

Fiscal Space for Children in Federal Structure of Nepal

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ABSTRACT

Public financing for children is a critical yet underexplored aspect of fiscal governance in federal systems, particularly in low- and middle-income countries. This article examines how Nepal's transition to federalism has reshaped the mobilisation, allocation, and governance of public financial resources for children across federal, provincial, and local levels. Grounded in public finance framework, entitlement theory, and human capital investment frameworks, the study conceptualises public spending on children as both a rectificatory mechanism addressing structural inequalities and a long-term investment in national development. Drawing on a systematic review of academic literature, policy documents, and official government reports, the study analyses trends in revenue mobilisation, expenditure patterns, and child-focused programmes in education, health, nutrition, and social protection. The findings show that government expenditure increased substantially after federalisation, with a growing share directed to sectors that directly benefit children, such as education, health, and social security. While fiscal federalism has enhanced local-level engagement and service delivery, disparities in revenue capacity and administrative effectiveness continue to undermine equitable outcomes for children. The study concludes that effective public financing for children in Nepal requires not only increased budgetary commitments but also strengthened intergovernmental coordination, equitable fiscal transfers, and child-sensitive budgeting frameworks. By positioning children at the center of public finance, the article underscores the role of fiscal policy as a tool for advancing intergenerational equity, social justice, and sustainable human development.

1. Introduction

Public finance is an essential aspect of the state's operation. In addition to the operational arrangement of the state, this serves different walks of the social and economic life of the

citizens. Rosen (1992) notes that Adam Smith viewed public finance as the system through which the state raises and spends revenue to fulfill its essential functions and promote public welfare (p.1). The discipline of public finance describes and analyses government

services, subsidies, and welfare payments, and the methods by which the expenditures to these ends are covered through taxation, borrowing, foreign aid, and the creation of new money (Shoup, 2017). Broadly, public finance talks about the dichotomy of revenue and expenditure of the government. Most importantly, how the government generates money and expenditure for the citizens determines the image of the state. As Anter (2014) notes, the fiscal function of the state, as a political institution, is also more political and shaped by the state's political regime. Therefore, the state's financing should focus on the public for the purpose of human development.

Likewise, Gary Becker defines investment in human beings as any activity that influences future real income through the embedding of resources in people. Becker's core argument is that education, on-the-job training, medical care, and migration are not merely consumption, but rather strategic investments that enhance an individual's productivity and lifetime earnings (Becker, 2002). For this, human capability is an important part of the finances of the state. More significantly, human capital is a critical factor in determining the productivity of an establishment, primarily through investments in education and employer-provided training (Black & Lynch, 1996). Not only to education and employment, but also to a large domain of the human lifecycle. In classifying human life, Bogin & Smith (1996) note five stages of human life: infant, child, juvenile, adolescent, and adult. Focusing on early states, Bogin (1997) defines childhood as a unique developmental stage of humans. Childhood development, a period following infancy, is an important stage of life that encompasses all actions essential for preparing for future motherhood, joyful pregnancy, safe delivery, and optimal growth and development that, in turn, should lead to responsible parenthood (Hertzman & Power, 2006).

Not only the future of an individual, but

also that of the state depends on the extent of investment in the early stages of human life. Within the biological development phase, children are entitled to welfare. In addition, welfare schemes provided by the state, the role of the family, and market interventions are also important (Esping-Andersen, 1990). In this regard, a study by Heckman (2006) concludes that investing in disadvantaged young children is a rare public policy initiative that promotes fairness and social justice while also enhancing productivity in the economy and society at large. His research demonstrates that early interventions targeted toward disadvantaged children have much higher returns than later interventions. Therefore, public financing for children is not merely a fiscal or policy mechanism, but also a social and cultural practice embedded in everyday life (Esping-Andersen, 1990). Further, investment in children leverages the advantages of demographic dividends and ensures the country's future workforce is well-equipped to drive socio-economic development (Dhakal *et al.*, 2023).

