

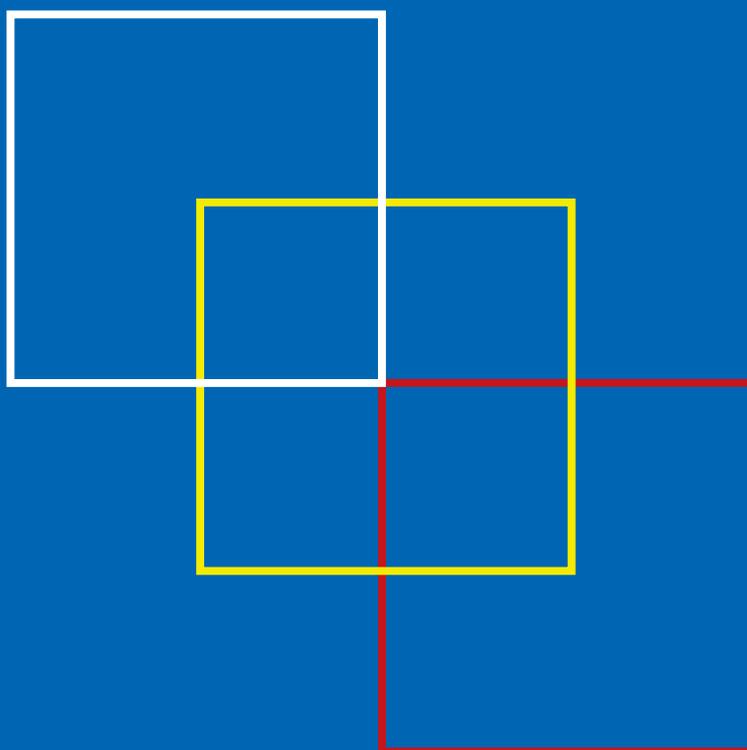
ASIA-PACIFIC  
DECENT WORK  
DECADE 2006  
2015



International  
Labour  
Organization

# Enhancing Employment- Centric Growth in Nepal

Situational Analysis for the Proposed Employment Policy,  
Government of Nepal



By  
Bandita Sijapati

A report prepared for the International Labour Organization



# Enhancing Employment-Centric Growth in Nepal

Situational Analysis for the Proposed Employment Policy,  
Government of Nepal

**Bandita Sijapati, PhD**

Centre for the Study of Labour and Mobility  
Social Science Baha, Kathmandu, Nepal

ILO Country office for Nepal

April 2014

---

Research support for the report was provided by Prakriti Thami, Amrita Limbu, Sanjay Sharma and Ashim Bhattarai of the Centre for the Study of Labour and Mobility (CESLAM). Thanks are also due to Sher Verick, Senior Employment Specialist, ILO Office-New Delhi, for his guidance throughout the research process.

Copyright © International Labour Organization 2014

First published 2014

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: [pubdroit@ilo.org](mailto:pubdroit@ilo.org). The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit [www.ifrro.org](http://www.ifrro.org) to find the reproduction rights organization in your country.

Enhancing Employment-Centric Growth in Nepal: Situational Analysis for Employment Policy, ILO Country Office for Nepal, 2014

agriculture/manufacturing/infrastructure/tourism/economic growth/economic policy/employment/  
labour force/labour market

03.02

978-92-2-127910-5 (print)

978-92-2-127911-2 (web pdf)

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: [pubvente@ilo.org](mailto:pubvente@ilo.org)

Visit our web site: [www.ilo.org/publns](http://www.ilo.org/publns)

Printed in Nepal

# Contents

<b>List of Acronyms</b>	<b>viii</b>
<b>I. Introduction</b>	<b>1</b>
a. Background of the Study	1
b. Objective of the Study	1
c. Methodology and Framework for Analysis	2
d. Outline of the Report	2
<b>II. Macro-Economic Patterns and Trends</b>	<b>3</b>
a. Economic Performance	3
b. Structural Transformation	4
c. Fiscal Balance and Other Related Issues	5
d. Poverty and Income Inequalities	6
<b>III. Labour Market Situation in Nepal: An Overview</b>	<b>9</b>
a. Demographic Trends	9
b. Employment Trends	12
c. Employment and Sectoral Distribution	14
d. Labour Migration	16
e. Education and Employment	19
<b>IV. Quality of Employment and Decent Work Indicators</b>	<b>24</b>
a. Informal Sector and Informal Employment	24
b. Earnings and Labour Productivity	26
c. Precarious Employment: Underemployment, Involuntary Work, and Working Hours	29
d. Child Labour	33
<b>V. Industrial Relations and Social Dialogue</b>	<b>35</b>
a. The Constituencies	35
b. Tripartism and Social Dialogue	37
c. Efforts to Improve Industrial Relations	39
<b>VI. Policy Review and Analysis</b>	<b>40</b>
a. National Development Framework	40
b. Legal and Regulatory Framework Related to Labour and Employment	41
c. Other Initiatives to Support Labour and Employment	45
<b>VII. Recommendations</b>	<b>48</b>
a. Broader Policies/Measures in Support of an Employment Policy	48
b. Supporting Employment Policy	49

# List of Figures

Figure 1: Factors Contributing to Growth in Nepal	3
Figure 2: Fiscal Indicators	5
Figure 3: Human Development Index across Different Caste, Ethnic and Religious Groups	8
Figure 4: Population Projection for Nepal	10
Figure 5: Age Distribution	10
Figure 6: Population Distribution and Dependency Ratios	11
Figure 7: Distribution of Employed Individuals by Main Sector of Employment	15
Figure 8: Main Sectors of Employment	15
Figure 9: Number of Migrants over the Years	16
Figure 10: Migrant Population across Age Groups	16
Figure 11: Estimated Number of Migrants by Destination	17
Figure 12: Migrant Population by Region	18
Figure 13: Share of Remittances by Internal and External Sources	18
Figure 14: Literacy Rates by Gender, Region and Wealth Quintiles	20
Figure 15: Educational Attainment and Activity Status	21
Figure 16: Unemployment Rate and Education Levels	23
Figure 17: Wage Premiums in Nepal	23
Figure 18: Reasons for Underutilisation of Labour	26
Figure 19: Percentage of Underutilised Population by Age Group	27
Figure 20: Type of Underutilisation by Age Group	27
Figure 21: Mean Daily Wage	28
Figure 22: Median Daily Wage by Gender and Sector	28
Figure 23: Underemployment as a Percentage of Labour Force by Age	29
Figure 24: Time-Related Underemployment by Gender and Locality	30
Figure 25: Changes in Underemployment as a Percentage of Labour Force over Time	30
Figure 26: Involuntary Reasons for Part-Time Work	31
Figure 27: Gender and Involuntary Reasons for Part-Time Work	31
Figure 28: Percentage of Employed Individuals by Hours Worked in a Week	31
Figure 29: Working Hours across Different Sectors	32
Figure 30: Incidence of Child Labour	33
Figure 31: Incidence of Child Labour in Various Ethnic/Caste Groups	33
Figure 32: Working Hours of Child Labourers	34
Figure 33: Distribution of Child Workers by Main Sectors of Employment	34

# List of Tables

Table 1: HDI, HPI and Incidence of Poverty across Different Regions	7
Table 2: Population Distribution of Nepal	9
Table 3: Employment Trends in Nepal	13
Table 4: Education Levels and Sector of Employment	22
Table 5: Currently Employed Population Aged 15 and over, by Sex, Age and Sector of Employment	25

# List of Maps

Map 1: Human Development Index across Eco-development Regions in Nepal	7
--	---

# List of Acronyms

<b>ANRTUF</b>	All Nepal Revolutionary Trade Union Federation
<b>ANTUF-R</b>	All Nepal Trade Union Federation-Revolutionary
<b>CBS</b>	Central Bureau of Statistics
<b>CNI</b>	Confederation of Nepalese Industries
<b>CoNEP</b>	Confederation of Nepalese Professionals
<b>DECONT</b>	Democratic Confederation of Nepalese Trade Unions
<b>DoFE</b>	Department of Foreign Employment
<b>DoI</b>	Department of Industry
<b>DoL</b>	Department of Labour
<b>EGA</b>	Employment Guarantee Act
<b>EPF</b>	Employees Provident Fund
<b>FDI</b>	Foreign Direct Investment
<b>FNCCI</b>	Federation of Nepalese Chambers of Commerce and Industry
<b>FY</b>	Fiscal Year
<b>GDI</b>	Gender Development Index
<b>GDP</b>	Gross Domestic Product
<b>GEFONT</b>	General Federation of Nepalese Trade Unions
<b>HDI</b>	Human Development Index
<b>HPI</b>	Human Poverty Index
<b>ILO</b>	International Labour Organization
<b>ITUC-NAC</b>	International Trade Union Confederation–Nepal Affiliate Council
<b>JTUCC</b>	Joint Trade Union Coordination Committee
<b>KEP</b>	Karnali Employment Programme
<b>LFPR</b>	Labour Force Participation Rate
<b>MoFALD</b>	Ministry of Federal Affairs and Local Development
<b>MoLE</b>	Ministry of Labour and Employment
<b>NCC</b>	Nepal Chamber of Commerce
<b>NLFS</b>	Nepal Labour Force Survey
<b>NLSS</b>	Nepal Living Standards Survey
<b>NPR</b>	Nepali Rupee(s)
<b>NTUC</b>	National Trade Union Congress
<b>NTUC-I</b>	National Trade Union Congress-Independent
<b>SME</b>	Small and Medium Enterprise
<b>USD</b>	US Dollar(s)
<b>YSESEF</b>	Youth and Small Enterprise Self-Employment Fund

# Introduction

## A. Background of the Study

Recent trends across the world indicate that productive employment is one of the main conduits for sustainable economic growth and poverty reduction. In general, it is believed that productive employment, in addition to reducing unemployment, also enhances the income-earning capabilities of people, leading ultimately to a reduction in poverty.<sup>1</sup> Notwithstanding these trends, what is also apparent in the growth-employment-poverty nexus<sup>2</sup> is that patterns of economic growth as well as the quantity and quality of employment are crucial in influencing the employment. As a result, policymakers across the world have increasingly been projecting full and productive employment and decent work for all as a top policy agenda as well as a development strategy.

In the current context of Nepal, too, the need for employment-centric growth for accelerated economic development and poverty reduction has taken on heightened significance. This is particularly so since the country is undergoing important demographic shifts; structural transformation of the economy; cycles of political instability, poverty and economic stagnation; and problems of unemployment and underemployment, which have together led to, among others, the mass exodus of the Nepali

productive workforce out of the country. To address these concerns, the government has made employment a central goal in the overarching national policy framework as well as in the economic and social policies of the country.

## B. Objective of the Study

This study has been conducted following a request from the Ministry of Labour and Employment (MoLE) to the International Labour Organization (ILO) to provide technical assistance in revising the existing Labour and Employment Policy of 2005 to bring it in line with current government priorities and plans. The main objective of the study is to outline the situation of the labour market in Nepal, highlighting, in particular, the key constraints and challenges relating to employment-centric growth. More specifically, the study:

- summarises the key employment-related challenges in Nepal through a review of secondary data (Nepal Labour Force Survey and other sources);
- highlights key findings of recent studies;
- reviews existing policies and programmes relevant to the challenges of employment; and
- identifies areas to be considered by an employment policy (recommendations).

<sup>1</sup> Catalina Gutierrez, Carlo Orecchia, Pierella Paci and Pieter Serneels, 'Does Employment Generation Really Matter for Poverty Reduction?' *World Bank Policy Research Working Paper 4432* (Washington DC: World Bank, 2007); Mathan Satchi and Jonathan Temple, 'Growth and Labour Markets in Developing Countries.' *Discussion Paper 06/581* (Bristol: Department of Economics, University of Bristol, 2006); Rizwanul Islam, 'The Nexus of Economic Growth, Employment and Poverty Reduction: An Empirical Analysis.' *Discussion Paper 14* (Geneva: Recovery and Reconstruction Department, International Labour Organization, 2004); Claire Melamed, Renate Hartwig and Ursula Grant, 'Jobs, Growth and Poverty: What Do We Know, What Don't We Know, What Should We Know?' *Background Note* (London: Overseas Development Institute, 2011).

<sup>2</sup> The concept of the 'employment nexus' refers to the role of employment in shaping the linkage between growth and poverty. See, Carlos Oya with Terry McKinley and Hannah Bargawi, *Growth Dynamics, Structural Change and Productive Employment to Reduce Poverty and Income Inequality: Analysis and Policy Recommendations* (London: European Report on Development 2013, Background Paper, 2013).

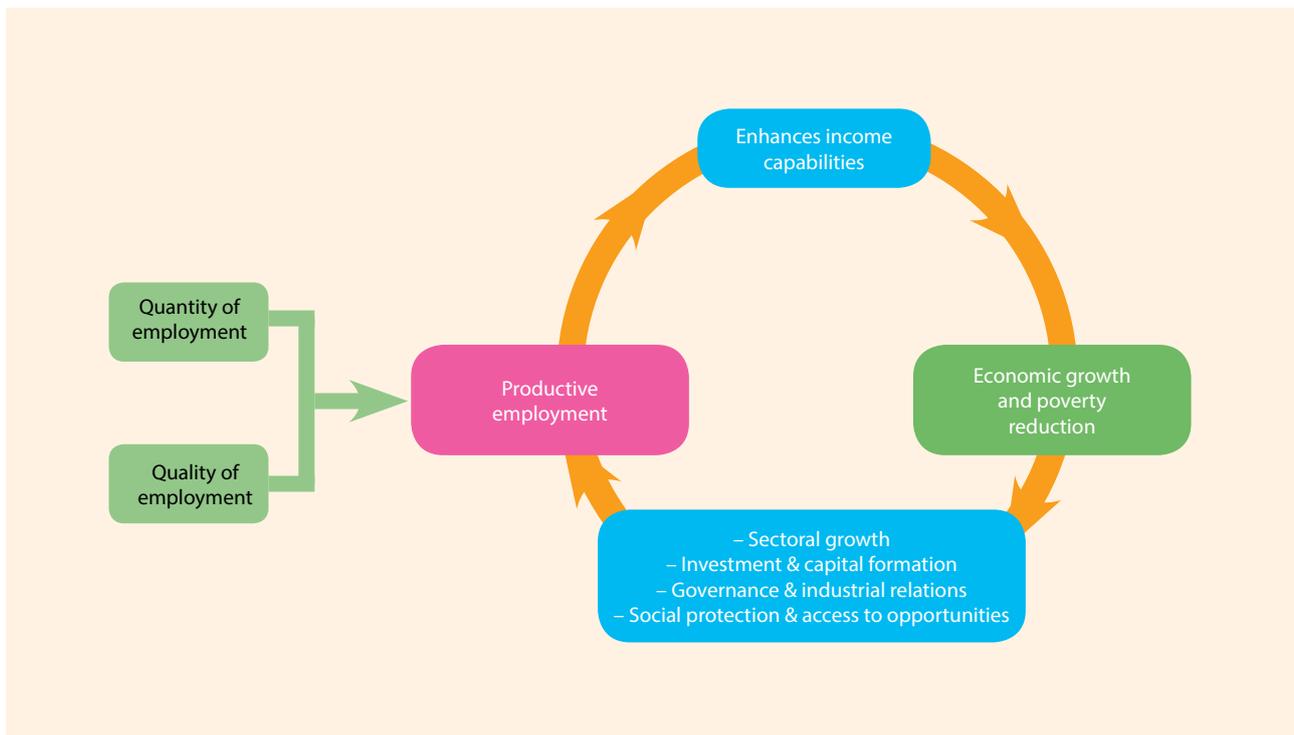
### C. Methodology and Framework for Analysis

This study is based mainly on data collected from various secondary sources and other relevant studies on labour, employment, growth, etc. In particular, the recent National Population and Housing Census 2011, the Nepal Living Standards Survey 2011/12, the Demographic and Health Survey 2011, and the Nepal Labour Force Survey 2008, have been examined to provide an overview of the current trends related to employment and also analyse the recent performance of labour markets. In addition, existing policies on employment were reviewed to identify the main challenges regarding employment and the effects of the existing regulatory frameworks on enhancing productive employment opportunities, and, accordingly, identify policy changes needed to encourage progress in this area.

The framework for the study is based on the premise that productive employment opportunities, which is dependent on the quantity and quality of employment, contributes to economic growth and poverty reduction by enhancing income capabilities. Further, economic growth and poverty reduction can in turn influence employment opportunities through sectoral growth, investment and capital formation, good governance and industrial relations, and better social protection measures.

### D. Outline of the Report

The report is divided into six main sections, namely, (i) macroeconomic patterns and trends relating to growth; (ii) analysis of the labour market situation; (iii) quality of employment and decent work indicators; (iv) status of industrial relations and social dialogue; (v) policy review and analysis; and (vi) recommendations on the way forward.

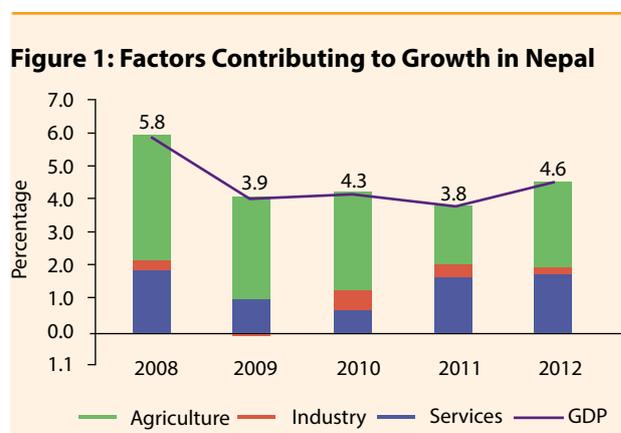


# Macro-Economic Patterns and Trends

Nepal is entering a new era of development which has brought with it its own set of challenges and opportunities. Although compared to other countries in South Asia Nepal's GDP growth rate has been low, it has nonetheless been growing steadily<sup>3</sup> despite a slowdown in industrial expansion and the long period of political uncertainty. The main purpose of this report is to describe the challenges and opportunities for enhancing employment in Nepal since these are tied to economic growth to a large extent. Without growth, the potential for sustainable job creation and increases in wage are minimal. Bearing in mind that the growth strategy for Nepal needs to be centred on creating decent employment, this section of the report provides a brief overview of the main structural economic characteristics of Nepal, the performance of the economy, and current economic patterns and trends. An appreciation of these factors is important because economic growth can reduce poverty only if it is able to bring about a significant increase in the purchasing power of workers, particularly of those living below the poverty line.<sup>4</sup>

## A. Economic Performance

Over the past decade, Nepal's economy experienced sustained growth at the rate of 3.9 per cent per year with some fluctuations (see Figure 1).<sup>5</sup> In general, the major sources of growth in FY 2011/12 were the expansion of the services sector and a good harvest resulting from a good monsoon.<sup>6</sup> However, the industrial sector under-performed with a decline in construction activities.<sup>7</sup> Evidently, given the significant and increasing inflow of remittances (equiva-



Source: ADB, Asian Development Outlook 2013: Nepal

<sup>3</sup> In the South Asian region, India is believed to be the largest growing economy with 8.5, 10.5 and 6.3 per cent in the years 2009, 2010 and 2011 respectively. The growth rate of Bangladesh in the same time period was 5.7, 6.1 and 6.7 per cent; for Afghanistan, it was 21, 8.4 and 5.7, and for Sri Lanka, it was 3.5, 8.1 and 8.2. <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>. Accessed 18 June 2013.

