fiscal space. This is because donor support and interest-free loans can be expected, and the starting basis is sound, especially compared to other countries.
- Nepal has a tax to GDP ratio of 17 per cent and revenues (excluding grants) to GDP ratio of 20 per cent in 2014/5 – which is a comparatively high rate for a low-income country and outstrips the regional average⁷.

⁷ South Asia Averages are 9.0 and 11.5 percent of GDP for tax and revenue (excluding grant), respectively (World Bank 2014).

- The tax system relies heavily on indirect taxes. The more progressive direct tax items on property, income, profits, and capital gain constitute about a quarter of the total tax collection. While the direct taxes can potentially grow further, their growth rate was at a lower rate than that of the more regressive tax items; indicating a potential increase in the overall regressivity of the tax system in Nepal. There is therefore a case to introduce progressive taxes.
- Continuation of growth in remittance inflows, estimated to have reached about 30 per cent of GDP in 2013/14 as compared with only 9 per cent of GDP in 2000, has boosted the build-up of Nepal's Net International Reserve, which is currently totalling US\$ 5.846 billion as of March 2014 (IMF, 2014).
- In addition to the remittances inflow, Nepal continues to benefit from inflows of grants. Grants are projected to amount 3.6 per cent of GDP for fiscal year 2014/15. Most of the grants are directed to recurrent spending (MoF, 2015). Additional earthquake recovery grants can be expected from international and regional donors and financial institutions.
- In addition to legal financial flows, curtailing illicit financial flows (IFFs) could also free up additional resources. IFFs involve capital that is illegally earned, transferred or utilized and include, inter alia, traded goods that are mispriced to avoid higher tariffs, wealth funnelled to offshore accounts to evade income taxes and unreported movements of cash (Ortiz, Chai, & Cummins, 2011). A study estimated on average IFFs outflow from Nepal between 2000-2008 to have totalled US\$ 563 million annually (Dev Kar & Curcio, 2011), which is about 7.12 per cent of GDP over the same period.

5. LINKING THE MEASURE TO THE VISION OF COHERENT SOCIAL PROTECTION SYSTEM IN NEPAL

The above proposal is response to the earthquakes of April and May 2015, with its recommendations on **immediate** social transfer measures to cover the especially vulnerable groups in the 11 earthquake affected districts, and the recommendations for introducing a universalized form of child grant in these districts from **autumn 2015**.

A longer term, systematic approach needs to integrate the proposed child grant measure into the overall vision of Social Protection in Nepal on two levels. Firstly, in terms of coverage, the Government may consider scaling up the child grant gradually to all districts, making it universal. It could become a keystone of the Social Protection Floor Framework. Secondly, at the design level, it is recommended to augment the benefit amounts to enhance the impact and strengthen the monitoring and evaluation system, seeing that small benefit amounts do not sufficiently cover the child poverty and household income poverty gaps. A proposed higher benefit amount would also be par to the benefits under other social protection schemes such as the old age and widow allowances.

Other options the GoN may wish to consider in the future include changing the age eligibility. For example, coverage would move forward into the pregnancy phase. In that connection, one option for consideration would be to adjust eligibility, moving from the current Child Grant format of “nought to 5” to one that goes from pregnancy to 2 years. The rationale for such a model would be that this is the most vulnerable phase in an infant’s life, would support women during pregnancy and breastfeeding periods, and that a shorter time period would make way for higher benefit amounts, which would enable a more tangible contribution to the household income. The coverage of total children will reduce and cost will also be reduced. However, these are options for consideration at a later time, and will require careful technical studies, potential impact evaluations and incidence analyses, and a transparent and inclusive political debate with all beneficiaries.

Table 4: Costing Options for Scaling Up the Child Grants Nationally

Eligibility	Amount (NRs, monthly)	Number of Beneficiaries (in thousands)		Expenditure (Billion NRs)		Expenditure (% of GDP)	
		2014/5	2020	2014	2020	2014	2020
Under 5	200	2,282	2,229	6.57	9.54	0.34	0.26
	300			9.86	14.31	0.5	0.39
	500			16.43	23.85	0.84	0.65
1000 Days (From Pregnancy until Under 2)	500	1,315	1,392	7.63	11.97	0.39	0.33
	750			11.46	17.95	0.59	0.48
	1000			15.28	23.94	0.78	0.64

Source: Authors’ own calculation appeared in earlier work (Rabi et al, 2015)

6. MONITORING AND EVALUATION (M&E)

The magnitude and size of the proposed interventions necessitate a very high level of commitment and confidence that the cash transfers will succeed in addressing the acute income vulnerabilities of the affected population groups. It also calls for high level, integrated and intense monitoring efforts to mitigate the level of risks the programs entail, and quickly correct any shortcomings or inadvertent negative effects. The overall objective of the M&E effort will be to assess regularly the intervention's performance to inform the government, UNICEF, and other development partners on delivery and impact results, and on what could be improved. In addition, the short term monitoring and evaluation framework can provide evidence-based information to guide a possible replication of such monitoring tools in the other social protection program in Nepal, and feed into the efforts to finalize Nepal's Framework for Social Protection.