Public financing for children—such as spending on education, health, and nutrition—can therefore be justified within entitlement theory as a form of rectification that addresses disadvantages arising from circumstances beyond children's control. In this sense, state intervention aimed at securing children's basic opportunities does not violate entitlement principles but responds to historically and structurally unjust starting positions (Nozick, 1974).

The exact timeline of the state's public-sector investment in children, particularly through state mechanisms, lacks a clear landmark; however, the current practice of child financing is supported by welfare schemes. Furthermore, children's rights are recognised as a fundamental right in Nepal's Constitution, and these rights are further codified in law and regulations. The Federal

Constitution of Nepal has preserved the rights of children in the areas of education, health, nutrition, care, and overall development. In retrospect, the history of child financing in Nepal, can be traced from the time of establishment of the Montessori School in 1950, Nepal Children's Organisation in 1962, and Child Care Centres (CCC) in each district during the 60s and the 70s (Joshi & Shrestha, 2018). Further scholarships were extended as part of the liberalisation reforms and introduction of free primary education in the Fifth Five-Year Development Plan (1975/76–1979/80) (Pradhan *et al.*, 2021). Another landmark in the legal framework for investing in children is the Scholarship Act, 1964. Similarly, Nepal also introduced the Child Grant programme in the Fiscal Year 2009/2010 as an unconditional cash transfer for children under five years of age (Bhujel, 2017; Renzaho *et al.*, 2017).

The Government of Nepal has created fiscal space through a policy framework and programme, such as early education institutions, scholarship schemes, and social protection programmes. The literature on children's financing is more focused on a unitary political system, while there are limited contributions in the federal context. With the adoption of federalism as a political system and the constitutional recognition of children's rights, responsibilities for financing and delivering child-related services are now distributed among federal, provincial, and local governments. However, there remains a limited scholarly understanding of how public financing for children is interpreted, structured, and documented across these three tiers of government. In this context, this article focuses on the central question of how public financing for children is interpreted and documented in policies and programmes across the three tiers of the governments in Nepal, from the perspective of entitlement theory.

2. Methods and Materials

Systematic review of literature was conducted to identify relevant studies, reports, and policy analyses on public finance and its impact on children. The search was conducted across multiple databases and sources, including Google Scholar and the Government of Nepal's website, to ensure comprehensive coverage of both academic and policy literature. Inclusion criteria were set to select theoretical and empirical studies, systematic reviews, and official policy reports that addressed government spending, fiscal policies, or social programmes targeting children, in both English and Nepali Languages. The referred and cited parts of the Nepali documents were translated into English. Exclusion criteria included those that were outdated or irrelevant to the focus of this review. The selected literature was then analysed and synthesised thematically. Key themes included education, health and nutrition, social protection, and fiscal policies affecting children. Studies were compared to identify trends, gaps, and policy implications, with a particular focus on outcomes related to child welfare, equity, and effectiveness of public spending. This review was carried out from January to April 2025t.

The reports based on empirical sources were confined to the federal context of Nepal from 2015 through 2025. This article uses the framework of Nozick's entitlement theory: *acquisition, voluntary transfer, or rectification*. The theory refers to a distribution of resources as if individuals are entitled to their holdings through fair acquisition, voluntary transfer, or rectification of past injustice. Since children cannot acquire or transfer holdings through voluntary market processes, their welfare necessarily depends on the justice of the social and institutional arrangements that govern resource distribution (Nozick, 1974, pp. 150–153).

Table 1. Nepal child benefit spending target and outturn, 2021-2025 (Millions of NPR)

Date of observation	Program target	Outturn	Status
15-Jul-21		4,200	
14-Jan-22	..	..	..
16-Jul-22	5,300	6,987	Met
16-Jul-23	6,987	6,763	Not met
14-Jan-24	3,092	1,674	Not met
15-Jul-24	6,987	6,841	Not met
13-Jan-25	3,092	1,890	Not met
15-Jul-25	6,987		

Source: IMF (2022, 2023a, 2023b, 2024c, 2025a, & 2025b).