<sup>4</sup> Carlos Oya et al, op cit, 2013.

<sup>5</sup> For instance, in FY 2011/12, the economy grew by 4.6 per cent compared to 3.8 per cent in the previous year. Nepal's fiscal year starts in the middle of July.

<sup>6</sup> Agricultural output grew by 4.9 per cent in FY 2011/12, the highest rate in four years.

<sup>7</sup> In FY 2011/12, industry grew by 1.6 per cent compared to 3.3 per cent in FY 2010/11.

lent to 23 per cent of the GDP), growth in Nepal was driven by domestic consumption,<sup>8</sup> which helped offset the negative impact associated with the lower growth rate of export receipts.

In general, fixed capital formation in Nepal is minimal, accounting for only 6 per cent of growth.<sup>9</sup> While the public sector's fixed capital formation has been low,<sup>10</sup> the uncertain political environment over the years, the challenging regulatory and legal framework for foreign investment, poor governance and various financial sector vulnerabilities, particularly weaknesses in the domestic banking sectors, have prevented growth in private investment as well. Between 2001 and 2010, net foreign direct investment (FDI) in Nepal averaged only 0.14 per cent of GDP, which is low even in comparison with the average 1.9 per cent for low-income developing countries.<sup>11</sup> The issue of low levels of private investment and entrepreneurship is of particular concern since they are known to influence economic growth as well as productive employment opportunities – both of which are ultimately major contributing factors for inclusive growth.<sup>12</sup>

### B. Structural Transformation

Since economic growth is seldom broad-based and balanced, its sectoral composition is considered a critical factor in determining a country's economic future.<sup>13</sup> In the case of Nepal, the country has been undergoing gradual structural transformation over the past three decades or so. While agriculture re-

mains the mainstay of the Nepali economy, the share of the industrial and service sectors has been rising, albeit gradually. Agriculture's share of GDP was around 60 to 70 per cent between 1965 and 1980, but this ratio had declined to 41 per cent by 1999. In 2009, agriculture was estimated to account for around 33 per cent of GDP, while the shares of the industrial and services sectors were 15 and 52 per cent respectively.<sup>14</sup> Although more recent estimates indicate that the agricultural sector's contribution to the GDP constituted a slightly higher figure of 35 per cent in 2012, the rise is not significant.<sup>15</sup>

The decrease of the agricultural sector has not been matched by a concomitant increase in manufacturing. The manufacturing sector is small, primarily because of the limited domestic market and few export opportunities. This is reflected by the fact that the *Doing Business Report 2013* ranks Nepal 104th out of 185 countries in terms of ease of doing business.<sup>16</sup> The relatively difficult environment portrayed by this ranking is primarily due to difficulties in starting a business, paying taxes, enforcing contracts, the high cost of trading across borders, and resolving insolvency.<sup>17</sup>

Notably, even though agriculture's share in the country's GDP has declined, agriculture continues to be more important than revealed by its contribution to the GDP – it provides jobs to about 74 per cent of the

<sup>8</sup> Domestic consumption grew by 5 per cent in FY 2012 compared to 2 per cent in FY 2011.

<sup>9</sup> 'World Development Indicators.' Downloaded from <http://data.worldbank.org>.

<sup>10</sup> Public sector fixed capital formation accounts for approximately 3 to 4 per cent of GDP.

<sup>11</sup> 'World Development Indicators.' Downloaded from <http://data.worldbank.org>.

<sup>12</sup> Asian Development Bank (ADB), Department for International Development (DFID) and International Labour Organization (ILO), *Nepal: Critical Development Constraints* (Manila, London and Geneva: ADB, DFID and ILO, 2009).

<sup>13</sup> Carlos Oya et al, op cit, 2013.

<sup>14</sup> International Labour Organization (ILO), *Labour and Social Trends in Nepal 2010* (Geneva: ILO, 2010).

<sup>15</sup> Ministry of Finance, *Economic Survey- Fiscal Year 2011/12* (Kathmandu: Ministry of Finance, 2012).

<sup>16</sup> In comparison, the rating of Sri Lanka for 2013 is 81.

<sup>17</sup> World Bank, *Doing Business 2013* (Washington: World Bank, 2013).

<sup>18</sup> ILO, op cit, 2010.

work force.<sup>18</sup> Another noticeable structural change Nepal is undergoing is the rapid pace of urbanisation, especially in the past two decades, and the rise in internal migration from rural areas to the urban. The urban population of Nepal currently stands at 17 per cent of the total with the highest concentration in Kathmandu Metropolitan City, which is home to 24.3 per cent of the total urban population. Kathmandu also experienced the largest and fastest decadal growth rate (61.23 per cent) in the country.<sup>19</sup>

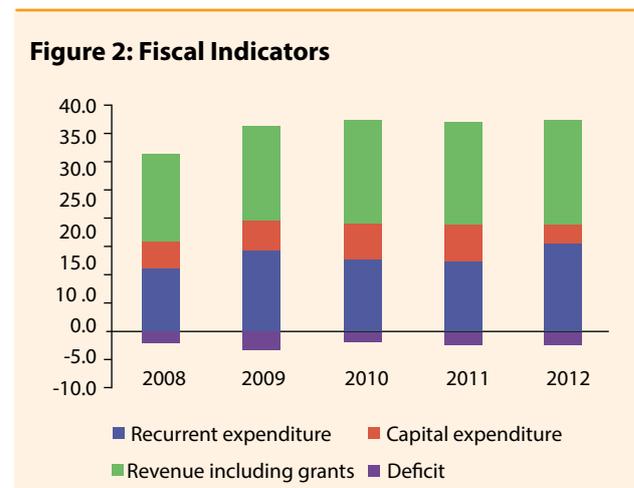
Despite these structural changes, since the vast majority of the labour force is still bound to agriculture and living in the rural areas, there is a need to devise policies and invest accordingly to enhance agricultural productivity in order to bring about economic transformation.

### C. Fiscal Balance and Other Related Issues

Since 1990, Nepal's fiscal deficit as a percentage of the GDP has shown a declining trend. This is primarily driven by the Government's effort to collect more tax revenue,<sup>20</sup> privatise public enterprises, and adopt measures towards public debt consolidation.<sup>21</sup> In FY 2011/12, tax and non-tax revenues reached 15.7 per cent of GDP, which was a 1.3 percentage point increase from the previous year. In parallel, public expenditures as a share of GDP also declined slightly relative to FY 2011 (0.1 percentage point) partly due to the government's efforts to reduce current spending and measures to rectify existing bottlenecks in the investment budget. The result, as can be expected, was that the Govern-

ment of Nepal became a net lender in FY 2011/12 (0.1 per cent of GDP) with the balance of payments reaching -0.4 per cent of GDP.<sup>22</sup>

Notwithstanding the positive development in fiscal balance, Nepal is experiencing high inflation, even though it went down, from 9.6 per cent in FY 2010/11 to 8.3 per cent in FY 2011/12. While this decrease has been attributed to a decline in food prices because of good harvests in FY 2010/11 and FY 2011/12, the impact of the rising prices of non-food items is significant. As shown in Figure 2, owing to remittances inflow, lower capital expenditure,<sup>23</sup> and more streamlined efforts towards revenue mobilisation, the budget deficit in FY 2011/12 was 4.2 per cent of GDP.<sup>24</sup>



Sources: Ministry of Finance, Economic Survey 2012 and FY 2012: Annual Statement of Income and Expenditure

<sup>19</sup> Central Bureau of Statistics (CBS), *Nepal Living Standards Survey 2010/11: Statistical Report, Vol. 1 and 2* (Kathmandu: CBS, National Planning Commission Secretariat, 2011).

<sup>20</sup> These include the introduction of a value-added tax in 1997 to cover various businesses.

<sup>21</sup> ADB, DFID and ILO, op cit, 2009.

<sup>22</sup> 'World Development Indicators.' Downloaded from <http://data.worldbank.org>.

<sup>23</sup> Notably, in FY 2012, there was a sharp decline in capital expenditure from the previous year due to lower project disbursements fuelled by lack of political consensus on a timely budget.

<sup>24</sup> Ministry of Finance, op cit, 2012.

However, the external sector remains weak with a trade gap that is growing much faster than net foreign assets or remittances. It is, however, expected that the implementation of the 2010 Trade Integration Strategy, the Trade Facilitation and Logistics Strategy, and the Customs Infrastructure Master Plan, if carried out effectively, will help improve the trade gap.

#### D. Poverty and Income Inequalities

Over the years, the Government of Nepal has focused its development agenda on broad-based economic growth and poverty alleviation. As a result, the past two decades have seen positive trends in economic growth rate as well as an associated reduction in poverty. For instance, between 1996 and 2010/11, the poverty rate declined by 16.6 percentage points, from 42 per cent to 25.4 per cent.<sup>25</sup> The levels of inequality have also reduced and Nepal's expenditure-based Gini coefficient has gone down from 41 to 35 between 2003/2004 and 2010/2011.<sup>26</sup>

While there has been a reduction in poverty levels and vertical inequalities have declined, horizontal inequalities persist with significant variations across geographic regions, social groups and gender, in poverty and human development indicators. To cite an example, as measured by the Gender Development Index (GDI), the difference in capabilities between women and men is low for the entire country, but the difference is more significant in rural areas, markedly the Mountains and the Mid-Western Development

Region, indicating that the levels of human development of women in these areas is much lower.<sup>27</sup>

As shown in Table 1, across different socio-economic indicators, rural areas fare much worse than urban areas. This is particularly of importance since 95.5 per cent of the poor people live in rural areas.<sup>28</sup> Further, the Mountain region has lower socio-economic indicators compared to the Hills and the Tarai. However, there is wide variation in terms of Human Development Index (HDI) and Human Poverty Index (HPI) across the development regions and ecological belts.<sup>29</sup> For instance, HPI is the highest in the Far-Western Region, and HDI the lowest in the Mid-Western Region.

Similarly, as shown in Figure 3, in certain cases, variations across caste and ethnic groups are much more pronounced than it is among geographical areas, thus pointing to the need to target different social groups even within a particular belt or region. For instance, among Madhesis, while the Brahmins and Rajputs (generally categorized as Madhesi Brahmins/Chhetris) have the highest HDI rates in the country, the Madhesi Dalits have the lowest.<sup>30</sup>

While the data presented above is a little dated, the *UN Human Development Report* has observed that the afore-mentioned trends across different caste groups have remained constant over time (2004, 2005 and 2006), indicating the high likelihood for such differences to persist in the near future.

<sup>25</sup> Using the national poverty line of about USD 230 a year, the poverty incidence for Nepal in 2011 was estimated at 25.4 per cent. This is a significant reduction in decline in the number of people living below the poverty line, which stood at 42 per cent in 1996. CBS, op cit, 2011.

<sup>26</sup> CBS, op cit, 2011.

<sup>27</sup> United Nations Development Programme (UNDP), *Nepal Human Development Report 2009* (Kathmandu: UNDP, 2009).

<sup>28</sup> UNDP, op cit, 2009. While the figure quoted above refers to the percentage of the poor living in rural areas, the 2011 Census data indicates that approximately 83 per cent of Nepal's population lives in rural areas. CBS, *National Population and Housing Census 2011 (National Report)* (Kathmandu: CBS, National Planning Commission Secretariat, 2012).

<sup>29</sup> While HDI is measured in human achievements in three dimensions, HPI is measured in human deprivations in the same three measures, which are: a long and healthy life measured by life expectancy at birth; knowledge measured by an aggregate of the adult literacy rate (two thirds) and the combined gross primary, secondary and tertiary enrolment rates (one third); and a decent standard of living, measured by gross domestic product per capita in purchasing power parity US dollars. See UNDP, 2009, op cit, pp. 143-148, for more information on the differences between HDI and HPI.

**Map 1: Human Development Index across Eco-development Regions in Nepal**


Source: UNDP, NHDR 2009

**Table 1: HDI, HPI and Incidence of Poverty across Different Regions**

	Human Poverty Index (HPI), 2006	Human Development Index (HDI), 2006	Poverty Incidence (%), 2003/04	Nominal Per Capita Income (NPR), 2010/11
Urban	20.7	0.630	9.6	71,720
Rural	38.2	0.482	34.6	34,607
Mountain	43.3	0.436	32.6	34,633
Hill	32.7	0.543	34.5	46,224
Tarai	36.9	0.494	27.6	38,549
Eastern Region	33.7	0.526	29.3	37,818
Central Region	35.3	0.531	27.1	49,128
Western Region	33.2	0.516	27.1	45,651
Mid-Western Region	38.7	0.452	44.8	30,941
Far-Western Region	39.0	0.461	41.0	28,584
NEPAL	35.4	0.509	30.8	41,659

Source: CBS, Poverty Trends in Nepal (1995-96 and 2003-04), 2005; UNDP, NHDR 2009; NLSS 2010/11

**Figure 3: Human Development Index (HDI) across Different Caste, Ethnic and Religious Groups**

Source: UNDP, NHDR 2009

# Labour Market Situation in Nepal: An Overview

## A. Demographic Trends

As shown in Table 2, according to the 2011 census, the population of Nepal is approximately 26.5 million and the sex ratio (number of males per 100 females) has decreased from 99.8 in 2001 to 94.16 in 2011, meaning that there are more females than males in the country. In terms of regional distribution, the majority of the population lives in the Tarai region (50.27 per cent) followed by the Hills (43 per cent) and the Mountains (6.73 per cent).

At the national level, the average household size has decreased from 5.44 in 2001 to 4.88 in 2011. However, the size of the household is slightly higher in rural areas (5.02) than in urban areas (4.32). Meanwhile, the number of female-headed households in the country has increased by about 11 percentage points, from 14.87 per cent in 2001 to 25.73 per cent in 2011.

The average growth rate of the population is 1.35 per cent per annum, which is a significant decrease

**Table 2: Population Distribution of Nepal**

	Population			Number of Households	Average Household Size	Sex Ratio	Pop. Density
	Total	Male	Female				
Nepal	26,494,504	12,849,041	13,645,463	5,427,302	4.88	94.16	180
<b>Urban/Rural</b>							
Urban	4,523,820	2,306,049	2,217,771	1,047,297	4.32	103.98	1,381
Rural	21,970,684	10,542,992	11,427,692	4,380,005	5.02	92.26	153
<b>Ecological Belt</b>							
Mountain	1,781,792	862,592	919,200	364,120	4.89	93.84	34
Hill	1,394,007	5,440,067	5,953,940	2,534,430	4.50	91.37	186
Tarai	13,318,705	6,546,382	6,772,323	2,528,752	5.27	96.66	392
<b>Development Region</b>							
Eastern Development Region	5,811,555	2,790,483	3,021,072	1,231,505	4.72	92.37	204
Central Development Region	9,656,985	4,841,624	4,815,361	1,964,045	4.92	100.55	352
Western Development Region	4,926,765	2,292,597	2,634,168	1,066,362	4.62	87.03	168
Mid-Western Development Region	3,546,682	1,706,450	1,840,232	695,419	5.10	92.73	84
Far-Western Development Region	2,552,517	1,217,887	1,334,630	469,971	5.43	91.25	131

Source: CBS, National Population and Housing Census 2011

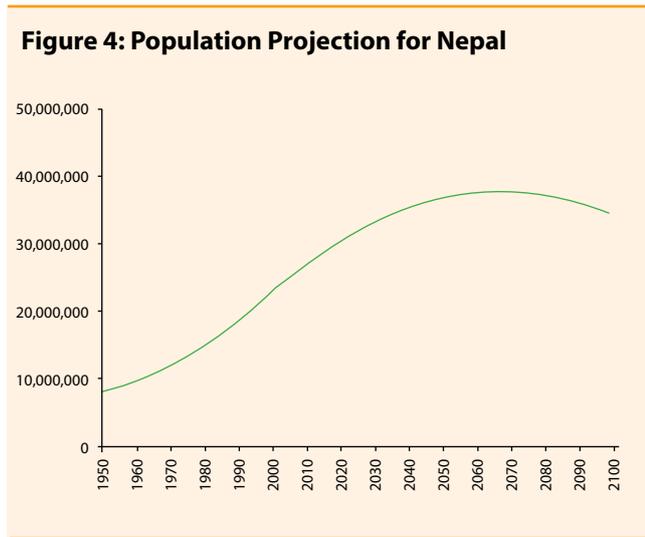
from the 2001 census, which had recorded an average population growth rate of 2.25 per cent. However, the population projection for Nepal indicates that despite the downward trend in the rate of population growth, the total population will exceed 30 million by 2020 (See Figure 4).

