

► Investing in social protection for economic growth

Multipliers of social protection - Nepal country case study

Social protection in Nepal

In Nepal, the Constitution of 2015 recognizes social security as a right of all citizens, explicitly stated in Article 43. Yet, there is much progress to be made for more comprehensive coverage, as evidenced by the following facts:

- Only **16.9%** of the population in Nepal is covered by at least one social protection benefit, against a world average of **47%**
- The Child Grant program has low coverage: only **a third** of children up to 5 years old receive the benefit

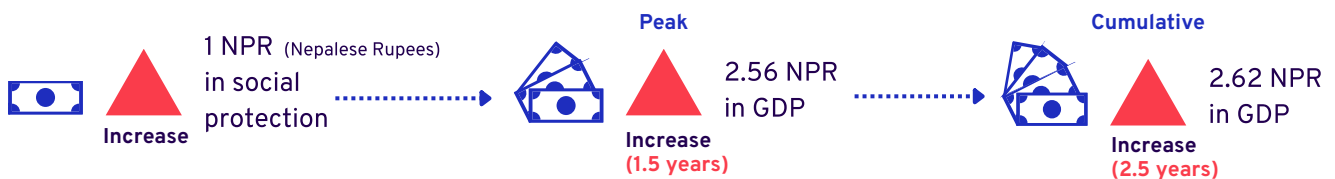


Questions addressed by the Nepal country case study:

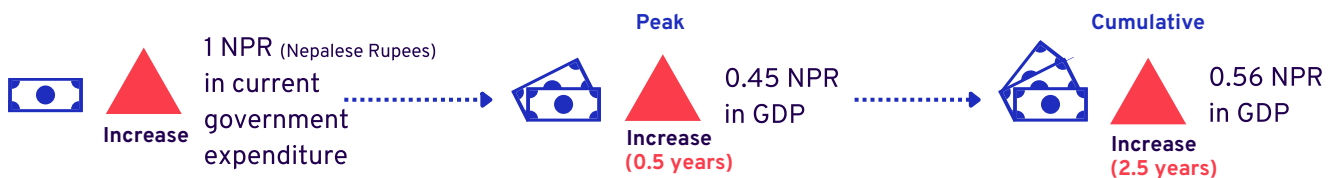
1. Can government investment in social protection boost Nepal's economy?
2. Do expenditures in social protection exert a larger or smaller positive impact on economic activity than total government expenditures?

Findings:

Effects of social protection investment on Gross Domestic Product :



Effects of current government expenditures on Gross Domestic Product :



The positive effects of social protection expenditures on Nepal's GDP exceed in magnitude to those of current government expenditures. Specifically, they are more than **5 times** larger than the effect found for current government expenditures.

Policy Implications:

- 1 Social protection investment positively impacts the level of economic activity in Nepal, and the economic returns are substantial.
- 2 The positive effects of social protection expenditures on Nepal's GDP exceed in magnitude those of current government expenditures.
- 3 Strongest positive impact takes some time to build up but is materialized within a very reasonable amount of time (after 1.5 year or equivalently 6 quarters).
- 4 Economic growth and redistribution aiming at lowering inequality can be jointly achieved by increasing the social protection component of Government expenditure.

At the micro level, social protection can enhance growth directly and indirectly, through the following channels:



Micro level

- Preventing the loss of productive capital
- Accumulating productive assets and increasing access to labour markets
- Increasing innovation and risk taking
- Increasing risk in human capital

At the macro level, social protection can enhance growth by:



Macro level

- Increasing household productivity and employment
- Aggregate demand
- Facilitating economic reforms
- Building human capital
- Contributing to social cohesion and equality
- Influencing demographics (through impacts on fertility rate)

*The data used is at annual and quarterly frequency and covers the period 2005-2018.