3. Results and Discussion

3.1 Profile of children in Nepal

In Nepal, officially, persons who have not yet completed the age of eighteen years are considered children (GoN, 2018). The Supreme Court has interpreted that for an individual to fall within the definition of a minor, they must not have completed 6,570 days from their date of birth. This is equivalent to being under the age of 18 years

(National Statistics Office, 2024). According to the National Census 2021, it was found that only 71.3 per cent of the total households covered included children, while 28.7 per cent of households in Nepal do not have children. Household structure among families with children is not evenly distributed across wealth groups, and that wealth quintile correlates with family arrangements and potentially child wellbeing. Table 2 shows the household distribution by family based on wealth quintile.

Table 2: Number of households with children by family structure

Quintile Name	Description	Total Households	Nuclear Family (%)	Joint Family (%)
Poorest (Q1)	Households with the fewest assets and lowest living standards.	160,566	52	49
Second (Q2)	Lower-middle economic status.	196,044	52.5	47.2
Middle (Q3)	The median 20% of the population.	176,135	51.6	48.4
Fourth (Q4)	Upper-middle economic status.	149,775	50.6	42.4
Richest (Q5)	Households with the highest concentration of assets and resources.	584,483	49	51
Total		1,267,003		

Source: National Statistics Office, 2021.

Table 2 presents the distribution of households with children across wealth quintiles in Nepal, disaggregated by family structure (nuclear and joint families), based on data from the National Census 2021. The data show that the largest number of households with children is found in the richest quintile (Q5), accounting for 584,483 households, which is substantially higher than in any other quintile. In contrast, the smallest number of households with children appears in the poorest quintile (Q1), with 160,566 households, suggesting variations in fertility patterns, household formation, or reporting across economic groups. Across most quintiles, nuclear family structures slightly predominate over joint families. In the poorest (Q1), second (Q2), middle (Q3), and fourth (Q4) quintiles, nuclear families account for approximately 50–53 per cent of households with children, while joint families constitute roughly 47–49 per cent. This indicates that among lower- and middle-income households, nuclear families are marginally more common, though joint family arrangements remain highly prevalent. A notable exception is observed in the richest quintile (Q5), where joint families (51%) slightly outnumber nuclear families (49%). This pattern may reflect greater economic capacity among wealthier households to sustain extended family living arrangements, including shared housing, pooled resources,

and intergenerational support systems. Overall, that family structure among households with children in Nepal is relatively balanced between nuclear and joint family structure; however, there is modest variation across wealth quintiles. These patterns have important implications for public financing for children, as household structure can influence caregiving arrangements, intra-household resource allocation, and the effectiveness of child-focused public programmes, particularly those delivered at the household or community level.

3.2 Public finance for children

Federal Nepal, after the promulgation of the Constitution in 2015, stepped into the journey of socialism through three tiers of state power and jurisdiction by allocating exclusive and concurrent powers among them. The role of local government is much more exclusive to children; however, it is also mentioned concurrently with the three levels of governments (GoN, 2015). Not only after the federal constitution but also before the federal restructuring of Nepal, the financing of children was practiced through different ways. International and domestic legal frameworks have given a space for children. Table 3 demonstrates different legal instruments practiced enabling financing for children over different time scales.