In terms of age distribution, the population pyramid of Nepal is fairly 'expansive', meaning that there are higher numbers of people in the younger age categories (see Figure 5). While this type of age distribution is typical of many developing countries where birth rates are high and life expectancy short, the considerably large young population in Nepal, with those aged less than 35 years of age accounting for approximately 70 per cent of the population, means that despite the lower population growth, labour supply pressure remains strong. This is particularly true in rural areas where the dependency ratio is 92 per cent compared to urban areas where it is only 59 per cent.<sup>31</sup>

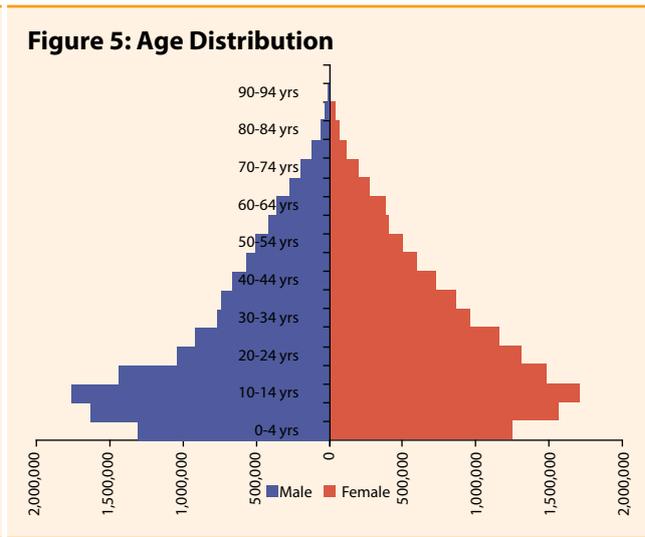
In the 2011 census, the median age was 21.4 while the total dependency ratio was 84.4. As shown in

Figure 6, the dependency ratio, albeit high, is however decreasing, particularly with a rapid decline in fertility rate (and, hence, the decrease in child dependency ratio) and is only due to increase after 2045 when it is expected to reach a low of 43.

The current high dependency ratio indicates that there are many young people and new entrants in the labour market. In fact, an additional 400,000 people are expected to enter the labour force each year,<sup>32</sup> thus, substantially increasing the demand for jobs and schooling. Further, high dependency ratios also have direct implications for income per capita, since there are fewer people of working age supporting large numbers of children and the elderly. This also results in increased pressure on the public sector, which will inevitably have to shoulder some of the responsibility for the said large numbers of children and the elderly. The rapid growth in the labour force can have negative impacts on economic growth as well, especially if employment creation cannot keep up with the increase, and a significant rise in the number of unemployed youth can lead to political instability.



Source: UN, World Population Prospects: The 2012 Revision, <http://esa.un.org/unpd/wpp/index.htm>



Source: CBS, National Population and Housing Census 2011

<sup>31</sup> The dependency ratio of 92 per cent indicates that roughly about 100 persons in the productive ages have to support 92 dependents in terms of the basic necessities of life.

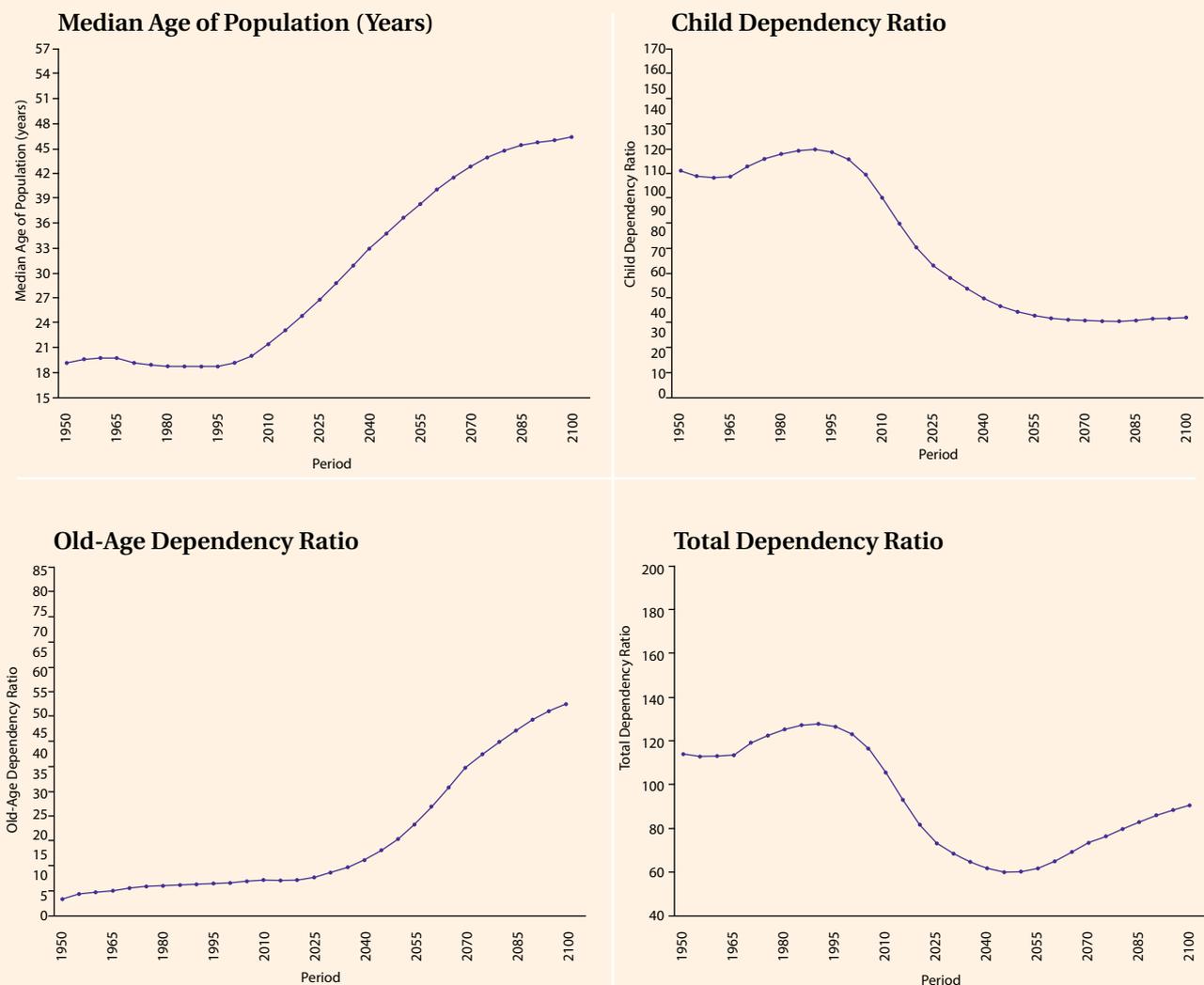
<sup>32</sup> Rizwanul Islam, *Nepal: Addressing the Employment Challenge through Sectoral Pattern of Growth* (Kathmandu: ILO, 2014).

However, a rapidly declining dependency ratio also opens the door to the advantages of a ‘demographic dividend’ through increased labour supply; increased savings due to the working-age population’s tendency to have higher levels of output and also higher levels of savings; and improvement in human capital due to more parents being willing to in-

vest in their children’s education at more advanced levels, especially as life expectancy increases.<sup>33</sup>

Another notable feature of Nepal’s demographic pattern is the rapid pace of urbanisation. As mentioned earlier, the urban population constitutes 17 per cent of the total population, with the highest

**Figure 6: Population Distribution and Dependency Ratios**



Sources: [http://esa.un.org/unpd/wpp/JS-Charts/aging-median-age\\_0.htm](http://esa.un.org/unpd/wpp/JS-Charts/aging-median-age_0.htm); [http://esa.un.org/unpd/wpp/JS-Charts/aging-child-dep-ratio\\_0.htm](http://esa.un.org/unpd/wpp/JS-Charts/aging-child-dep-ratio_0.htm); [http://esa.un.org/unpd/wpp/JS-Charts/aging-old-dep-ratio\\_0.htm](http://esa.un.org/unpd/wpp/JS-Charts/aging-old-dep-ratio_0.htm); [http://esa.un.org/unpd/wpp/JS-Charts/aging-tot-dep-ratio\\_0.htm](http://esa.un.org/unpd/wpp/JS-Charts/aging-tot-dep-ratio_0.htm)

<sup>33</sup> David E. Bloom, David Canning and Jaypee Sevilla, *The Demographic Dividend: A New Perspective on the Economic Consequences of Population Change* (Santa Monica: RAND, 2003).

concentration being in the Kathmandu Metropolitan City.<sup>34</sup> In comparison, the urban population constituted 13.9 per cent of the total population in 2001.<sup>35</sup> The structure of the population is clearly shifting towards urban living, and this trend can be expected to only increase. For instance, Kathmandu District experienced the fastest decadal population growth rate (61.23 per cent) while rural districts such as Manang and Khotang recorded negative population growth rates.

To conclude, the high population growth rate, though declining, indicates that Nepal's demographic trends are important, especially in terms of the challenges relating to employment. In general, high population growth does not pose a serious problem in itself and could even result in a 'demographic dividend,' but in an agriculture-based economy such as Nepal's, one of the constraining factors is land. If land use cannot be expanded, productivity in other sectors has to increase in order to, at the very least, maintain per capita income levels. Urbanisation, growth of industrial and service sectors, and even migration of the workforce can help alleviate the problem, but if the rural population continues to grow rapidly, maintaining employment and income levels will be difficult. Further, as suggested in the broader literature on demography and employment, in countries where there is often a rapid growth in population, the challenge lies not in employing the working-age population (employment rates in Nepal are high as will be discussed in

the next section) but in employing them productively.<sup>36</sup> Hence, population dynamics play a core role in the availability and expansion of productive employment.

### B. Employment Trends

The composition of the labour force in Nepal has been changing significantly in recent years – women now constitute a large share of the labour market, the percentage of youths participating in the labour market has gone down, and the proportion of the population living in urban areas has increased significantly, thus placing high pressures on urban employment.<sup>37</sup> Concurrently, the situation of employment in Nepal, at least in quantitative terms, has also been improving. In fact, according to a recent study, Nepal has the second highest employment growth rate in South Asia (after Pakistan).<sup>38</sup>

According to the Nepal Living Standards Survey 2010/11, the proportion of currently employed<sup>39</sup> has increased from 67 per cent in 1995/96 to 78 per cent in 2010/11, while during the same period, the unemployment rate decreased from 4.9 per cent to 2.2 per cent,<sup>40</sup> though, admittedly, the rate of unemployment is not the best indicator of labour market deficits in Nepal. The current labour force participation rate (LFPR)<sup>41</sup> is 80 per cent, with the urban areas having a much lower LFPR than the rural (67 per cent in urban versus 84 per cent in rural). The LFPR for males, however, is slightly higher (80.9 per cent) than for females (79.4 per cent).

<sup>34</sup> According to the 2011 census, the total population of Kathmandu Metropolitan City is 1,003,285, which amounts to a population density of 20,289 people per square km, thus constituting 24.3 per cent of the total urban population.

<sup>35</sup> Ministry of Health and Population, *Nepal Population Report 2011* (Kathmandu: Government of Nepal, 2011).

<sup>36</sup> International Labour Organization, *Guide for the Formulation of National Employment Policies* (Geneva: ILO, 2012).

<sup>37</sup> The percentage of the urban population increased from 7 per cent in 1995/96 to slightly more than 20 per cent in 2010/11.

<sup>38</sup> World Bank, *More and Better Jobs in South Asia* (Washington DC: World Bank, 2012).

<sup>39</sup> A person is defined as employed by the NLSS 2010/11 as anyone who was 'employed for at least one hour during the previous seven days or has a job attachment if temporarily absent from work, or is available to work if work could be found.' Similarly, someone is regarded as unemployed 'if he or she did not work during the last seven days but was looking for work, or was waiting to hear from a prospective employer or to start a new job or could not find work or did not know how to look for work.' CBS, op cit, 2011.

<sup>40</sup> CBS, op cit, 2011. However, the Nepal Labour Force Survey 2008 mentions that the employment rate decreased from 84.3 per cent in the year 1998/99 to 81.7 per cent in 2008 and the unemployment rate increased from 1.8 per cent to 2.1 per cent during that time. See, CBS, *Report on the Nepal Labour Force Survey 2008* (Kathmandu: CBS and National Planning Commission Secretariat, 2009).

The LFPR for women may be marginally lower than that for males, but female LFPR has increased rapidly – from 66.4 per cent in 1995/96 to 79.4 per cent in 2010/11. In terms of regional differences, the LFPR is lowest in the urban-Kathmandu Valley area (61 per cent) where the unemployment rate is the highest (8 per cent). On the other hand, the LFPR is highest in the rural-Mid- and Far-western hills (90 per cent) while the unemployment rate is the lowest (less than 1 per cent) in those areas.

Further, it is disconcerting to note that the LFPR in the age bracket 10 to 14 years has increased by 9.4 percentage points from 2004 to 2011 even though

the overall incidence of child labour has been on a decline.<sup>42</sup> This can largely be attributed to the increasing trend of foreign employment, which has created a shortage of labour in households across rural Nepal, with the older children having had to take on more responsibilities, including household chores such as fetching firewood, collecting water, cooking and cleaning<sup>43</sup> (see Table 3).

In terms of unemployment, from 1995/96 to 2010/11, the share of the unemployed decreased slightly from approximately 3 per cent to 2 per cent while the share of the inactive population decreased by 9 percentage points and currently stands at 20

**Table 3: Employment Trends in Nepal**

	Percentage of Population			Labour Force Participation Rate			Unemployment Rate		
	1995/96	2003/04	2010/11	1995/96	2003/04	2010/11	1995/96	2003/04	2010/11
<b>Gender</b>									
Male	48	47.1	45.1	75.2	80.4	80.9	5.6	3.9	3.2
Female	52	52.9	54.9	66.4	74.4	79.4	4.1	3.6	1.5
<b>Rural/Urban</b>									
Rural	93	83.3	79.6	72.0	80.2	83.5	4.4	2.9	1.7
Urban	7	16.7	20.4	53.9	62.4	66.7	12.2	9.2	5
<b>Age group</b>									
10-14	19	17.5	17.6	38.6	51.8	61.2	7.9	3.4	1.1
15-19	14	14.6	14.3	65.7	71.8	73.3	6.9	5.7	2.4
20-24	11	10.8	9.7	79.4	83.1	79.2	7.8	6.4	5.2
25-44	32	31.7	30.1	88.9	91.6	91.4	4.0	3.6	2.6
45-59	14	15.1	16.5	82.9	87.9	91.6	2.9	1.9	1.3
60 +	10	10.3	11.8	50.0	61.9	72.1	1.3	1.7	1.2

Source: NLSS 1995/96, 2003/04 and 2010/11

<sup>41</sup> 'Labour Force Participation Rate' means the number of persons in the labour force expressed as a percentage of the working-age population.

<sup>42</sup> For more details, see ILO and CBS, *Nepal Child Labour Report: Based on Data Drawn from the Nepal Labour Force Survey 2008* (Kathmandu: ILO, 2012).

<sup>43</sup> In general, increases in the labour force participation of children arise mainly from the increase in the number of children conducting household chores such as fetching firewood, water, cooking, cleaning, etc.

per cent. Despite these positive changes, there are a few notable concerns – youth (15-24 years old) unemployment rate remains high at 3.6 per cent though this is a significant decrease from 1995/96 when it was 7.3 per cent; and the rate of unemployment amongst males is double that of females (3.2 per cent for males and 1.5 for females). As revealed by the Nepal School-to-Work transition study, the reasons why young people, particularly young males, continue to experience difficulties in finding work may be linked as much to their lack of experience and/or unrealistic career expectations as to the poor quality of available jobs and employers' preferences for older workers.<sup>44</sup> Regardless, the risk of youth unemployment is not only a problem for the individuals concerned. On the contrary, several studies have shown that when large cohorts of young men fail to get jobs, they tend to cause social and political instability.

Unemployment in Nepal is also more of a concern in urban areas. The rate of unemployment in urban areas is much higher than in rural areas (5 per cent in urban areas compared to 1.7 per cent in rural areas), with the rates for females being higher than for males.<sup>45</sup> In the context of Nepal, the unemployment rate is not the best indicator of labour market deficits but even if one were to consider the length of time out of work, it is clear that long-term unemployment is predominant. For instance, according to the Nepal Labour Force Survey 2008, around 46.2 per cent of the unemployed were found to be out of work for more than a year while 30.1 per cent of the unemployed were out of work for at least two years.

### C. Employment and Sectoral Distribution

Between 1999 and 2009, Nepal's economy underwent a major structural transformation with the service sector surpassing agriculture in terms of

being the largest contributor to the country's GDP. Such a structural shift, however, has not translated into a corresponding shift in employment patterns. Instead, as mentioned above, the agriculture sector still accounts for three quarters of the total employment while industry and service sector account for 10.8 and 15.3 per cent, respectively (see Figure 7). This difference in the contribution of the agricultural sector to national output and employment highlights the substantial differences in productivity levels between the agricultural and other sectors.<sup>46</sup> However, a closer analysis of the agricultural sector also indicates that people are gradually shifting towards cash crops from regular food crop production, pointing to the possibility of an increase in the productivity levels of the agriculture sector.<sup>47</sup> Thus, increasing productive employment and incomes in agriculture will continue to be a cornerstone for development and poverty reduction in Nepal in the years to come.

There are a few other notable changes in the agricultural sector. The share of wage-earners in agriculture decreased from 53 per cent in 1995/96 to 35 per cent in 2010/11. Although, to some degree, this decrease is an indicator of the structural changes in the employment sectors, it is also true that, in Nepal, the practice of paying workers in kind is still prevalent. Further, more and more people have also taken to holding multiple jobs to supplement their income; the NLFS 2009 estimated that approximately 47 per cent of those classified as currently employed held second jobs. Hence, this data could be an under-representation of the actual number of people who still rely on agriculture for their livelihood, albeit partially.

Despite the decline in the share of wage-earners in the agriculture sector, there continues to be the

<sup>44</sup> ILO, 'School to Work Transition: Evidence from Nepal.' *Employment Working Paper No. 10* (Geneva: ILO, 2008).

<sup>45</sup> ADB, DFID and ILO, op cit, 2009.

<sup>46</sup> Notably, if the agricultural sector had been as productive as the other sectors then its contribution to the national GDP would have been similar to its percentage share in employment. See ILO, op cit, 2010.

<sup>47</sup> Islam, op cit, 2012.

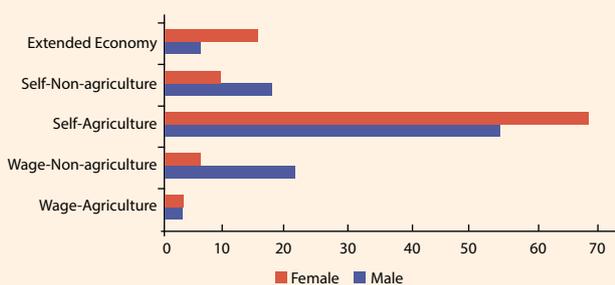
preponderance of self-employment in agriculture, which accounts for 61 per cent of the self-employed. In fact, the main sector of employment in Nepal, according to the NLSS 2010/11, is self-employment in agriculture for both males and females. Interestingly, a higher percentage of females are self-employed in agriculture and in the extended economic activity compared to their male counterparts;<sup>48</sup> the first points to the reality of the increasing feminisation of agriculture.