Given the need to respond quickly, the short-term focus is to create a monitoring mechanism that ensures transparency, reducing the risk of social exclusion, and responding swiftly to any situation that might emerge while implementing the first payment. An essential component of this will be to institute a helpline to register and answer complaints as a part of UNICEF's commitment to the overall UN framework of Accountability to Affected Populations (OCHA 2011). This helpline, accessible by mobile phone, will be hosted and linked by a network of radio stations operating in all affected districts. During selected programs, people can call in and register their feedback. If it requires a follow up, the radio station is to contact the government official to immediately respond to the concern raised. In addition, independent monitoring teams will be mobilized for periodical monitoring. Spot Checks and consultations with beneficiaries and other citizens will be routinely conducted. A free text message short code will be publicized and communicated widely. Grant beneficiaries will be encouraged to respond to simple survey questions, covering the most critical information needed to monitor the progress of the implementation. The responses could also be collected by other members of the household, or by volunteers from the Association of Senior citizens, Scouts, child clubs, women's groups, Dalit associations, and other CSOs and interest groups.

Following the first instalment, and progressing into the second payment and the scaling up preparation of the child grant, more integrated and intense monitoring effort will be needed, building on sound baselines and existing data. Progressively, efforts will mainly consist of three streams; namely, the existing mechanism within the implementing ministry, a second one led by Civil Society Organizations (CSO) (e.g. the association of senior citizens, Scouts, and NGOs), and a third one led by UNICEF project monitoring staff with that specific mandate. The coordination of this effort will be done through existing public sector structures. The information from these four streams will be integrated and translated into regular monitoring reports to adjust and modify the program as it is implemented.

An umbrella Project Cooperation Agreement between UNICEF and a CSO will form the main instrument to mobilize the civil society component of this monitoring effort. The CSO will be the managing agent for this component and might collaborate with local strong NGOs/interest groups based in the earthquake-affected districts to undertake actual physical monitoring of the transfers. They will interact with beneficiaries and continuously provide feedback to UNICEF managers to improve outreach and transparency of the effort.

We encourage that both evaluations to be carried out for the two components to assess the intervention's effectiveness, relevance and efficiency. For instance, a formative evaluation can focus

on the payment delivery process and beneficiary consultation including surveys, spot check, and group discussions. This information will be used to adjust the program's design and delivery mechanisms where necessary. Finally, we recommend a comprehensive impact evaluation to be conducted to measure the impact of the cash transfer. The methodology (longitudinal and case-control methods) can be used depending on the choice and availability of resources.

7. OUTLOOK

The proposed top-up cash transfers are conceived to address the immediate needs of the most vulnerable populations in the 11 earthquake affected districts. They are women, children, and people living with disabilities. Urgent implementation is of the essence, and the decision of the Nepal Ministry of Finance dated 27 May 2015 “Approval of top up cash transfer for early recovery for vulnerable population affected by the Earthquake” marks the beginning of this crucial intervention.

It is hoped that the success of the proposed intervention during this emergency will constitute a tested mechanism that can be integrated into the menu of response options ready to be activated swiftly in the wake of another future emergency.

Annex: Overview of Social Protection Programmes in Nepal⁸

Programme	Benefit	Implementing Arrangement
1. Cash Transfers		
Senior Citizens Allowance	All persons aged 70+ receive Rs 500/month	Ministry of Women Child and Social Welfare (MOWCSW)/ Ministry of Federal Affairs and Local Development (MoFALD)
Single women's Allowance	Widows, Dalits and Karnali residents aged 60+ receive Rs 500/month	MOWCSW/MOFALD
Disability Allowance	Disabled persons 16+ receive Rs 1000/month (fully disabled), Rs 300/month for partially handicapped	MOWCSW/MOFALD
Endangered Ethnicities Allowance	All household members receive Rs 500/month	MOWCSW/MOFALD
Child Protection Grant	Rs 200/month per child under 5 for up to 2 children for poor Dalit families and all families in Karnali	MOWCSW/MOFALD
Maternity Incentive Scheme (CCT)	Pregnant women receive Rs 500 in Tarai, Rs 1000 in Hills and Rs 1500 in mountains as transportation costs plus Rs 300 provided to health professionals and Rs 1000 reimbursement to facilities. Also free delivery care in 25 low HDI districts.	Ministry of Health and Population (MOHP)/DFID
Senior Citizen Health Treatment Programme	Cash transfers to senior citizens above 65 years	MOWCSW
Natural disaster emergency relief	Cash and in-kind transfers in flood and landslide affected areas	MOHA
Strengthening Decentralized Support for Vulnerable and Conflict-Affected Families and Children (CCT)	4000 households in 5 districts receive Rs 1000 per month for 12 months	MOWCSW/ADB
Subsistence Allowance for those Martyred or Handicapped in the Conflict	Rs 360,000 million provided to IDPs. Rs. 60,000 per year as livelihood support for families of martyrs with an educational allowance for children up to the age of 18 for	MOPR

⁸ Adapted from National Planning Commission. Draft National Framework for Social Protection (2012) and UNDP Development Advocate Nepal, Year 2, Issue 1 (2014) p. 14-15