Table: 3 Review of legal instruments relating to the financing of children

Policy / Legal Framework	Indicative Child Financing Activities	Program area
UN Convention on the Rights of the Child (CRC), 1989	National child-rights programmes; child protection systems; inclusive education and health services; child participation platforms; monitoring, reporting, and accountability mechanisms	Across the country: child helpline

UN Sustainable Development Goals (2015–2030)	Poverty reduction for children; universal access to education and health; nutrition and food security programs; water, sanitation, and hygiene (WASH) in schools; child justice and protection services	Across the country: school meal
Constitution of Nepal, 2015	Universal birth registration; free and compulsory basic education; child health and nutrition services; social security allowances for vulnerable children; child-friendly justice and protection mechanisms	Across the country: child nutrition allowance
Children’s Act, 2018 & Regulations, 2021	Child protection and welfare services; child helplines; rehabilitation and compensation for abused children; child-friendly governance initiatives; services for children with disabilities	Across the country: child rehabilitation centers (Kathmandu and Pokhara)
Muluki Civil Code, 2017	Legal aid and guardianship services; enforcement of parental care and maintenance; protection of child identity, inheritance, and custody rights	Across the country: legal aid for custody/guardianship
National ID and Civil Registration Act, 2019	Universal birth registration coverage; digital civil registration systems; mobile outreach for remote and marginalised communities	Across the country: digital birth registration campaigns in municipalities of Tarai
Child Labour (Prohibition and Regulation) Act, 2000 & Child-Labour-Free Local Level Procedure, 2020	Child labour rescue and rehabilitation; school reintegration support; family livelihood assistance; monitoring and enforcement at local level	Across the country: child labour-free municipality initiative (Bardiya and Kailai)
National Children Policy, 2023	Integrated child development programmes; early childhood development (ECD); child nutrition and protection initiatives; prevention of violence and harmful practices; child participation mechanisms	Across the country: integrated child development programme in Karnali Province
National Education Policy, 2019	Free and compulsory education financing; early childhood education centers; scholarships and inclusion programmes; school infrastructure and digital learning	Across the country: scholarship for dalit, janajati, disability, marginalised groups

National Early Childhood Development Strategy (2020–2033)	Financing ECD centers; maternal and child health services; parenting education; nutrition and stimulation programmes; trained ECD facilitators	Across the country: establishment of 41,284 ECD centers
National Nutrition Strategy, 2020	Child and maternal nutrition programmes; micronutrient supplementation; school meal programmes; nutrition-sensitive health services	Across the country: micronutrient supplementation (Vitamin A, Iron tablets)
Multisector Nutrition Plan III (2023–2030)	Integrated nutrition interventions; food security initiatives; nutrition education; services for pregnant women, infants, and young children	Across the country: nutrition-specific and sensitive interventions
Long-Term Vision (2020–2100) & 16th Plan	Investment in child education, skills, health, nutrition, and sports; inclusive programmes for marginalised children; child-focused human capital development	Across the country: policy guidance
Local Government Operation Act, 2017	Local ECD and basic health services; sanitation and nutrition programmes; child-friendly local governance; libraries, playgrounds, and child clubs	Across 753 local levels: child-focused interventions, including CFLG, child clubs
Child-Friendly School National Framework, 2010	Safe and inclusive school infrastructure; child-friendly teaching methods; school health and safety programmes; family and community engagement	Across the country: child-friendly school initiatives in Bagmati Province

Overall, Nepal has adopted adequate child-focused policy and legal frameworks to promote child rights, protection, and development (Reference?). These policies and frameworks are aligned with international commitments such as the UN Convention on the Rights of the Child (CRC), 1989 and the UN Sustainable Development Goals (2015–2030). At the national level, constitutional provisions, sectoral policies, and multi-sectoral strategies collectively guide child-focused financing and service delivery support children related initiatives. Most importantly, child financing, through the Constitution, guarantees fundamental child rights, including access to education,

health, nutrition, and protection. This is reinforced by the Children’s Act, 2018, which operationalises child protection systems and child-friendly governance mechanisms.