Concurrent with the decrease in the percentage of wage-earners in the agriculture sector, the share of those involved in non-agricultural employment, as shown in Figure 8, increased from 47 per cent in 1995/96 to 65 per cent in 2010/11. A further disaggregation suggests that in the non-agriculture sectors, the concentration of wage-earners is in manufacturing, construction and personal services even though the share of construction in 2010/11 increased relative to 1995/96 while that of manufacturing decreased during the same period.

Owing to the limited domestic market and export opportunities in Nepal, the manufacturing sector is small. But, with the introduction of more favourable policies, the manufacturing sector has better prospects in terms of employment creation compared to others, mainly in dairy products, carpets, garments and textiles, ceramic products, glass products and footwear.<sup>49</sup> Similarly, given that the growth in the construction sector has generally exceeded the national GDP growth rate, the potential for employment generation in the construction sector is also significant. Another promising sector in this regard is tourism although recent patterns indicate that while the number of tourists visiting Nepal has increased, their average daily expenses have gradually decreased.<sup>50</sup> But, with political stability and the growth of various other sectors, including hospitality management, there is the possibility of greater GDP earnings and employment opportunities in the tourism sector.

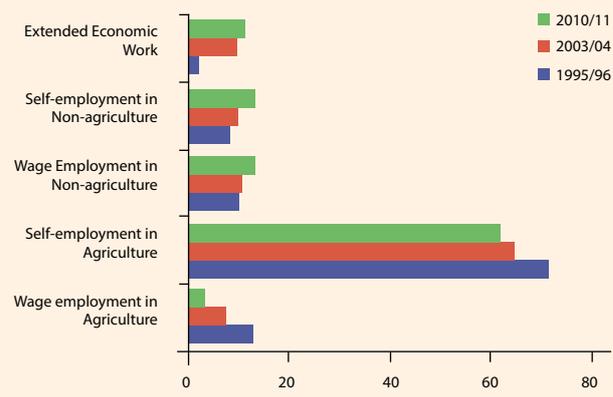
Despite the rapid pace of urbanisation and the concentration of most of the labour supply in ur-

**Figure 7: Distribution of Employed Individuals by Main Sector of Employment (during last 7 days)**



Source: NLSS 2010/11

**Figure 8: Main Sectors of Employment**



Source: NLSS 1995/96, 2003/04 and 2010/11

<sup>48</sup> The NLSS defines 'extended economic activity' as those comprising home-based activities and non-work activities such as household chores. In this regard, 'extended economic activity' would include activities such as fodder/firewood collection and fetching of water that are not easily classified under agriculture or non-agriculture sectors.

<sup>49</sup> Islam, op cit, 2012.

<sup>50</sup> Islam, op cit, 2012.

ban areas, the percentage of people employed in rural areas is much higher (82.1 per cent) compared to that of urban areas (63.4 per cent).<sup>51</sup> This means that notwithstanding the process of urbanisation of the population, employment trends and patterns in Nepal are still being determined by rural dynamics. As can be expected, however, in the rural areas, much of the economic activities are dependent on wage- and self-employment in the agricultural sector, while in the urban areas, there is greater diversification of economic activities, with 57.6 per cent of the employed being engaged in non-agriculture work (compared to 18.8 per cent in rural areas).<sup>52</sup>

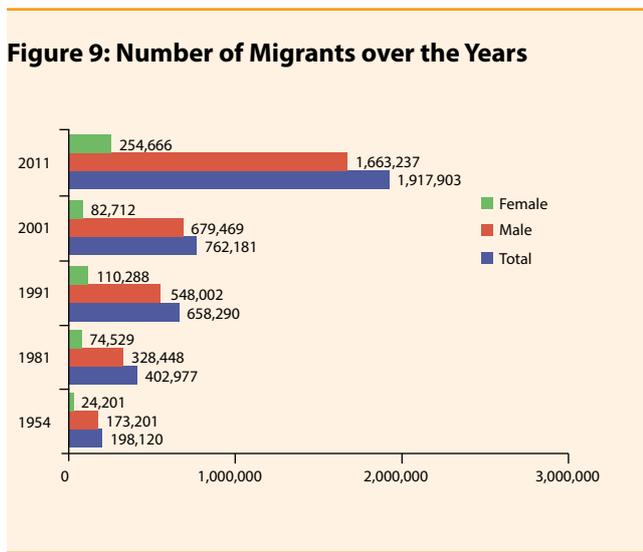
#### D. Labour Migration

Driven by the limited employment opportunities in their places of residence, a relatively large percentage of Nepalis seek employment either elsewhere in the country or abroad. Of the total population of

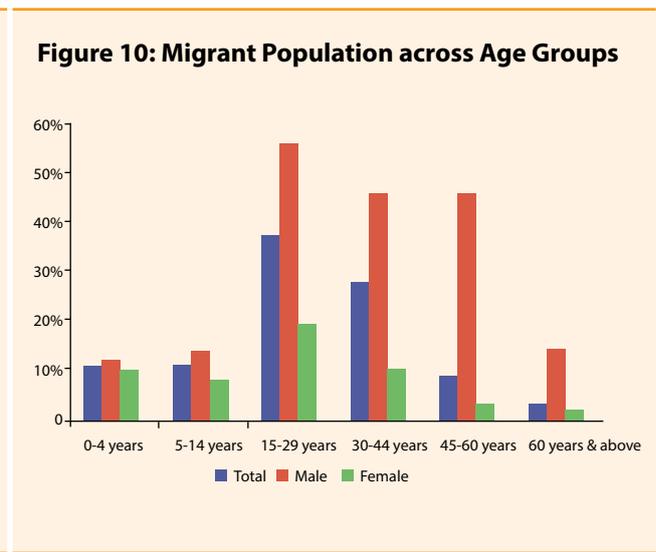
Nepal, 20.3 per cent are considered to be migrants (29.8 per cent of males; 10.9 per cent of females), of whom, 56.9 per cent are believed to be internal migrants while 43.1 per cent have gone abroad.<sup>53</sup> Figure 9 reveals that the number of male migrants has been increasing exponentially (from 679,469 in 2001 to 1,663,237 in 2011), and despite being proportionately smaller, the female migrant population has also been increasing rapidly (from 82,712 in 2001 to 254,666 in 2011).<sup>54</sup>

As shown in Figure 10, for both males and females, the largest proportion of the migrant population lies in the age group 15 to 29. This exodus of the youth population, faced with the absence of economic opportunities at home, is of particular relevance for the future prospects of growth in Nepal.<sup>55</sup>

Of the total migrant population, 27.4 per cent have cited ‘work’ as the main reason for migration. How-



Source: CBS, National Population and Housing Census 2011



Source: NLSS 2010/11

<sup>51</sup> CBS, op cit, 2011.

<sup>52</sup> Author’s calculations based on NLSS 2010/11 data.

<sup>53</sup> CBS, op cit, 2011.

<sup>54</sup> CBS, *Population Census 2001, National Report* (Kathmandu: CBS and National Planning Commission Secretariat, 2002); and CBS, op cit, 2012.

<sup>55</sup> It should be noted that the significant percentage of migrant children seen in Figure 10 represent children who have accompanied their parents to work destinations. This generally occurs when people migrate seasonally to India or in cases of internal migration. See CBS, op cit, 2011.

ever, again, the differences between males and females are quite pronounced – the proportion of males citing ‘work’ as the reason for migration is disproportionately higher than females (67.9 per cent for males as opposed to only 17.2 per cent for females).<sup>56</sup>

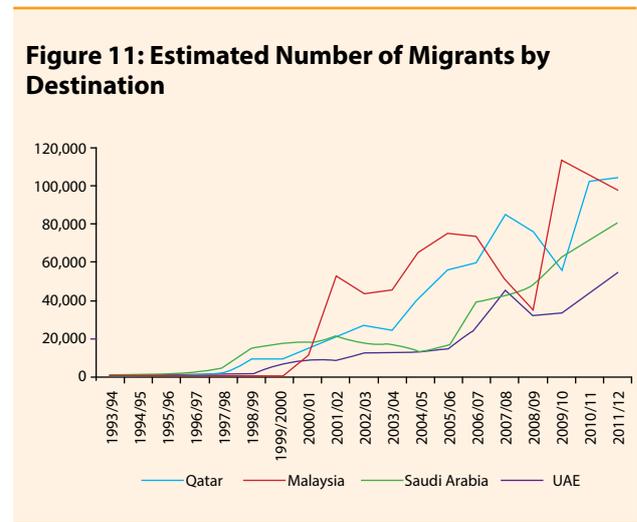
In terms of destination, internal migration within Nepal and migration to India are the most common destinations for long-term migrants. But, due to the porous nature of the Nepal-India border there is no accurate account of the actual number of Nepalis in India<sup>57</sup> and estimates range from a few hundred thousand to a few million (in 2001, the censuses from both India and Nepal stated that the Nepali migrant population in India is nearly 600,000<sup>58</sup>).

The trend of Nepalis going abroad for work has also been rising dramatically. Data available from the Department of Foreign Employment (DoFE), which is responsible for issuing labour permits to individuals seeking employment abroad (in countries other than India), reveals that while only about 55,000 labour permits<sup>59</sup> were issued in the FY 2000/01, this figure increased to 384,665 in the FY 2011/12.

Increasing numbers of labour migrants have begun seeking employment opportunities in destinations such as Qatar, Malaysia, Saudi Arabia and other countries in the Gulf (see Figure 11). Notably, in addition to the lack of employment opportunities in Nepal, the outflow of such a high number of Nepali workers is also propelled by the increased demand for workers in the destination countries, particular-

ly in the construction and manufacturing sectors. Factors such as Qatar hosting the FIFA World Cup Football tournament in the year 2022 have only increased the demand for unskilled and semi-skilled labourers in the construction sector.

Figure 12 below also shows that while migration has affected virtually all the regions of the country, the Western Hills, Eastern Tarai, Central Hills and Central Tarai had the highest outflow of international migrants – 22 per cent, 14 per cent, 12 per cent and 11 per cent, respectively in the year 2011. The population decrease in some of these regions, including the mountains of Eastern, Central and Western regions and the Eastern Hills, could possibly be attributed to outmigration from these areas, both internal and external.<sup>60</sup>



Source: Department of Foreign Employment

<sup>56</sup> In contrast, 48.3 per cent of the women cited ‘family’ as the main reason for absence. For more details, see CBS, op cit, 2011.

<sup>57</sup> Data from the Nepal Living Standards Survey 2010/11 indicates that 38 per cent of Nepali migrants outside the country are in India. Author’s own calculations.

<sup>58</sup> Sanjay Sharma and Deepak Thapa, *Taken For Granted: Nepali Migration to India*, Working paper III (Kathmandu: CESLAM, 2013). It should be noted though that the gender-wise breakdown of the Nepali migrant population in the two censuses diverge widely with the Nepali census showing many more males and the Indian census showing the opposite.

<sup>59</sup> It is mandatory for every individual going abroad for work to receive employment permits from the DoFE as mentioned in the Foreign Employment Act, 2007 and Foreign Employment Rules, 2008. However, Nepalis leaving for India are not required to obtain such permits, as a result of which the figures from the Department of Foreign Employment only includes data for those who took labour permits for countries other than India.

<sup>60</sup> For example, while the 2001 census reported 1,643,246 individuals in the Eastern Hills of Nepal, this number decreased to 1,601,347 in the 2011 census.

According to the NLSS 2010/11, 58.8 per cent of households received remittances in Nepal<sup>61</sup> and further disaggregation of this figure shows that 30.1 per cent of the households received remittances from abroad, with the largest shares coming from Qatar, India, Saudi Arabia and Malaysia (Figure 13). The remittance income in Nepal increased by 19.6 per cent between FY 2011/12 and FY 2012/13 to reach NPR 430 billion, although it is smaller than the growth of 41.8 per cent in FY 2011/12.<sup>62</sup>

The implication of such a high volume of remittances is significant. Amongst the remittance-receiving households, approximately a third of their income comes from remittances. In fact, even households in the poorest consumption quintiles receive remittances (47.6 per cent of the households) although the average amount received by these households is less than those from the richest quintiles.<sup>63</sup> The result, as might be expected, has been a significant reduction in poverty rates; it is estimated that

more than half of the decline in poverty rates from 1995/96 to 2003/04 (from 42 per cent to 31 per cent) can be attributed to remittances.<sup>64</sup>

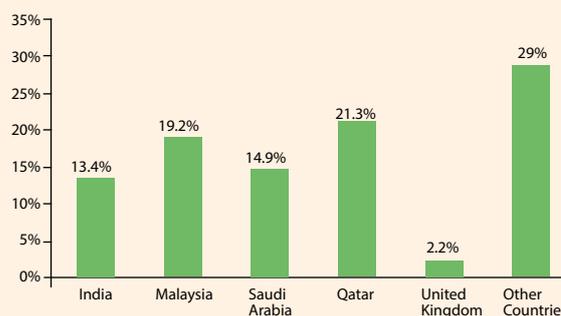
However, opportunities for migration are not shared equally across the country and the populace. For example, the number of female migrants is still significantly lower than their male counterparts. Further, while in the short term, this increasing trend of migration is helping in equalising the supply pressure in the labour markets as well as contributing to GDP growth, in the long term, it is making the Nepali economy more susceptible to external shocks and also leading to inertia in the government's policy vis-à-vis public investments such as poverty reduction, health, education, etc.<sup>65</sup> At a macro-economic level, there is also the possibility of remittances leading to problems like the Dutch Disease – when large foreign currency inflows through remittances lead to sharp increases in inflation, causing currency appreciation which then results in a subsequent

**Figure 12: Migrant Population by Region**



Source: CBS, National Population and Housing Census 2011

**Figure 13: Share of Remittances by Internal and External Sources**



Source: NLSS 2010/11

<sup>61</sup> As compared to 31.9 in 2003/04 and 23.4 in 1995/96.

<sup>62</sup> Ministry of Finance, *Economic Survey 2012/13* (Kathmandu: Government of Nepal, 2013).

<sup>63</sup> The average per capita remittance received by the households in the poorest quintile is NPR 2,630 compared to NPR 21,433 from those in the richest quintile. See, CBS, op cit, 2011.

<sup>64</sup> Elena Glinskaya, Mikhail Bontch-Osmolovski and Michael Lokshin, 'Work-related Migration and Poverty Reduction in Nepal' Working Paper Series 4231 (Washington DC: World Bank, 2007); World Bank, *Large Scale Migration and Remittances in Nepal: Issues, Challenges, and Opportunities* (Kathmandu: World Bank, 2011).

<sup>65</sup> See, World Bank, op cit, 2011.

loss of competitiveness in the export sector.<sup>66</sup> In Nepal's case, such a phenomenon, if it were to occur, would be especially traumatic as it would further depress the export sector which is already weak to begin with.

Recent data also suggests that, on average, a household with a migrant abroad receives NPR 80,462 per year (approximately USD 895)<sup>67</sup> but is required to spend on an average USD 1,370 to migrate to the Gulf countries,<sup>68</sup> meaning that the costs of funding migration are significant and require potential migrants to finance their travels from savings, loans and sale of land. The loan amount is particularly significant because research shows that local money-lenders charge high interest rates, often exceeding 30 per cent, and usually requiring guarantees.<sup>69</sup>

There have also been increasing concerns about brain drain as more and more educated youths leave Nepal for educational opportunities abroad and a vast majority of them choose to remain there. In 2009/10, the Government of Nepal issued 26,913 'no-objection letters' to Nepali youths to study in countries other than India through self-finance. This is a substantial increase from 1,744 in 2003/04, indicating that the number of students opting to go abroad for their education is only likely to increase in the future.<sup>70</sup> Data on how many of these individuals return to Nepal is not available, but were the Government to devise effective incentive schemes for their return, the country could benefit significantly from brain gain, particularly if it is also able to properly harness the skills and know-how that the youth come back with.

### E. Education and Employment

The relationship between education levels and employment is a critical one. In Nepal, in light of the

recent advances made in terms of educational attainment, the statistics on education are notable although still low compared to international standards. According to the NLSS 2010/11, the total literacy rate (5 years and above) is almost 60 per cent compared to 50.6 per cent in 2003/04. However, differences across gender, geographic regions and income quintiles are still significant. More specifically, female literacy rate is 20 percentage points lower than that of males; rural areas fare much worse than urban areas, with the differences between males and females in rural areas being even more pronounced; the Central and Far-Western regions have the lowest rates of literacy; and the literacy rates in the poorest wealth quintile is almost half of the richest quintile (see Figure 14).

Such low levels of education, especially with significant differences across groups and regions, are considered a major impediment to economic growth, employment creation and eradication of poverty. Low levels of education make it more difficult to take advantage of opportunities offered by a globalised economy, where liberalisation and educational expansion can either, in a virtuous cycle, reinforce each other or lead to stagnation. Societies with high illiteracy levels have been shown to be more susceptible to political manipulation, corruption and bad governance as well as civil strife and violence – phenomena that undermine human as well as economic development. On the contrary, education is seen to have a direct influence on social attitudes such as health-seeking behaviour and provision of better education of children regardless of household income.<sup>71</sup>

With regards to the relationship between education and employment, as in many other low-income countries, in Nepal, too, most of the illiterate population is employed and the non-activity and unemployment

<sup>66</sup> Ibid.