	<p>up to 3 children.</p> <p>For those injured during the fighting those with more than 50% disability receive Rs100,000, those injured less than 50% receive Rs 80,000, those fully disabled Rs 200,000 – this is a lump sum amount.</p> <p>Those with a member of family still declared “disappeared” they receive 100,000 per family.</p> <p>In addition to the 1 million for those killed, the widows receive Rs 25,000.</p>	
Tax exemption and debt relief	For women, Dalits, disabled, poor farmers, disaster- and conflict-affected	MOF and national banks
2. In-Kind Transfers	Benefit	Implementing Arrangement
Conditional In Kind Transfer through Food and Cash for Assets activity	Food and cash is provided to highly food insecure households through an asset creation programme. This programme also creates opportunities for improved agriculture production in food insecure district	MoFALD/World Food Programme (WFP)
Public Food Distribution System	Food storage/distribution in select districts	MOAC,MOCS, Nepal Food Cooperation,WFP
School Meal Programme and Maternal Child Health Care Programme	School children are provided with nutritious mid-day meals and pregnant and lactating women and young children provided with take-home rations of nutritious food	MOE, MOHP, WFP
Karnali Fortified Food Distribution Programme	All children aged 6-23 months in Karnali are provided with a nutritious food supplements.	MOHP
Iodized Salt Distribution	Supply of salt to boost nutrition	MOHP and Salt Trading Corportaion
3. Access to Services	Benefit	Implementing Arrangement
Education for All	<p>Dalits, Karnali children, girls, children from marginalized groups, conflict-affected children and children with disabilities receive scholarships.</p> <p>Representation of socially marginalized parents in the school management committees and parent teachers association and increased gender representation.</p>	MOE
Free Heath Services	Free services in health posts and sub health posts, primary health centres and district	MOHP

	hospitals for primary health treatment. 40 listed drugs are available free of cost. Free maternity services. Free dialysis and cancer treatment for endangered indigenous communities, citizens over 75 and children under 15 years of age.	
Housing programme	1000 Dalit and Muslim households in 3 Tarai districts are provided with low-cost housing	MOPPW
4. Social insurance	Benefit	Implementing Arrangement
Employee Provident Fund	Workers in Government, Organizations with 10+ employees receive pension and work-related disability payments depending on contribution	Government of Nepal
Gratuity	Employees serving 3 years or more and retiring are entitled to gratuities at different rates depending on years of service	GON
Civil Service Pension Scheme	Civil servants with 20+ years service, armed forces personnel with 16+ years service receive monthly benefits and lump sums based on service and salary	Government of Nepal
Work Injury Insurance	Mine workers , organizations with 10+ employees receive lump sums based on salary and service	Government of Nepal
Citizens Investment Fund	Formal sector workers receive returns on voluntary investments	Government of Nepal
5. Public Works	Benefit	Implementing Arrangement
Rural Community Infrastructure Works	295,000 households receive cash or food in return for 50-70 days employment annually in unskilled and low skilled public works	MOFALD/WFP
Karnali Employment Programme	Aims to provide 100 days employment for 100,000 people in Karnali	MOFALD
Youth Self-Employment Scheme	100,000 youth and adults to receive 100 days employment	MLTM
6. Employment/ Skills Development programmes	Benefit	Implementing Arrangement
Poverty Alleviation Programme	Poor people provided with employment opportunities	NPC/WB
Technical and Vocational Education Training (TVET)	Skills training for poor and disabled people	MOE, MLTM
Assisted Migration	Subsidized loans for economic migrants	MOLTM
Technical Education for Dalits and Poor Girls	Skills Oriented Training	MOE

Child Labour Elimination and Child Labour Reform Programme	Child rights protection	MOLTM
7.Livelihood Programmes	Benefit	Implementing Arrangement
Ultra poor programme	Income generation support in 10 districts	MOAC
Fertilizer and seed transportation subsidy	Ongoing programme in 14 districts	MOAC
Subsidy on chemical fertilizer	100,000 tonnes of fertilizer provided per year to farmers with less than 4 bigha of land in the terai and less than 15 ropani of land in the hills	MOAC
Community Livestock Programme	Income generation support for Dalit and Kamaiya families	MOAC
Kamaiya and Haliya rehabilitation programme	Land access to landless and historically marginalized households	MOLRM
Leasehold forestry programme	Land access provide to food-insecure communities living in areas adjacent to degraded forest	MOFSC
8. Care Services	Benefit	Implementing Arrangement
Social care services for children, senior citizens, PWDs and women	Services for poverty and vulnerability reduction	MOWCSW, MOHP, MOE
9. Others	Benefit	Implementing Arrangement
Special Provisions for people with disabilities	50 per cent discount on transport fare in public land transport, domestic flight. Free health check up to persons with disabilities in government hospital 5 per cent quota reservation in civil service and 4% in private sectors company (according to the disabled protection and welfare Act) Custom tax waiver to import the specially made four wheels scooter and assistive devices for persons with disabilities.	MoLTM MOHPP MoGA MoF

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