The Multisector Nutrition Plan III (2023–2030) exemplifies a multi-sectoral approach, linking health, food security, WASH, and education. This holistic design supports integrated child development across the life cycle (NPC, 2022). Further, the Local Government Operation Act, 2017 empowers local governments to plan and implement child-focused programmes such as ECD centers, nutrition initiatives, and child-friendly local governance (CFLG). Regarding

policy coherence, UNICEF Nepal's 2021 report highlights that, despite comprehensive coverage, the framework is fragmented across multiple policies and institutions. Sectoral approaches often operate in silos, limiting coordination between ministries and levels of government. This results in duplication of efforts and inefficient resource utilisation (UNICEF Nepal, 2021). The allocation of approximately US\$30 million in child-focused block grants in 2016/17 indicates a growing fiscal commitment toward addressing children's needs (UNICEF, 2017). Despite three tiers of government, the roles of federal and local governments are more pertinent to child financing and operationalisation, while the role of provinces is not clearly articulated or anticipated.

3.3 Source of revenue and resource mobilisation

Revenue mobilisation is a key aspect of the fiscal federalism. The three major dimensions of fiscal federalism regarding revenue mobilisation are the right to collect revenue, revenue sharing, and intergovernmental fiscal transfer (Nepal Rastra Bank, 2021). In federal Nepal, the major guiding frameworks for public finance resource mobilisation on such sources as tax, non-tax revenues, royalties, revenue sharing, and grants, which are the key sources of the budget of the government (GoN, 2017). Following the implementation of federalism, government expenditure has increased in nominal terms. An economic survey report published in 2025 for Nepal presents the status of revenue and resource mobilisation. The economic survey report compares the situation before and after the implementation of federalism. Before the implementation of federalism, in fiscal year 2014/15, total government expenditure stood at 21.9 per cent of the Gross Domestic Product (GDP). In the subsequent years, this ratio increased markedly. During this

period, in fiscal year 2017/18, the combined expenditure of the three tiers of government, as a proportion of GDP, reached the highest level at 31.5 per cent. In fiscal year 2023/24, such expenditure stood at 28.7 per cent of GDP. Of the consolidated expenditure in fiscal year 2024/25, the largest share was allocated to the heading of general public services, accounting for 35.4 per cent. Similarly, 21.2 per cent was spent on economic affairs, 11.5 percent on education, 11.3 per cent on social security, and 20.6 percent on other headings, including defense, community amenities, and health (MoF, 2025). The expenditure share on education, social security, and health directs benefits to the children.

Despite the revenue and resource mobilisation for children, a recent report by UNICEF Nepal in 2025 concludes that resource mobilisation, as a part of public expenditure in Nepal's budget, shows increasing allocation but nominal and doesn't follow the proportional distribution. The report also underscores weak revenue and resource mobilisation capacity at the subnational level. Moreover, the report also indicates that the subnational government has limited ability to finance child-focused programme effectively and structural financing gaps (UNICEF Nepal, 2025).

Education

Public finance in the education sector in Nepal includes a range of programmes aimed at improving access, equity, and outcomes for children across different social groups. Scholarships schemes such as the Dalit Student Scholarship, Janajati Student Scholarship, Disability Student Scholarship, Economically Disadvantaged Student Scholarship, Marginalised and Endangered Community Scholarship, Street Children and Child Laborer Scholarship, Children of Conflict Victims Scholarship,

Former Kamalari Student Scholarship, Residential School Scholarship, and other student scholarships provide targeted support to marginalised and vulnerable children, ensuring they can access primary, secondary, and tertiary education. Complementing these efforts, programmes such as Free Secondary Education, Free Higher Education, School Feeding Programmes, and Daycare/Child Care Centers aim to reduce barriers to learning, improve retention, and support holistic child development, particularly in rural and underprivileged communities (GoN, 2021).