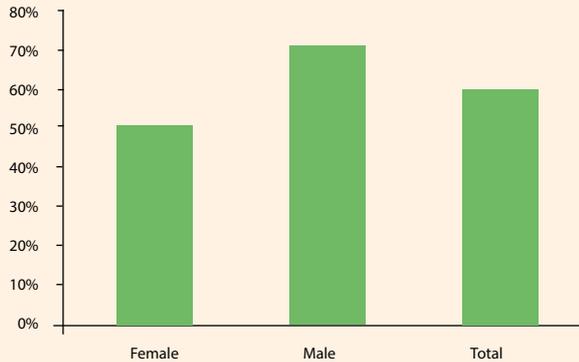
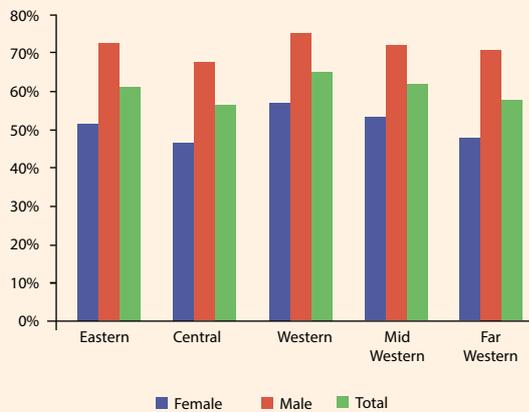
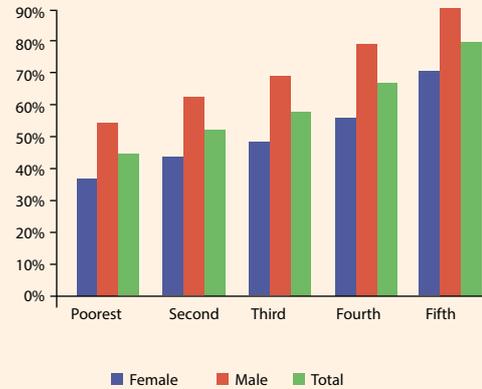
<sup>67</sup> CBS, op cit, 2011.

<sup>68</sup> World Bank, op cit, 2011.

<sup>69</sup> Simone Wyss, *Organization and Finance of International Labour Migration in Nepal* (Kathmandu: NCCR North-South and NIDS, 2004).

<sup>70</sup> Ministry of Education, *Nepal Education in Figures 2011* (Kathmandu: Ministry of Education, 2011).

<sup>71</sup> Se-Jik Kim and Yong Jin Kim, 'Growth Gains from Trade and Education,' *Journal of International Economics*, 50:2, pp, 519-545, 2000.

**Figure 14: Literacy Rates by Gender, Region and Wealth Quintiles****Literacy Rate by Gender (5 years and above)****Literacy Rate by Rural/Urban Areas****Literacy Rate by Region****Literacy Rate by Wealth Quintiles**

Source: NLSS 2010/11

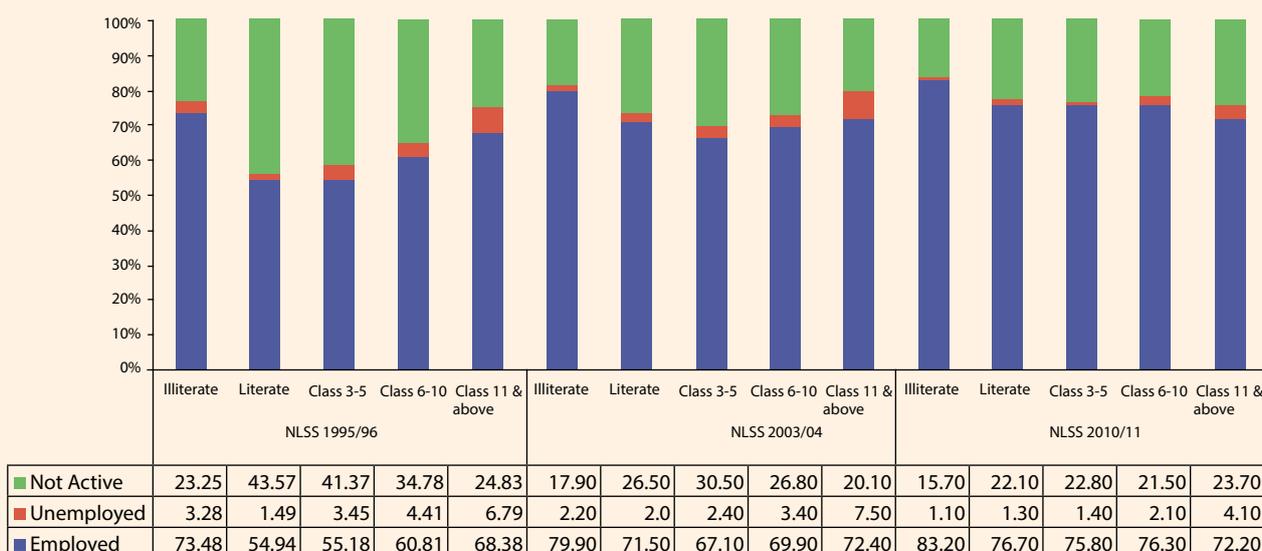
rate for them is also the lowest. While the highest employment rate is amongst the illiterate, it is encouraging to note that the rate of employment for the demographic category with higher levels of education has been increasing gradually over the years (Figure 15). For instance, in 1995, only 60 per cent of those with schooling between grades 6 and 10 were employed; in 2004, this figure increased to 69 per cent and further to 76 per cent in 2011, indicating the increased capacity of the economy to absorb the educated workforce.

Nonetheless, the unemployment rate and educational attainment continue to exhibit a direct relationship, i.e., unemployment rates rise with increases in educational levels (see Figure 16). This is because individuals with the lowest educational attainment tend to be the poorest, and, hence, cannot afford to remain unemployed or inactive. On the other hand, the higher rate of unemployment amongst the educated is most likely a result of individual preferences coupled with the scarcity of jobs appropriate for the skill sets.

The most prevalent sector of work in Nepal is agriculture, employing as it does the largest proportion of individuals. However, as shown in Table 4, most of these individuals are involved in subsistence agriculture and have either never attended school or have had very little education. On the other hand, the occupations and sectors in which individuals have comparatively the smallest presence, like professionals, technicians and clerks, have better levels of educational attainment. What can be surmised from this is that the country is still lagging behind in education, and, therefore, many individuals who are illiterate and uneducated have no option but to engage in subsistence agriculture, leading to a low standard of living because of the low returns in that form of agriculture. This also ascertains that the higher the level of an individual's education, the less the chances of their getting involved in low-return sectors like agriculture, making agriculture the occupation of the illiterate and the poor.

In the past, in most sectors, the returns to education, especially in terms of wage premiums, were not proportionately higher for better educated or skilled workers, implying that either there was an excess of skilled labour and/or a low demand for them. This pointed to the fact that the supply of skilled labour was not a major impediment in most sectors.<sup>72</sup> But, recent data shows that the wage premium has been rising for those with higher levels of education even with the increasing supply of educated workers. More precisely, as shown in Figure 17, over the years, the premium for lower levels of education has been falling while the premium for higher-secondary and tertiary education have been increasing. In a context where the educational attainment of the labour force has been improving, these patterns indicate that the supply of workers with lower levels of education is increasing at a faster rate than demand while the demand for workers with higher education is far greater than the increased supply.<sup>73</sup>

**Figure 15: Educational Attainment and Activity Status**



Source: NLS 1995/96, 2003/04 and 2010/11

<sup>72</sup> ADB, DFID and ILO, op cit, 2009.

<sup>73</sup> World Bank, op cit, 2012.

Table 4: Education Levels and Sector of Employment

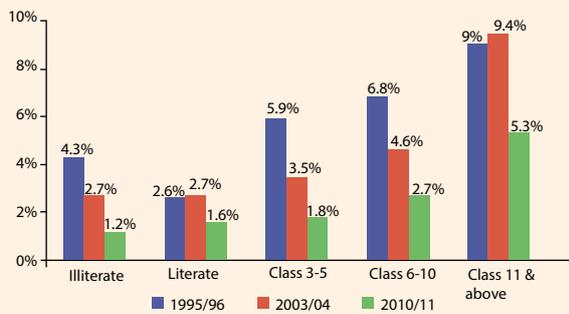
Occupation	Never attended school (in '000)	Less than primary (%) (in '000)	Primary (%) (in '000)	Lower secondary (%) (in '000)	Secondary (%) (in '000)	Higher secondary (%) (in '000)	Degree level (%) (in '000)	Others/Not stated (%) (in '000)	Total (%) (in '000)									
Subsistence agriculture	4080	71.8	866	62.4	1041	63.6	624	64.3	722	51.6	113	29.4	23	10.7	67	66.3	7535	64
Elementary occupation	720	12.7	170	12.3	174	10.6	87	9	70	5	8	2.1	2	0.9	10	9.9	1241	10.5
Craft and related trades workers	402	7.1	164	11.8	178	10.9	79	8.1	118	8.4	24	6.2	9	4.2	10	9.9	983	8.3
Service workers	210	3.7	92	6.6	127	7.8	101	10.4	226	16.2	69	17.9	25	11.6	9	8.9	859	7.3
Market agriculture	198	3.5	46	3.3	52	3.2	24	2.5	34	2.4	6	1.6	3	1.4	3	3	367	3.1
Technician & Associate Professionals	11	0.2	7	0.5	8	0.5	9	0.9	90	6.4	66	17.1	37	17.2	1	1	230	2
Professionals	6	0.1	3	0.2	3	0.2	2	0.2	54	3.9	58	15.1	76	35.3	0	0	203	1.7
Plant & machine operators	38	0.7	27	1.9	35	2.1	23	2.4	28	2	5	1.3	4	1.9	1	1	160	1.4
Clerks or office assistants	6	0.1	4	0.3	10	0.6	10	1	40	2.9	27	7	23	10.7	0	0	121	1
Legislators, senior officials	12	0.2	8	0.6	10	0.6	8	0.8	14	1	7	1.8	13	6	0	0	71	0.6
Armed forces	0	0	0	0	1	0.1	2	0.2	2	0.1	2	0.5	1	0.5	0	0	8	0.1
<b>Total</b>	<b>5684</b>	<b>1387</b>	<b>1638</b>	<b>970</b>	<b>1398</b>	<b>385</b>	<b>215</b>	<b>101</b>	<b>11779</b>									

Source: Nepal Labour Force Survey 2008

It is thus clear that with increasing levels of education, the demand for better-paying employment that requires higher skills levels is only likely to increase. Problems may arise in the form of political unrest rooted in the grievances of dissatisfied youth or brain drain caused by a mass exodus of youths

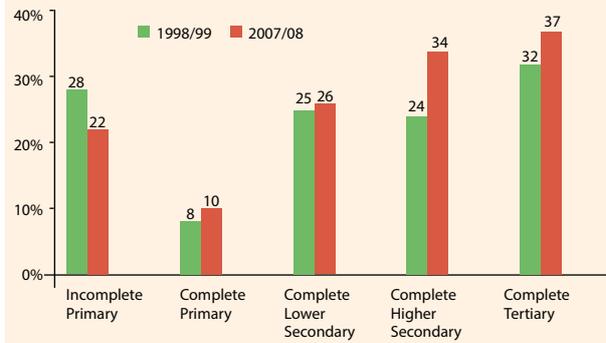
for foreign employment if the market is unable accommodate these demands. Although Nepal is no stranger to these problems, there are trends that show that wage premiums and employment opportunities are beginning to increase with the level of education.

**Figure 16: Unemployment Rate and Education Levels**



Source: NLSS 1995/96, 2003/04 and 2010/11

**Figure 17: Wage Premiums in Nepal (in percentage)**



Source: World Bank, More and Better Jobs in South Asia. Calculations based on data from national labour force and household surveys

Note: The first bar includes the wage premium for even some primary education relative to no education; the last bar reflects the wage premium for completing tertiary relative to completing upper-secondary education.

# Quality of Employment and Decent Work Indicators

As mentioned in the earlier section, unemployment is low in Nepal, but this does not mean that the employed have productive or decent jobs. On the contrary, the proliferation of informal sector employment, underemployment and precarious employment, the persistence of child labour, and working poverty are common. This section will discuss some of the ramifications of these challenges in progressing towards providing quality employment and enhancing the decent work agenda.

## A. Informal Sector and Informal Employment

As in other developing countries, the informal sector is a pervasive and persistent economic feature of Nepal, contributing significantly to employment creation, production and income generation. According to the *World Development Report 2011*, the informal economy in Nepal constitutes about 37.5 per cent of the GDP, a size higher than in other countries of South Asia.<sup>74</sup> Further, it is estimated that employment in the non-agriculture informal sector increased by 29.3 percentage points from 1999 to 2008, a period when an overwhelming proportion of Nepali workers, 96.2 per cent, were working in the informal sector (both agricultural and non-agricultural), indicating that this trend is likely to increase in the coming years.<sup>76</sup>

In terms of providing quality employment and decent work opportunities, as will be discussed below, these trends are disconcerting because the informal sector is known to provide low-quality, unproductive and poorly remunerated employment opportunities.<sup>77</sup> Additionally, most informal sector jobs are in rural areas (68.3 per cent compared to 31.6 per cent in urban areas).<sup>78</sup> This means that those already disadvantaged in terms of the rural-urban divide are also the ones subjected to the uncertainties of the informal sectors, putting them at risk of falling into the poverty trap.

In terms of age distribution, as shown in Table 5, people in the age group 30-44 constitute the largest proportion of those currently employed (33.7 per cent) and they also make up the largest share of the people employed in the informal, non-agriculture sector (33.7 per cent). But, perhaps, more importantly, a vast majority of those between 15 and 19 years and above the age of 60, are employed either in the informal sector or in agriculture. To put it differently, only 3.9 per cent of all those currently employed between the ages of 15-19 and 1.1 per cent of all currently employed over the age of 60 are engaged in the formal, non-agriculture sector. In line with the findings of the

<sup>74</sup> The average size of the informal economy in South Asia is 34 per cent of the GDP. See, World Bank, *World Development Report 2011: Conflict, Security and Development* (Washington DC: World Bank, 2011).

<sup>75</sup> According to the Nepal Labour Force Survey 2008, the number of people who were informally employed in the non-agriculture sector (after excluding agriculture and fishing industries) is 86.4 per cent. See, CBS, op cit, 2009.

<sup>76</sup> Ibid.

<sup>77</sup> ILO, op cit, 2010.

<sup>78</sup> CBS, op cit, 2009.

Nepal School-to-Work transition study, the high percentage of youth (15-19 years) in the informal sector could be a reflection of employers' preferences for more experienced employees which could be forcing the young towards the easily accessible but less-secure informal sector.<sup>79</sup>

It is also very disconcerting that the percentage of females in non-agricultural employment in the informal sector is also higher than among their male counterpart of the same age group. For example, of the females aged 15-19 in that sector, 83.1 per cent are engaged in the informal sector compared to only 75.4 per cent of males. These statistics on informal employment show that it is particularly the youth and women who face more bottlenecks while seeking to access jobs in the formal sector, a pressing issue that needs to be addressed in order to achieve inclusive and employment-centric growth.

Broadly speaking, a large proportion of jobs requiring low levels of formal education are in the informal sector, particularly amongst the 'service workers' and 'craft workers' (90.7 per cent and 86.7 per cent are employed in the informal sector, respectively). This is particularly so with women – approximately 95.6 per cent of female 'service workers' and 91.0 per cent of female 'craft workers' are in the informal sector.

The informal economy allows individuals to increase their take-home earnings or reduce their costs by evading taxation and other mandatory contributions, and it also provides a cushion for workers who cannot find a job in the formal sector. On the other hand, the persistence of the informal sector results in a loss in government revenues (by reducing taxes and social security contributions) while also undermining the rule of law and gov-

**Table 5: Currently Employed Population Aged 15 and Above, by Sex, Age and Sector of Employment**

*(in thousands)*

Sex/ Sector	Total	(%)	15-19	(%)	20-24	(%)	25-29	(%)	30-44	(%)	45-59	(%)	60+	(%)
<b>Total</b>	<b>11,779</b>		<b>1700</b>		<b>1529</b>		<b>1373</b>		<b>3565</b>		<b>2443</b>		<b>1169</b>	
Agriculture	8705	73.9	1391	81.8	1064	69.6	896	65.2	2462	69.0	1885	77.2	1007	86.1
Non-agriculture, formal sector	932	7.9	66	3.9	157	10.3	154	11.2	381	10.7	161	6.6	13	1.1
Non-agriculture, informal sector	2142	18.2	243	14.3	307	20.1	324	23.6	722	20.3	397	16.2	150	12.8
<b>Male</b>	<b>5519</b>		<b>755</b>		<b>605</b>		<b>585</b>		<b>1603</b>		<b>1275</b>		<b>696</b>	
Agriculture	3429	62.1	576	76.3	335	55.4	275	47.0	828	51.7	837	65.7	578	83.0
Non-agriculture, formal sector	711	12.9	44	5.8	99	16.4	112	19.1	305	19.0	140	11.0	11	1.6
Non-agriculture, informal sector	1379	25.0	135	17.9	171	28.2	198	33.9	470	29.3	297	23.3	107	15.4
<b>Female</b>	<b>6259</b>		<b>945</b>		<b>924</b>		<b>788</b>		<b>1961</b>		<b>1168</b>		<b>473</b>	
Agriculture	5275	84.3	815	86.2	729	78.9	621	78.8	1634	83.3	1047	89.6	429	90.7
Non-agriculture, formal sector	221	3.5	22	2.3	58	6.4	42	5.3	76	3.9	21	1.8	2	0.4
Non-agriculture, informal sector	763	12.2	108	11.5	136	14.7	125	15.9	252	12.8	100	8.6	42	8.9

Source: NLFS 2008

<sup>79</sup> ILO, op cit, 2008.

ernance. More important perhaps is the fact that it overwhelmingly hinders workers from enjoying their rights. As they fall outside the protection of the law, they are usually forced to work in dismal conditions, without legal recognition, social protection, and often without any voice or representation in the workplace.<sup>80</sup>

In terms of areas of work, informal employment is all-pervasive in public administration and social security (21.9 per cent), financial intermediation (47.9 per cent), health and social work (51.3 per cent), and education (51.6 per cent). In general, the public sector has a lower proportion of informal employment, with 27.2 per cent of the employees working under informal arrangements, but this figure is overwhelmingly high at 99.0 per cent in private unregistered companies.<sup>81</sup>

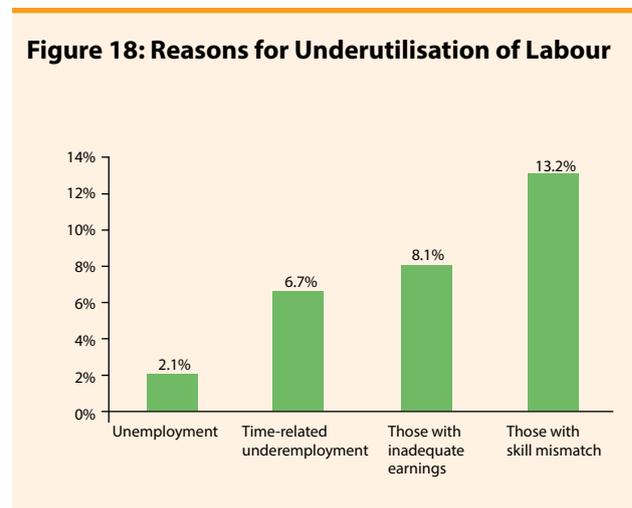
A significant percentage (39.7 per cent of non-agricultural informal employment) are paid employees with informal job conditions, that is, they have no paid leave and do not benefit from social security contributions by the employer, followed by 36.5 per cent who are self-employed without regular paid employees, and 19.8 per cent who are contributing family members. Further, most males employed in the non-agricultural sector are informally employed (83.8 per cent) as are most females (91.8 per cent). In rural areas, the percentage of those in informal employment is 85.3 per cent for males and 93.5 per cent for females as opposed to urban areas where the percentages are 80.7 and 88.9 per cent respectively. This is especially pertinent given the fact that poverty rates are found to be much lower among wage workers with social security<sup>82</sup> than among those not covered as would be the case with informal employment. For example, in 2003/04, the poverty rate amongst the

rural nonagricultural regular wage or salaried worker was 10 per cent compared to 43.4 amongst the 'rural non-agricultural casual labour.'<sup>83</sup>

### B. Earnings and Labour Productivity

Although the unemployment rate in Nepal is relatively low at 2 per cent,<sup>84</sup> this does not necessarily have a proportional bearing on labour productivity. There is an escalating hierarchy of other employment-related problems like underemployment, inadequate earnings and skills mismatch. In fact, according to data from NLFS 2008, 30 per cent of the economically active population is underutilised (38.2 per cent and 22.8 per cent of economically active males and females, respectively). This figure accounts for four components, i.e., unemployment, time-related underemployment, those with inadequate earnings, and those with mismatch of skills.