Early childhood development and education are one of the important stages of children. In academic session 2024/25, a total of 41,284 Early Childhood Development (ECD) centers and pre-primary classes are in operation, where 1,301,428 students have been enrolled. The proportion of boys and girls is 55.1 per cent and 44.9 per cent, respectively. To increase access to education for children with disabilities, 33 special schools and 23 integrated schools are in operation. Under the Presidential Educational Reform Programme, by February/March 2025 (Phalgun 2081), 4-room buildings in more than 1,500 schools, 2-room buildings in 1,015 schools, 10,236 classrooms, and Information Technology (IT) labs in 4,608 schools have been established. One of the important schemes is the School Day Meal Programme. Through this programme, 2,806,301 students across the country, studying from Early Childhood Education to Grade 5 in community schools, have directly benefited from the Day Meal Programme. Similarly, Scholarship Programme, 1,552,168 students studying in community schools received various types of scholarships (including residential, non-residential, Dalit, female, disability, and marginalised group scholarships). In the academic session 2023/24, about 1,143,631 students were at community schools (MoF, 2025).

Despite ample interventions from the government's end for the children, the number of reports deferred its impact. According to UNICEF Nepal, the report underscored that the education budget shares the largest social sector spending, but actual outcomes in learning indicators lag, partly due to inefficiencies in execution and inadequate integration of child-centered budgeting. The analysis also reveals that spending on early childhood education and retention incentives is inconsistent across provinces, reflecting disparities in revenue mobilisation and budget prioritisation for young children (UNICEF Nepal, 2025). In addition UNICEF Nepal's conclusions, the endline evaluation by the World Food Programme reports that public financing through the school meal programme contributed to an increase in school attendance and improved nutrition outcomes among participating school-age children, driven by integrated school meal provision and nutrition education components (Karma, 2022).

Health and Nutrition

Government spending on child health and nutrition in Nepal is designed to improve survival, growth, and cognitive development. Key programmes include the Child Nutrition Allowance, Maternal and Child Nutrition Programme (Integrated Child Health and Nutrition), Health Treatment Programme for Economically Disadvantaged, Free Vaccination Service, Free Basic Health Services, and Maternity and Infant Care (from Employee Provident Fund). These initiatives target both preventive and curative care, addressing malnutrition, maternal and infant health, and access to essential medical services, particularly for children from low-income and marginalised communities. Programmes such as Sanitary Pad Distribution also support adolescent girls' health and education by addressing hygiene needs.

Health and nutrition are crucial interventions at an early age. A Karnali region-specific evaluation concludes that the cash grant, as a form of public financing to children, with capacity building, was associated with increased dietary diversity and better care practices, partly explaining trends in reduced child malnutrition (Renzaho *et al.*, 2019).

Social Protection

Social protection programmes for children in Nepal aim to reduce poverty, enhance equity, and provide safety nets for

vulnerable populations. Initiatives include Child Nutrition Allowance, Cash Transfer Programmes, Child Benefits, Subsidies, Free Health Insurance, and Social Security Programmes Based on Worker Contributions, which collectively help families meet the basic needs of their children while improving access to health, education, and nutrition. Targeting mechanisms often focus on economically disadvantaged, marginalised, or otherwise vulnerable groups, ensuring that public resources are effectively allocated to improve child welfare outcomes across multiple dimensions.

Table 4: Coverage of child grant

Category	FY 2020/21	FY 2021/22	FY 2022/23
Children from Targeted Areas	699,855	806,257	761,093
Dalit Children	421,343	410,120	341,468
Total Child Beneficiaries	1,121,198	1,216,377	1,102,561

Source: MoF, 2025.

The child cash grant amounts to Nepalese Rupees (NPR) 532 for each child of a Dalit family across the country, and all children of a family in 25 districts,¹ they are under the scheme of the child grant. Regarding child cash grant, Bhoosal & Paudel (2024) concludes that the child grant programme should be integrated with the vaccination, health insurance, pre-school enrollment, regularity of attendance, and other social security programmes for better outcomes.

Nepal's total social protection expenditure, as a share of GDP, peaked at around 3.9 per cent of GDP in FY2019, but for most years remained below levels necessary to significantly reduce child poverty, indicating extensive coverage and adequacy gaps in social spending (Pandey, 2021).