As can be seen in Figure 18, the largest force behind the underutilisation of labour is skills mismatch, which is at a significant 13.2 per cent, followed by



Source: National Labour Force Survey, 2008

<sup>80</sup> ILO, op cit, 2010. See also, Manuel Castells and Alejandro Portes, *The World Underneath: The Origins, Dynamics and Effects of the Informal Economy* (Baltimore: Johns Hopkins Press, 1989).

<sup>81</sup> CBS, op cit, 2009.

<sup>82</sup> In Nepal, only 4 per cent of workers benefit from social security coverage. See, World Bank, op cit, 2012.

<sup>83</sup> Ibid.

<sup>84</sup> CBS, op cit, 2011.

inadequate earnings, time-related underemployment and unemployment. This underutilisation has had a definitive negative bearing on labour productivity in Nepal. In fact, in the agricultural sector, the largest employer, the agricultural value added per worker has remained stagnant at approximately USD 266 for the last decade.<sup>85</sup> Furthermore, as can be seen in Figure 19, the largest proportion of the underutilised population fall within the age group 20-24 years followed by those in the age group 25-29 years. While this indicates the inability of the employment sectors in Nepal to accommodate and utilise the active population to its fullest capacity, it is also an indication of the untapped labour potential that could be harnessed to drive growth.

As shown in Figure 20, all of the four variables of underutilisation are the highest for the age group 20-24 years, followed by 15-20 years and then 25-29 years. However, the most disconcerting statistics are the high percentages of skills mismatch in all individuals who are currently economically active. This has negative implications for productivity as people are working in sectors for which their skills are not

compatible. This is possibly due to their inability to find employment that match their skills set, forcing them to take up any job they could get but it also suggests the likelihood of the economically active population being unhappy with their earnings and work, which could impact negatively on their productivity. It also signifies that the labour market is failing grossly in capitalising on the existing skill sets of the labour force.

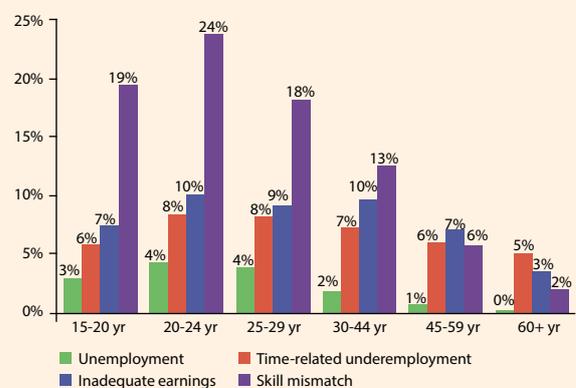
In terms of earnings, the mean daily wage in Nepal has increased gradually over time. However, as Figure 21 shows, there are major wage differences between the agricultural and the non-agricultural sectors. Although the mean wage in the agricultural sector has been increasing at a greater rate than the mean non-agricultural wages (agricultural wages have increased by 325 per cent since 1995/96 while non-agricultural wages have increased by 225 per cent), an agricultural worker is still making close to NPR 100 less per day than his/her non-agricultural counterpart. This difference could be a reflection of the higher demand for labour in non-agricultural sectors resulting from rapid urbanisation, but it has

**Figure 19: Percentage of Underutilised Population by Age Group**



Source: Nepal Labour Force Survey, 2008

**Figure 20: Type of Underutilisation by Age Group**



Source: NLF5 2008

<sup>85</sup> 'World Development Indicators', World Bank, available at <http://data.worldbank.org>.

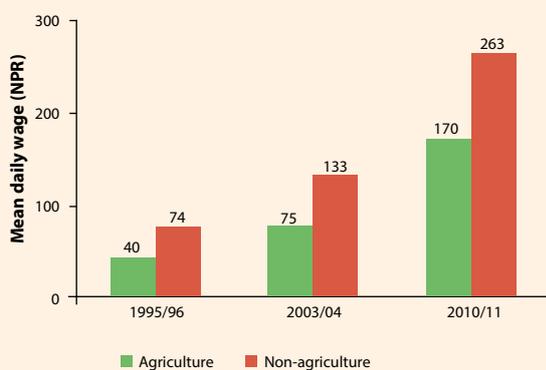
also been construed as an indication of the low returns in the agricultural sector, which has been one of the major push factors for an increasing number of people seeking other forms of employment. This wage differential is definitely a handicap for poverty reduction as income potential remains low in the sector that employs a vast majority of the population.

There is also significant disparity in cash earnings between the agricultural and non-agricultural sectors, although the wage-in-kind is equal across the sectors. As can be seen in Figure 22, the wage inequalities are also stark across the gender divide. While the disparity in cash earnings of the workers in the agricultural and the non-agricultural sector can be explained to some degree by sectoral productivity levels, those along gender lines is an indication of gender discrimination. Evidently, these gender differences, at least in the agriculture sector, can be explained by the abundance of female workers caused by the large-scale migration of males for foreign employment and the resultant increasing

feminisation of the agricultural sector. However, it is a matter of concern that males are paid more than females in both the agricultural (NPR 150 for male workers and NPR 100 for females) and the non-agricultural sectors (NPR 200 for males compared to NPR 125 for females).

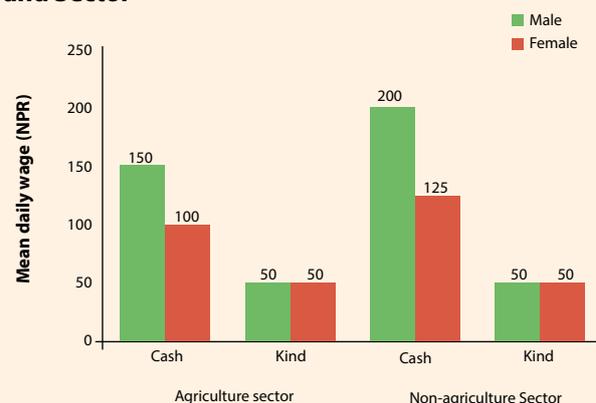
Like in other countries in South Asia, Nepal, too, has enacted minimum wage rules. In 2013, the government updated the monthly minimum wages for four categories of workers – unskilled, semi-skilled, skilled and highly skilled, and also set the minimum wage for daily wage workers.<sup>87</sup> While these wage standards have been important in providing security to workers who are negatively affected by market failures, there is evidence to indicate that it could potentially lead to negative employment effects. More precisely, the minimum wage in 2011 was already higher as a proportion of the median formal wage (46 per cent) and was also above the median wage for casual labour, which suggests that the majority of the wage workers in Nepal are bound to face difficulties finding employment in the formal

**Figure 21: Mean Daily Wage (NPR)<sup>86</sup>**



Source: NLSS 2010/11

**Figure 22: Median Daily Wage (NPR) by Gender and Sector**



Source: NLSS 2010/11

<sup>86</sup> The median agricultural wage is NPR 150 while the non-agricultural wage is NPR 210. Here, the mean wage has been used in order to illustrate the trend in wage rates.

<sup>87</sup> Minimum monthly wage for unskilled workers is currently NPR 8000; and the minimum daily wage is NPR 318. The minimum wage rules apply to private sector workers and employees in enterprises with more than 10 workers and enterprises operating in industrial districts established by the government.

sector. Further increases in minimum wages can potentially lead to the unintended consequences of reducing employment and excluding lower-productivity workers from formal wage employment.<sup>88</sup> However, the lack of enforcement implies that high minimum wages are unlikely to be the main barrier to formal job creation.

To conclude, while the standard explanation for low wages is low sectoral productivity, it is also the case that low wages result from an excess in the supply of workers combined with constraints on other factors of production, or market power among employers. However, in the case of Nepal, due to the scale of outflow of male workers, labour shortages have been reported, particularly in the agricultural and industrial sectors. There is also evidence suggesting that the availability of inputs more broadly, including roads, power, water, etc, determine labour productivity in manufacturing, pointing to the important role of the constraints for production in the continuation of low wages.

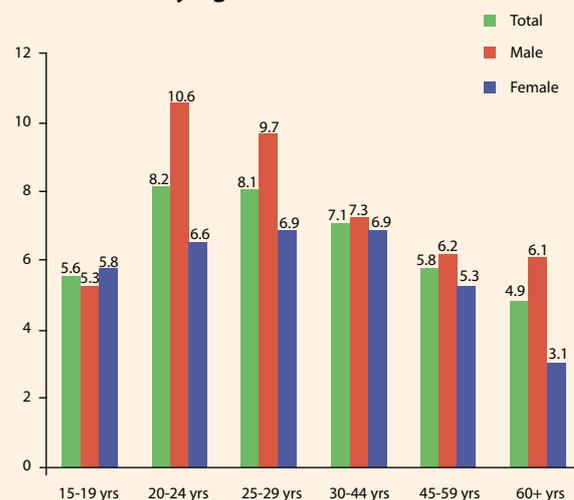
### C. Precarious Employment: Underemployment, Involuntary Work, and Working Hours

As has been pointed out previously, Nepal has a relatively low unemployment rate. However, it is important to note that more than 81 per cent of the workers (71.4 per cent male and 91.2 per cent female) engage in 'vulnerable employment,' which is defined as unpaid family workers and own-account workers (i.e., self-employed) as a percentage of total employment.<sup>89</sup> These workers constitute significant proportions of those informally employed and, as discussed in the preceding section, are typically of low quality, are unproductive, provide low remuneration, and do not offer any kind of social security, legal protection or representational voice in their respective areas of work.<sup>90</sup>

An equally significant statistic that needs to be paid heed to is the level of time-related underemployment in Nepal.<sup>91</sup> As seen in Figure 23, although relatively high across all age groups, underemployment is highest in the age groups 20-24 years (8.2 per cent) and 25-29 years (8.1 per cent). While the increasing trend of individual preference for non-agriculture-related employment could be regarded as one of the primary reasons for this, the high levels of underemployment rates can also be considered an indication of latent labour potential.

There is a higher instance of reported male underemployment than of females across all age groups. However, when compared across rural and urban areas, time-related underemployment is lowest for males in urban areas and highest for both males in rural areas and females in urban areas (Figure 24). Rural males face the highest instances of underem-

**Figure 23: Underemployment as a Percentage of Labour Force by Age**



Source: NLFS 2008

<sup>88</sup> World Bank, op cit, 2012.

<sup>89</sup> CBS, op cit, 2009.

<sup>90</sup> ILO, op cit, 2010.

<sup>91</sup> Time-related underemployment is defined as the percentage of the labour force working less than 40 hours per week but who want to work more and are unable to due to involuntary reasons.

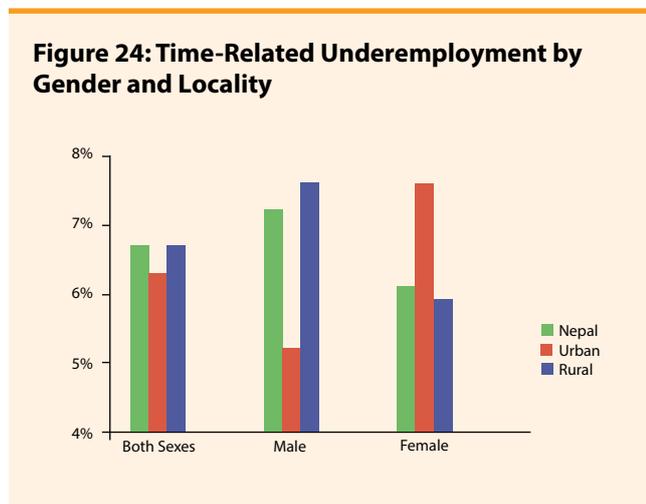
ployment, possibly due to the fact that the majority of them are employed in agriculture, which is seasonal in nature and may not require a full day's work every day. The high rates of underemployment for urban females on the other hand could be an indication of limited employment opportunities for women in urban areas or employer preferences for male workers. Conversely, as can be seen in Figure 24, the underemployment rate for rural women is considerably less compared to their rural male as well as urban female counterparts, which could be an indication of women in rural areas being more focused in the domestic sphere than an abundance of employment opportunities for women in rural areas. Further, the higher rates of underemployment in rural areas also suggest that despite the higher labour force participation rates of people in the rural areas, the human capital is still has not being utilised fully.

Figure 25 shows that there has been an increase in the rates of underemployment, from 4.1 per cent in 1998/99 to 6.7 per cent in 2008. It is likely that with increases in the labour force coupled with limited employment opportunities the issue of underemployment will persist unless specific measures are taken to address it. As can also be seen from Figure 25, while underemployment rates have risen unanimously for all age groups, the shift has been unfavourably higher

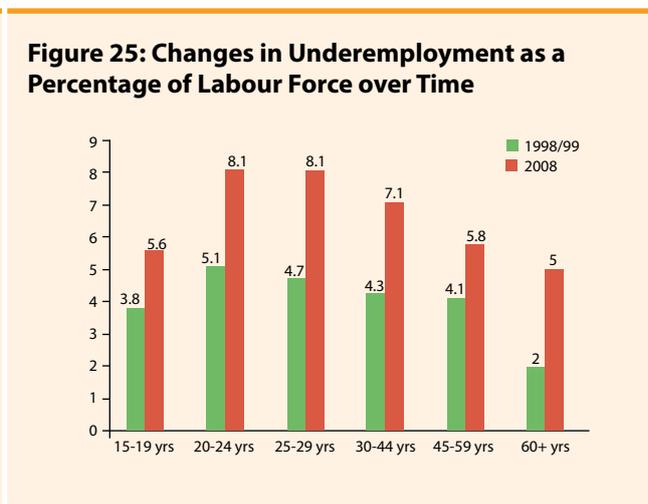
for those in the age groups 20-24 (from 5.1 per cent to 8.1 per cent) and 25-29 (from 4.7 per cent to 8.1 per cent). In light of this data, it is not surprising that people in the age group 15 to 29 also constitute the largest proportion of the migrant population.

In addition to the issue of underemployment, as stated above, it is also important to take note of the fact that while there are a substantial number of people in Nepal who are forced into part-time employment because of their inability to find full-time employment, involuntary part-time work is also common because of the high dependence on the agricultural sector. As seen in Figure 26, off-season inactivity is not only regarded as one of the main reasons for part-time work but there are almost twice as many people reporting off-season inactivity for time-related unemployment than those stating that they were unable to find work.

As shown in Figure 27, the reasons given for part-time work are proportionately quite similar for both the sexes. However, while approximately half the males were forced into part-time work because of the seasonal nature of their employment, the reported instance of this being the case for females is higher, thus pointing to an increased feminisation of the agricultural sector. But the fact that the overall instance of underemployed females is less compared to males



Source: NLFS 2008



Source: NLFS 2008

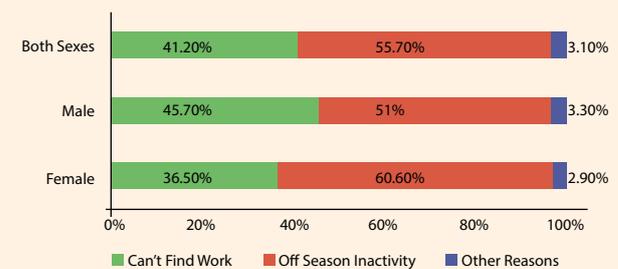
can be explained by the fact that fewer women look for additional work given that they are also burdened with the responsibility of household chores.

Another problem prevalent in Nepal in terms of the quality of employment is the issue of long working hours. In the Labour Act of 1992, the Nepali government, in an effort to improve working conditions, limited working hours to 8 hours per day and entitled workers to at least one day off in a week. But the case is, of all employed individuals, a majority, 38 per cent, work for more than 50 hours a week. Similarly, the duration of work for about 20 per cent of all employed individuals is between 20 and 39 hours, and is between 1 and 19 hours for 11 per cent (see Figure 28). This implies that at least over a third of the workers are still working well over the stipulated maximum of 8 hours per day, a clear violation of the Act.<sup>92</sup>

In terms of the major job categories, as shown in Figure 29, people work more than 40 hours per week in almost all sectors (with the exception of agriculture and forestry, and manufacturing). Among them, the most prominent sectors include 'wholesale, retail

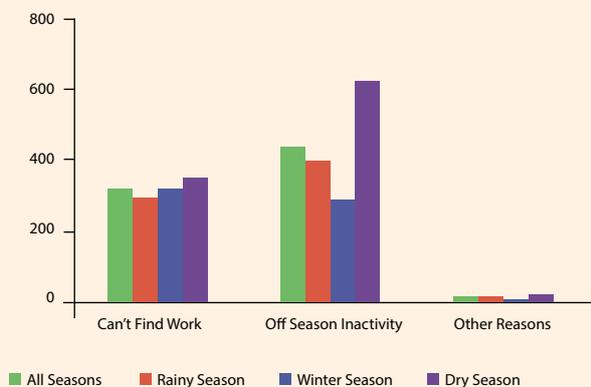
and trade' (51.9 hours per week), 'hotels and restaurants' (57.5 hours), 'transport, storage and communications' (59 hours) and 'private households' (52 hours). The workers in these sectors constituted a significant 9.5 per cent of the population classified as currently employed in NLFS 2008.<sup>93</sup> The implication of these trends is that even in the most modest of estimates, at least a tenth of Nepal's labour force is being subjected to unreasonably long working hours.

**Figure 27: Gender and Involuntary Reasons for Part-Time Work**



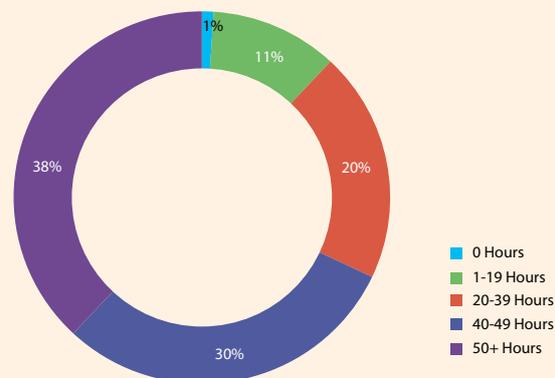
Source: NLFS 2008

**Figure 26: Involuntary Reasons for Part-Time Work (in thousands)**



Source: NLFS 2008

**Figure 28: Percentage of Employed Individuals by Hours Worked in a Week**



Source: NLFS 2008

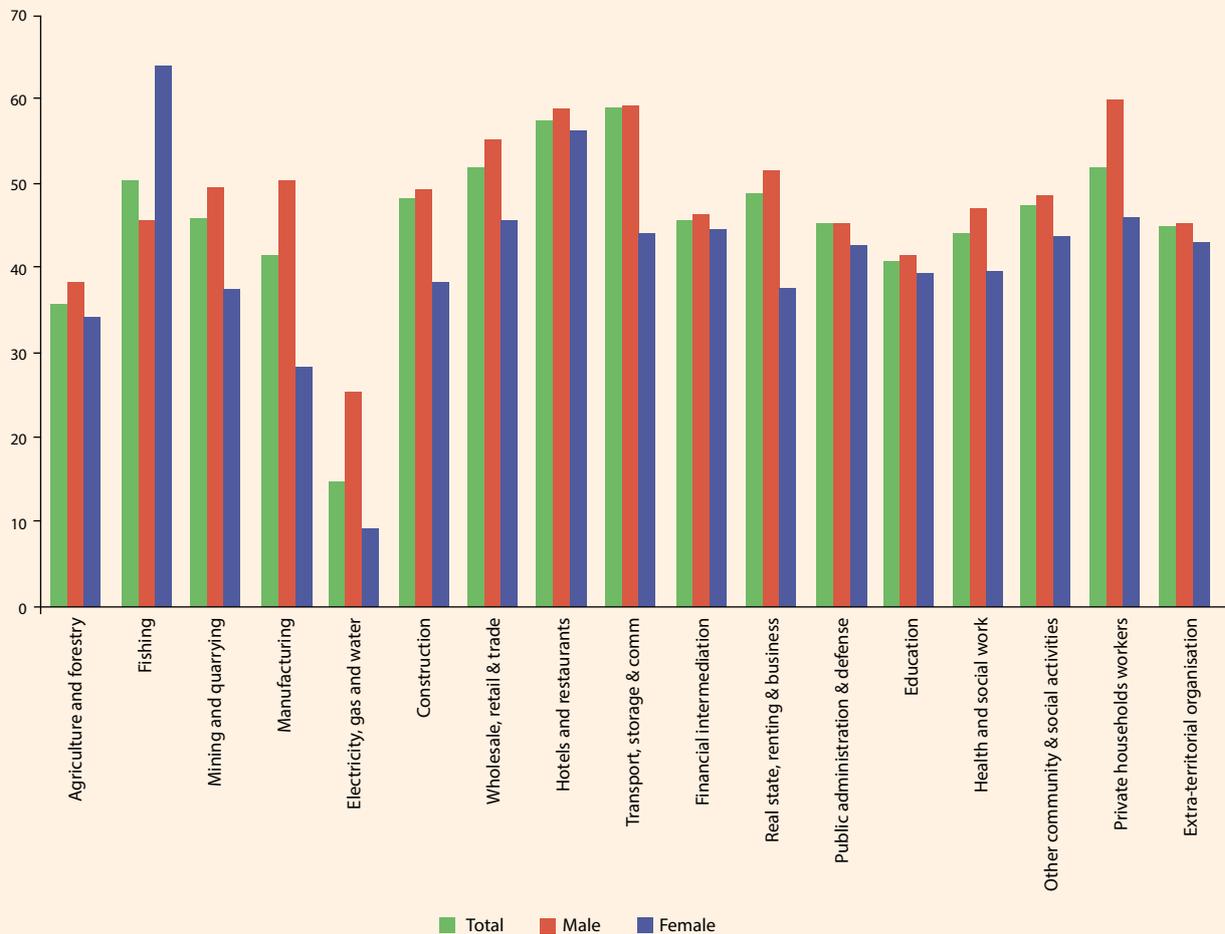
<sup>92</sup> It should be noted here that under the Labour Act, 1992, due to the fact that 6 work days per week are legal, technically the maximum number of hours of work legally permitted in a week is 48 hours for institutions that have 6 work days per week and 40 hours for those that have 5 work days per week.

<sup>93</sup> CBS, op cit, 2009.

Further, on an average, males work more hours than females in their primary sector of employment (43.1 hours versus 34.8 hours per week).<sup>94</sup> In fact, this holds true even for the different job categories, with the exception of fishing, where females work 18.2 more hours on average than their male counterparts. Moreover, as can be seen above, on an aver-

age, women work less than 40 hours per week across all sectors than their male counterparts. However, it should also be noted that the hours that women put in these jobs is in addition to the time they dedicate to their household responsibilities, and hence should not be taken to mean that females somehow have more favourable working hours.

**Figure 29: Working Hours across Different Sectors**



Source: Nepal Labour Force Survey 2008.

<sup>94</sup> Ibid.

### D. Child Labour

The estimated labour force participation for children, 5 to 17 years of age, in Nepal is 40.4 per cent (3.1 million), of which approximately 90 per cent are contributing family members who are not paid.<sup>95</sup> Furthermore, of the working children, it is estimated that 1.6 million, almost 51 per cent, fall in the category of child labourers.<sup>96</sup> Despite this high prevalence of child labour, it is encouraging to note that the incidence of child labour, in particular for ages 5 to 14, has been on a decline from 31.4 per cent in 2004 to 27.6 per cent in 2011 (Figure 30).<sup>97</sup> Regardless, in light of the fact that the Child Labour Act 2000 outlawed child labour and set the minimum age of employment at 14, it is evident from the statistics above that the implementation as well as enforcement of the law has been weak.

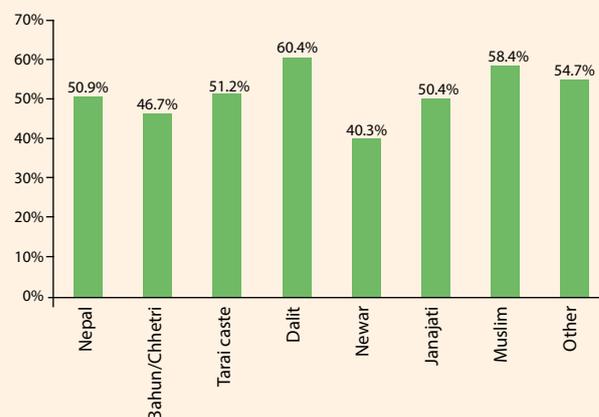
While considering the statistics related to the instances of child labour, the correlation between the prevalence of child labour and economic standing is undeniable. For example, the rates of children working exclusively (i.e., not in school) are highest for those in the lower consumption quintile,<sup>98</sup> and the child labour force participation rate is a lot higher in rural areas (44.1 per cent) compared to those in the urban (19.7 per cent). Further, as can be seen in Figure 31, the largest proportion of working children who fall in the classification of child labourers are from the Dalit community (60.4 per cent) followed by Muslims (58.4 per cent); these two communities are also the most economically as well as socially marginalised groups.<sup>99</sup> Furthermore, the gendered dimension of child labour is also quite pronounced with the labour participation rate for girls being

**Figure 30: Incidence of Child Labour (5-14 years)**



Source: NLSS 2003/04 and 2010/11

**Figure 31: Incidence of Child Labour among Various Ethnic/Caste Groups**



Source: ILO and CBS, Nepal Child Labour Report

<sup>95</sup> Ibid.

<sup>96</sup> ILO and CBS, op cit, 2011. The definition was derived from application of the statistical measurement standards on child labour established by the resolution concerning statistics of child labour adopted at the Eighteenth International Conference of Labour Statisticians on 5 December, 2008. It includes all persons from 5 to 17 years old who during a specified period were engaged in one or both of a) worst forms of child labour, as described in paragraph 17-30 of the ILS resolution; and b) employment below the minimum age, as described in paragraphs 32 and 33 of the said resolution.

<sup>97</sup> CBS, op cit, 2011.

<sup>98</sup> In fact, the percentage of children in the poorest consumption quintile who are exclusively working is 8 times that in the richest (6.4 per cent and 0.8 per cent respectively). See, CBS, op cit, 2011.

<sup>99</sup> CBS, op cit, 2009.

higher at 47.6 per cent compared to that for boys, which stands at 36.1 per cent. Furthermore, of the working children, a higher percentage of girls received no schooling (14.5 per cent) compared to boys (5.9 per cent). These trends strongly suggest that child labour in Nepal is a manifestation of poverty and exclusion, and if these inequalities remain unaddressed, gender and social discrimination in its multiple dimensions will only perpetuate in the years to come.<sup>100</sup>

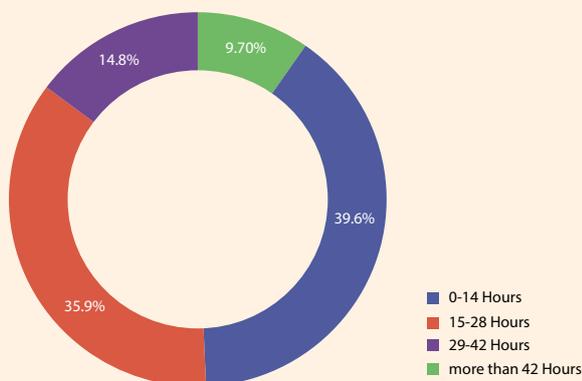
According to the data from NLFS 2008, 39.6 per cent of child workers work up to 14 hours a week; 35.9 per cent work between 15 and 28 hours; 14.8 per cent work between 29 and 42 hours; and 9.7 per cent work more than 42 hours a week (see Figure 32).

As can be seen in Figure 33, a majority of the child labourers are employed in self agriculture (74.9 per cent of 10-14 years and 71.1 per cent of 5-9 year child workers). The implication of this is that these children are most likely not even being compensated for their work as they are probably working

on their family farms to help the family make ends meet – another strong indicator of the fact that child labour and poverty go hand in hand. Moreover, of this working child population, 50.9 per cent are classified as child labourers, and an additional 19.7 per cent of these children are engaged in hazardous working conditions. While complete elimination of child labour might not be possible anytime soon, the fact that so many children are not only working but also working under perilous conditions is of grave concern.

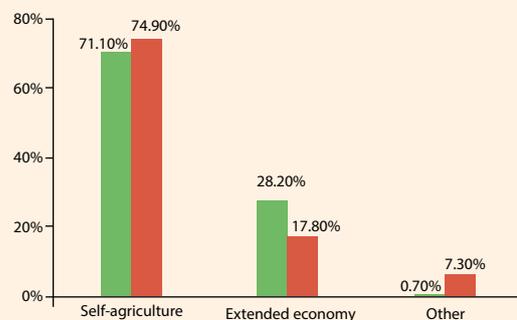
Despite these alarming figures on child labour, the positive development, as mentioned above, is that there is evidence to suggest that the incidence of child labour has gone down in 2010/11 compared to 2003/04 (see Figure 30). This could be a result of a rise in the level of awareness among the general populace about the illegality of child labour or it could be a consequence of the increase in the number of economically active individuals in the age group 15-49 years who are gradually displacing child labourers in the sectors the latter were employed in.

**Figure 32: Working Hours of Child Labourers**



Source: ILO and CBS, Nepal Child Labour Report

**Figure 33: Distribution of Child Workers by Main Sectors of Employment (%)**



Source: NLSS 2010/11

<sup>100</sup> Ibid.

# Industrial Relations and Social Dialogue

In understanding industrial relations in Nepal, one needs to bear in mind that both the history of industrialisation and the trade union movement in the country is very short. The manufacturing sector is still small, economic development is yet in nascent form, the economy is largely dependent on agriculture, and industrial output is affected regularly by social unrest and political instability.<sup>101</sup> This section of the report will discuss some of the challenges that affect industrial relations and social dialogue in the current context of the country.

## A. The Constituencies

As with most other countries, in Nepal, the three main actors in industrial relations and social dialogue are the government, employers' associations, and trade unions. Given below is a brief introduction to each.

**The government:** While the government is directly involved in issues pertaining to both labour and industrial relations, the government bodies that monitor the two are different. The Department of Labour (DoL) under the Ministry of Labour and Employment (MoLE) governs labour issues, while the Department of Industry (DoI) under the Ministry of Industry monitors all matters concerning industry. More specifically, the DoI is tasked with the responsibility of creating an industry-friendly environment in the country, and, as such, is involved in

rules and regulations that govern industries and foreign investment. On the other hand, the DoL aims to develop labour relations in the country, promote the rights and welfare of labourers, register trade unions, maintain industrial security, and the like.<sup>102</sup> Presumably, because of these differing jurisdictions – with one more focused on employers and the other on workers – there is a lack of an effective coordination mechanism that has led to an absence of coherence in policies and programme implementation, negatively affecting industrial relations as well as social dialogue in the country.

In addition, like many other government institutions in Nepal, both DoI and DoL (along with their respective ministries) face significant resource constraints, which limit their ability to effectively carry out their roles and responsibilities. To cite an example, in FY 2012-13, the MoLE had budgeted for the position of 10 labour inspectors. Not all the positions have been filled at present, but even if they had been, the 10 labour inspectors would mean a ratio of 1 labour inspector for 1,469,000 workers in the labour force,<sup>103</sup> a far cry from the ILO's recommendation of 1 labour inspector for 40,000 workers in less-developed countries.

**Employers' Associations:** The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) is the most prominent body representing the pri-

<sup>101</sup> Kishor K. Guru-Gharana and Nav Raj Dahal, *Industrial Relations System in Nepal* (Kathmandu: Nepal Foundation for Advanced Studies, 1996).

<sup>102</sup> 'Bibhagko Karyachetra [Working Area of the Department]', Department of Labour, accessed June 19, 2013, <http://www.dol.gov.np/working%20area%20of%20department-33-np.html>.

<sup>103</sup> Author's calculations based on estimates on total employment available in World Bank, op cit, 2012.

vate sector in Nepal. Since its establishment in 1965, it has been working for the rights and interest of the business and industrial communities,<sup>104</sup> though in recent years, other outfits such as the Confederation of Nepalese Industries (CNI) and the Nepal Chamber of Commerce (NCC), have also gained some prominence, reportedly to overcome some of the weaknesses of the FNCCI such as its alleged unprofessionalism.<sup>105</sup>

Regardless, the FNCCI is the largest umbrella organisation of the private sector in Nepal with a membership base comprising: 96 district/municipality-level chambers in 75 districts of Nepal; 89 commodity/sectoral associations; 607 leading public and private sector undertakings; and 20 bi-national chambers.<sup>106</sup> In addition, for the betterment of industrial relations, the FNCCI has established a separate wing, the Employers' Council, which is responsible for monitoring all labour-related activities, including the settling of any dispute that may arise in a company or an industry. At the same time, the Employers' Council also acts as an agent to promote a conducive industrial environment by maintaining close ties with both the government and the trade unions.<sup>107</sup>

Relations between the FNCCI and the trade unions are not altogether amicable. Employers' organisations seem to hold a strong conviction that trade unions pose a major threat to growth and employment generation in the country.<sup>108</sup> They are also of the opinion that the 'over-protective' labour legis-

lation, especially on the dismissal of workers, discourages the creation of employment and growth of enterprise. In fact, job-creating firms in Nepal have reported labour regulations as being the fifth biggest constraint in the operation and growth of their businesses.<sup>109</sup> In addition, there is also the generally held belief, especially in the private sector, that labour issues in Nepal are responsible for creating a hostile environment that has deterred foreign direct investment (FDI) from entering the country.<sup>110</sup>

**Trade Unions:** Trade union activity in Nepal dates back to 65 years, and, as is the case in a number of other countries, has a shared history with Nepal's political movements.<sup>111</sup> The Nepali Congress Party is believed to have established Nepal's first trade union, the National Trade Union Congress (NTUC), in 1947, while the Communist Party of Nepal founded its trade union wing in the 1950s (which was later reinvigorated in 1989 as the General Federation of Nepalese Trade Unions [GEFONT]). Likewise, the All Nepal Trade Union Federation-Revolutionary (ANTUF-R), affiliated to the Unified Community Party of Nepal (Maoist) gained legal status only after 2006. Recent political developments have spawned a number of trade unions, but their roles as well as outreach are yet to be understood.

Members of trade unions constitute 8 per cent of the labour force in Nepal,<sup>112</sup> and by 2009, out of 219 industries in the country, 69 per cent had more than one trade union.<sup>113</sup> In terms of membership, ANTUF-R is the largest trade union federation with 615,233 mem-

<sup>104</sup> 'Organisation,' Federation of Nepalese Chambers of Commerce and Industries (FNCCI), accessed 18 June, 2013, <http://fncci.org/intro.php>.