¹ Humla, Mugu, Jumla, Dolpa, Kalikot, Achham, Bajhang, Rautahat, Mahottari, Jajarkot, Sarlahi, Doti, Bajura, Siraha, Saptari, Bara, Dhanusa, Rasuwa, Rukum East, Rukum West, Rolpa, Kapilvastu, Baitadi, Salyan, and Dailekh.

Further, it is argued that budget allocations are heavily skewed, with elderly allowances receiving a large share while early childhood programmes remain underfunded, revealing imbalances in social protection priorities. However, the transition to federalism has complicated planning and budgeting for social protection, with fragmented institutional roles and reporting systems, making it difficult to track and optimise child-focused fiscal transfers across levels of government (World Bank, 2021). The report further intensifies that existing social assistance programmes are not sufficiently coordinated, reducing their effectiveness in addressing the diverse risks faced by children and other vulnerable groups, which would also raise expenditures from about 2 per cent to 2.7–2.8 per cent of GDP by 2030, illustrating the fiscal implications of broader universal coverage (World Bank, 2021).

3.4 Fiscal policies and taxation

In Nepal, fiscal and tax policies indirectly influence children's welfare by affecting household disposable income and the prices of goods and services that families consume. A notable example is the recent Supreme Court's decision to remove all forms of tax on sanitary pads, recognising them as essential rather than luxury goods; imported sanitary pads previously attracted up to 18 percent in combined customs duty and Value Added Tax (VAT), which contributed to higher costs for menstrual hygiene products and disproportionately affected girls and women's health and school attendance. The court ordered the elimination of these taxes, which is expected to lower prices significantly and improve affordability (The Kathmandu Post, 2021). This policy change illustrates how tax exemptions on specific products can reduce financial burdens on households and promote equity in access to essential health-related goods. Additionally, broader VAT and customs duty exemptions on certain food staples and raw materials (e.g., reduced duties on sanitary pad raw materials in past budgets) show how the government uses tax policy to influence consumption costs and household welfare more generally, which indirectly benefits children's nutrition and wellbeing by making some basic items more affordable (My Republica, 2024).

The 2024 Public Expenditure and Financial Accountability (PEFA) assessment underscores that Nepal's public financial management (PFM) framework has strengthened, particularly with standardised budget classifications and reporting practices promoting fiscal transparency. Despite progress, the PEFA assessment shows that execution performance and data aggregation across government layers remain weak, limiting effective resource tracking for sectors like education, health, and child

protection. The assessment emphasises the need for medium-term PFM reform strategies to support fiscal stability, efficient service delivery, and better alignment of tax revenue mobilisation with social sector expenditures (World Bank & GoN, 2024).

The findings suggest that Nepal's post-2015 federal restructuring has significantly altered both the scale and governance of public expenditure, creating new opportunities and challenges for financing childhood. From a public finance perspective, the expansion of government expenditure following federalisation reflects a shift toward a more interventionist state role in human development. As Rosen (1992) and Shoup (2017) argue, public finance is not merely about balancing revenue and expenditure but about advancing collective welfare. The increase in government expenditure from 21.9 per cent of GDP in 2014/15 to a peak of 31.5 per cent in 2017/18 demonstrates the state's growing fiscal engagement. Importantly, a substantial portion of this spending has been directed toward sector—education, health, and social security—that disproportionately benefit children. This aligns with Becker's (2002) conception of public spending on education and health as investment rather than consumption, reinforcing the idea that children are central to long-term economic productivity.

The findings also resonate strongly with Heckman's (2006) argument that early childhood investment yields higher social and economic returns than later-life interventions. Nepal's expanded financing of early childhood development (ECD) centers, school feeding programmes, scholarships, and child nutrition allowances reflects an implicit policy recognition of this life-cycle approach. The scale of ECD enrollment and the nationwide reach of programmes such as the School Day Meal Programme indicate

that public finance is increasingly shaping children's developmental environments at early and formative stages.

From the lens of entitlement theory, public financing for children emerges as a morally justified form of state intervention that Nepal has adopted a child-intensive policy and legal framework, constitutionally. Nozick's (1974) framework emphasises justice in acquisition and transfer, yet children—by definition—cannot acquire resources through market participation. Their dependence on family and state institutions places them in structurally unequal starting positions. In this context, public spending on children's functions as a rectificatory mechanism, addressing disadvantages that arise from birth circumstances, poverty, caste, gender, geography, and disability. Programmes such as child cash grants, Dalit scholarships, and disability-targeted education support illustrate how the Nepali state operationalises entitlement-based redistribution without undermining broader principles of justice.

Fiscal federalism further complicates and enriches this discussion. Nepal's three-tier governance system has decentralised responsibility for child-related services, particularly to local governments. In theory, this decentralisation enhances efficiency and responsiveness by allowing local authorities to tailor programmes to community needs. However, the analysis also reveals persistent horizontal inequalities arising from uneven revenue capacity, administrative capability, and fiscal dependence on federal transfers. In this regard, the Organisation for Economic Co-operation and Development (OECD) states that uneven revenue capacity, limited administrative capability, and dependence on federal transfers are structural factors that influence fiscal outcomes and equity in decentralised systems (OECD, 2021).

As Nepal Rastra Bank (2021) notes, the effectiveness of revenue mobilisation and intergovernmental transfers is central to ensuring equitable service delivery. Tax and fiscal policy choices further illustrate how public finance indirectly shapes children's well-being. The removal of taxes on sanitary pads, for example, demonstrates how fiscal instruments can be used to reduce gender-based barriers to education and health, which is substantiated by evidence of Shomuyiwa *et al.* (2024) who claim that the evidence-based policies that focus on the availability and affordability of a full range of sanitary products, in conjunction with regulatory mechanisms for price and quality control, are necessary to ensure that menstrual products are safe, affordable, and accessible for all. Further, such measures align with Esping-Andersen's (1990) view that welfare states influence social outcomes not only through direct transfers. In Nepal's case, selective tax exemptions and subsidies contribute to lowering household costs and improving access to child-essential goods and services. The Child Grant contributes not only to immediate nutrition but also to long-term human capital outcomes through improved early childhood environments and reduced poverty traps. Universal coverage in 25 districts is linked with higher rates of enrollment in health and education services among beneficiary children. Increasing fiscal space and scaling up the grant could produce broader developmental returns, indicating policy relevance for future budgeting (Dhakal *et al.*, 2023).

Conclusion

Nepal's transition to a federal system has expanded public expenditure, including child welfare. Budget allocations for education, health, nutrition, and social protection are reportedly increasing; however, precise figures on this are not yet available due to the

absence of a clear child budget coding system. The findings affirmed that public financing for children is not merely a redistributive policy of taxation but a justifiable and necessary intervention within entitlement theory, given children's inability to secure resources independently. Investments in early childhood development and education further align with human capital theory, underscoring the long-term economic and social returns of child-focused public spending. At the same time, Nepal's experience highlights the dual nature of fiscal federalism: while decentralisation enhances local relevance and ownership, it also requires robust intergovernmental transfers and coordination to prevent inequitable outcomes.

Effective public finance for children in Nepal depends not only on increasing budgetary allocations but also on strengthening institutional capacity, ensuring equitable revenue sharing, and embedding child-sensitive priorities across all levels of government. However, due to the nonexistence of policy guidance on early investment through the federal, provincial, and local governments, dedicated fiscal space for children doesn't exist; instead, an ad hoc approach has been practiced. Overall, the findings suggested that public financing for children is not merely a technical budgetary process but also a targeted approach to vulnerability and geographical consideration embedded in the country's federal structure, welfare commitments, and developmental aspirations.

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