<sup>105</sup> 'FNCCI vs CNI,' *Nepali Times*, 13 July-19 July, 2001.

<sup>106</sup> 'Employers' Council: About Us,' Federation of Nepalese Chambers of Commerce and Industries (FNCCI), accessed June 19, 2013, <http://employers.fncci.org/aboutus/introduction.php>.

<sup>107</sup> *Ibid.*

<sup>108</sup> See, Prakash Bahadur Amatya and Ishwar Kumar Shrestha, 'Research Study Report on Industrial Relations and Enterprise Economic Survey Nepal-2010' (Kathmandu: Federation of Nepalese Chambers of Commerce and Industry, 2010).

<sup>109</sup> World Bank, *op cit*, 2012. See also, 'Enterprise Surveys,' World Bank and International Finance Corporation, available at <http://www.enterprisesurveys.org/Data>.

<sup>110</sup> Gaurav Aryal, 'Labour Dilemma: An Analysis of Labour Issues Facing Nepal,' *New Business Age*, October 2012, 62-86.

<sup>111</sup> 'Nepal: Labour Market Profile 2013,' Ulandssekretariatet LO/FTF Council, accessed 7 November 2013, [http://www.ulussekretariatet.dk/sites/default/files/uploads/public/PDF/LMP/nepal\\_2013\\_final\\_web.pdf](http://www.ulussekretariatet.dk/sites/default/files/uploads/public/PDF/LMP/nepal_2013_final_web.pdf).

<sup>112</sup> More specifically, as of 2009, 31.5 per cent of industries in Nepal had no trade unions, 37 per cent had one trade union, and 31.5 per cent had 2-5 trade unions. See, Amatya and Shrestha, *op cit*, 2010.

<sup>113</sup> 'Nepal: Labour Market Profile 2013,' *op cit*.

bers followed by GEFONT with 353,242, Confederation of Nepalese Professionals (CoNEP) with 200,000, and NTUC-Independent (NTUC-I, the successor to NTUC) with 140,000 members.<sup>114</sup>

Owing to their political linkages, rivalries between the trade unions in Nepal has historically been strong and known to be one of the main reasons for the fragmentation of the trade union movement. However, the situation is improving through a number of initiatives. For instance, in 2006, the four main national trade unions, namely NTUC-I, GEFONT, Democratic Confederation of Nepalese Trade Unions (DECONT)<sup>115</sup> and ANTUF-R signed a common 10-point Declaration, which, among others, included a commitment to use democratic means to achieve the goals of the trade union movement and also promote sound industrial relations at all levels through social dialogue and mutual cooperation. These trade unions, along with others, also established a Joint Trade Union Coordination Committee (JTUCC) in 2007 to deal with the government and employers on various issues concerning the rights and benefits of workers. Another platform for collaboration and coordination among the trade unions is the International Trade Union Confederation–Nepal Affiliate Council (ITUC-NAC), which was established in 2003 by the NTUC and GEFONT to develop single unionism.

Broadly speaking, Nepal's trade unions are dissatisfied with the lack of proper implementation of existing regulations, primarily by employers, and also their ability to evade laws, especially those related to minimum wage standards and protection of workers. At present, the main demands of the workers include freedom of association, minimum wages and social security.

## B. Tripartism and Social Dialogue

As per the objectives of the ILO, on any issue related to the industrial and labour climate, the three actors, the government, the employers and the workers, have to come together and engage in a dialogue. The ILO's resolution concerning tripartism and social dialogue states that 'social dialogue and tripartism have proved to be valuable and democratic means to address social concerns, build consensus, help elaborate international labour standards and examine a wide range of labour issues on which the social partners play a direct, legitimate and irreplaceable role.'<sup>116</sup> However, because of problems such as lack of trained human resource, poor financial resources, and inadequate infrastructure and facilities, the tripartite mechanism has not yet contributed positively to effective social dialogue in Nepal.<sup>117</sup>

The following are some of the long-standing concerns related to industrial relations and social dialogue:

**Labour and social protection:** Labourers in Nepal have for long experienced difficulties with regard to wages, social security measures and occupational safety, among other things. Many employers do not meet the minimum wage standards, while others do not pay the wages/salaries on time or at times not at all. Moreover, because of the lack of social security measures like provident fund, insurance, pension schemes, etc, the condition of workers is even more vulnerable. This situation is further aggravated by the fact that information regarding occupational hazard is new to Nepal and most workers and employers are still unaware of the required safety standards.<sup>118</sup> Although the major trade unions in Nepal are working to ensure that employers assure minimum safety

<sup>114</sup> In 1998, the Democratic Confederation of Nepalese Trade Unions (DECONT) was formed as a breakaway federation from NTUC but later merged again to form the Nepal Trade Union Congress-Independent (NTUC-I).

<sup>115</sup> <http://www.ilo.org/public/english/standards/relm/ilc/ilc90/pdf/pr-21res.pdf>. Accessed 19 June 2013.

<sup>116</sup> Narayan Manandhar, *Labor Relations: Problems and Issues in Nepal* (Kathmandu: Industrial Relations Forum, 2001); Narayan Manandhar, 'Fixing Minimum Wage,' in *Industrial Relations in Nepal*, edited by Prem R. Pant and Narayan Manandhar (Kathmandu: Industrial Relations Forum, 1998).

<sup>117</sup> Prem R. Pant and Narayan Manandhar (eds), *Industrial Relations in Nepal* (Kathmandu: Industrial Relations Forum, 1998).

<sup>118</sup> Rudra Prasad Gautam and Jiba Nath Prasain, *Current Situation of Occupational Safety and Health in Nepal* (Kathmandu: General Federation of Nepalese Trade Unions, 2011).

provisions to their workers, there is still a lot that needs to be done. There is also the fact that labour regulations tend to be ineffective in protecting most workers as they are either employed in the informal sector or are informally employed and, hence, fall outside the purview of existing laws.

On the other hand, the major problem currently plaguing employers arises from the heavy political backings that trade unions receive and the high and sometimes unfeasible demands placed by the unions on the strength of the said backing. Similarly, increasing instances of industrial strikes are also one of the key issues that employers have to face in addition to other factors like political instability and power shortages.<sup>119</sup> Moreover, the Nepali labour market policies are geared towards protecting jobs in that if an employer wants to lay off or retrench an individual or a group not only do they need to provide prior notice to the government but also require its approval. This has to a certain degree created a disincentive for expanding employment in the formal sector.<sup>120</sup>

**Guarantee of Employment:** Although yet to be enacted, the Employment Guarantee Act (EGA) guarantees 100 days of employment for one individual from every poor household. The Act envisages lowering the poverty rate via an employment-centric approach. If employment for the specified period of time is not made available, the Act will require the government to provide 50-60 per cent of the estimated total salary as compensation to the individual. However, because of its ambitious nature, the proposed Act is still in a state of limbo. In fact, a report published in March 2013 even states that the

development and implementation of an employment guarantee scheme is neither a political priority nor an area where there is demand for assistance from the government.<sup>121</sup>

**Minimum wage:** The concept of minimum wage evolved in an effort to provide a safety net for workers and prevent their exploitation. It is also believed to be the primary step from which other aspects of collective bargaining by the workers starts. Further, when there is a set minimum wage rate, individuals are more likely to opt to work in sectors with a confirmed source and standard of income, and also pay their tax liabilities, thus contributing to government coffers.<sup>122</sup>

In Nepal, there have been a number of instances when the government, trade unions and employers have come together in a forum and engaged in dialogue to fix the minimum wages. Most recently, after much effort, the trade unions under JTUCC; the employers, under FNCCI; and the government finally agreed to increase the minimum wage on 27 May 2013. The minimum monthly wage for industrial workers was increased from NPR 6200 to NPR 8000; the basic salary was increased from NPR 3550 to NPR 5100; and the dearness allowance was increased from NPR 2650 to NPR 2900.<sup>123</sup> Similarly, the daily wage has been increased to NPR 318.<sup>124</sup> This makes Nepal's minimum wages among the highest in the South Asian region.<sup>125</sup>

However, trade unions affiliated to the Communist Party of Nepal (Maoist), under the confederation All Nepal Revolutionary Trade Union Federation (ANR-

<sup>119</sup> Arpita Nepal, Koshish Acharya and Shreeya Neupane, *Industrial Relations: An Institutional Analysis* (Kathmandu: Samridhhi, The Prosperity Foundation, July 2013).

<sup>120</sup> World Bank, op cit, 2012.

<sup>121</sup> Daniel Harris, Anna McCord and Sony KC, *Politics of a National Employment Guarantee Scheme in Nepal: An Initial Assessment of Feasibility* (London: Overseas Development Institute, March 2013).

<sup>122</sup> Narottam Prasad Upadhyay, 'Minimum wage in Nepal: An Appraisal,' in Pant and Manandhar (eds), 1998, op cit; Manandhar, op cit, 2001.

<sup>123</sup> 'Notice publishes on fixation of minimum wage in the Nepal Gazette', General Federation of Nepalese Trade Unions (GEFONT), accessed 18 June, 2013, [http://www.gefont.org/activity\\_detail.php?flag=3&id=1229](http://www.gefont.org/activity_detail.php?flag=3&id=1229).

<sup>124</sup> 'Minimum salary hiked', *The Himalayan Times*, accessed 18 June, 2013, <http://www.thehimalayantimes.com/fullNews.php?headline=Minimum+salary+hiked&NewsID=378087>.

<sup>125</sup> World Bank, op cit, 2012.

TUF), were dissatisfied with the revised wages and are demanding that the minimum wages be raised to NPR 15,000. They have already staged protests in a number of regions across the country and also enforced industrial strikes in a number of industries and industrial estates.<sup>126</sup>

To conclude, because of these differing positions between the workers and the employers, as mentioned above, there has been a significant crisis of confidence between the two parties, resulting in the worsening of industrial relations whereby strikes and lockouts have become commonplace. This has not only soured the relationship between employers and workers but also constrained investment and growth in the country.

### C. Efforts to Improve Industrial Relations

In recent years, the Government of Nepal has taken several initiatives with the intent of improving social dialogue, and advancing the labour and employment agenda in the country. Some important milestones include the establishment of a Tripartite Task Force on Social Security; drafting of the Social Security Act; adoption of the 15-point Declaration by the National Labour Conference in July 2012; drafting of five labour-related acts after extensive tripartite social dialogues, namely, the Labour Act, the National Labour Commission Act, the Trade Union Act, the Bonus Act and the Unemployment Benefit Insur-

ance Act; drafting of the National Plan of Action on the implementation of ILO Convention 169 on Indigenous and Tribal Peoples; and the consideration of ILO Convention 87 on Freedom of Association and Protection of the Right to Organise.

Of these, of particular importance in the context of this paper is the July 2012 National Labour and Employment Conference, during which the government, employers and the trade unions agreed on a 15-point declaration. One of the main elements of this declaration is the commitment from the government, trade unions and employers to prepare draft labour laws that would facilitate the development and endorsement of ongoing efforts towards reforms in labour legislation that deal specifically with issues of employment protection, social security, social dialogue, labour relations, and the strengthening of the labour administration.<sup>128</sup>

For their part, the main trade union – GEFONT, NTUC-I and ANTUF-R – have signed an agreement with the employers' organisations – FNCCI and CNI – providing for an increase in wage rates and social security contribution in exchange for the trade unions pledging to maintain industrial peace for a period of four years without any lockouts, closures or strikes in contravention of labour laws.<sup>129</sup>

<sup>126</sup> 'CPN-Maoist against minimum wage,' *The Himalayan Times*, accessed 1 November, 2013, <http://thehimalayantimes.com/fullTodays.php?headline=CPN-Maoist+against+new+minimum+wage+&NewsID=378424>

<sup>127</sup> '15-point Declaration,' accessed 4 November, 2013, [http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-kathmandu/documents/event/wcms\\_185821.pdf](http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-kathmandu/documents/event/wcms_185821.pdf)

<sup>128</sup> Ibid.

<sup>129</sup> 'Nepal: Labour Market Profile 2013,' op cit.

# Policy Review and Analysis

This section of the report provides an overview of existing policies and programmes related to employment. The objective is to understand how the existing regulatory framework can collectively contribute to the overall objective of enhancing productive employment opportunities in Nepal. It is expected that such an overview will help identify policy changes that might be required to encourage progress in the area of employment creation.

## A. National Development Framework

### **Three-Year Interim Plan, 2010/11-2012/2013 [Twelfth Development Plan]**

The Interim Plan was devised with a vision to create a prosperous, modern and just Nepal by focusing on economic and social development issues. The key objectives of the Plan were to institutionalise peace and lower unemployment, poverty and inequality. To achieve its vision, goal and objectives, the Plan envisioned working on rebuilding and reconstructing, promoting an employment-based economic plan, establishing good governance and better service delivery, and investing in physical infrastructure.

On employment, the Plan had the long-term vision of poverty reduction by producing skilled human resources and facilitating competitive employment opportunities. Similarly, it aimed to adopt a rights-based approach to employment, deliver quality employment-oriented vocational and technical ed-

ucation, target both the formal and informal sector employment opportunities, create opportunities for self-employment, manage the foreign employment sector, and make 'productive' use of remittances. Similarly, the Plan was to give special priority to marginalised groups like women, Dalits, persons with disability, minorities, ethnic and indigenous groups, Madhesis, and other backward communities in the domestic and foreign employment sectors. Likewise, to achieve the desired economic growth, the Plan aimed to encourage not just private investment, but also the involvement of communities by promoting their participation, ownership and employment.

The private sector in particular was expected to contribute towards investment, production, social development and employment. Similarly, the Plan also envisaged continuance in the management of the foreign employment sector in order to increase remittance flow, and, therefore, increase foreign exchange reserves. Similarly, another tool to increase employment and also increase the inflow of foreign currency reserve was inviting foreign investment in the form of joint ventures, especially in the sectors of hydropower, tourism, agriculture, education, health, and information technology, among others. The Plan recognised key employment-related challenges such as the lack of employment opportunities, the slow expansion of the non-agricultural sector, lack of self-employment prospects, lack of skilled human resources, and others.<sup>130</sup>

---

<sup>130</sup> Government of Nepal, *Tribarsiya Yojana [Three Year Plan], 2067/68-2069/70* (Kathmandu: National Planning Commission, Ashad 2068).

### The Thirteenth Plan, 2013-16 (Approach Paper)

With a vision to transforming Nepal into a developing country from its current status as a least developed country by 2022, the approach paper for the Thirteenth Plan, has prioritised infrastructure development (energy and roads), private sector growth, basic service delivery, agriculture, tourism, industry and trade.

In the area of human resources, labour and employment, the Plan has emphasised the need to focus on technical and vocational education in order to improve human resource capacity and employability of its labour force. Its objectives are to minimise unemployment and underemployment by creating opportunities for employment in the country and also by properly managing foreign employment. In order to achieve these goals, the Plan states the need to formulate a National Employment Policy that is geared towards guaranteeing employment for a certain period of time; making foreign employment safe, respectable and managed better; ensuring good relations between workers and employers by preserving the rights of workers and creating a conducive investment climate; increasing opportunities for skills development to produce human resources capable of competing in Nepal and internationally; eliminating child labour in all its forms; and mobilising the Social Security Fund effectively.<sup>131</sup>

### B. Legal and Regulatory Framework Related to Labour and Employment

#### Labour Act, 1992

The Labour Act, 1992 was drafted to secure the rights, interests, facilities and safety of workers and employees working in enterprises in various sectors.

Towards that end, the Act has provisions pertaining to employment; working hours; remuneration; health and safety; welfare provisions; special provisions applicable to special types of enterprises; and provisions for misconduct and punishment.<sup>132</sup>

The Act specifically dictates that all positions have to be advertised prior to appointing workers, and that appointment letters have to be given to the appointees. It also refers to the working conditions of workers by limiting working hours to 8 hours or less per day (i.e., 48 hours per week); mandating that workers do not work for more than 5 continuous hours without a break; entitling workers to at least a day off every week and to extra wages for overtime work; and requiring permanent employees be provided with a salary increment every year. The Act also states that the minimum remuneration, dearness allowances and facilities to workers or employees will be fixed by the government.

However, the Act has been criticised for being rigid and too protective of workers and not mindful of the interests of employers. The Act has provisions for 'hiring and firing' in specific sections related to employment agreement, termination of employment, dismissal, procedural safeguards, severance pay, and also suggests avenues for redress in case of unjustified firing. But, the 'employer/management prerogative' and discretionary power to terminate employment, as sought by employers' organisations, is not provided for in the law.<sup>133</sup> From the perspective of the workers, the Act is silent on unjust labour practices such as bonded labour, does not provide adequate protection and welfare to agricultural labourers, and ignores the issue of gender equality. The workers also contend that while being granted the right to strike, if due process were to

<sup>131</sup> Government of Nepal, *Terahaun Yojana [Thirteenth Plan], 2070/71-2071/72 [Approach Paper]* (Kathmandu: National Planning Commission, Ashad 2070).

<sup>132</sup> Government of Nepal, 'Labour Act, 2048 (1992)', accessed 13 June, 2013, <http://www.lawcommission.gov.np/en/documents/prevaling-laws/prevaling-byelaws/func-startdown/181>.

<sup>133</sup> See Dinesh Chapagain, 'Addressing Labour Market Flexibility in Nepal: A Study for Policy and Regulatory Reform,' (report submitted to the Ministry of Labour and Transport Management, Government of Nepal, August 2003), accessed 7 November, 2013, <http://www.dineshchapagain.com.np/admin/files/Addressing%20Labour%20Market%20Flexibility%20in%20Nepal.pdf>; Prakash Bahadur Amatya and Ishwar Kumar Shrestha, 'Research Study Report on Industrial Relations and Enterprise Economic Survey Nepal-2010' (Kathmandu: Federation of Nepalese Chambers Commerce and Industry, 2010).

be observed it would take a long time, the right to picketing is not mentioned, and measures to reprimand employers who contravene the law is weak.<sup>134</sup>

The poor situation of the manufacturing sector in the country also raises question about the effectiveness of the Labour Act, particularly, the closure of factories, poor remuneration and facilities for workers, and frequent strikes in the industrial sector. Though the Act allows the establishment of a Labour Relations Committee in each enterprise as a means to maintain favourable relations among workers, employers and the management, and also spells out a step-by-step dispute resolution mechanism, strikes are common all over Nepal.<sup>135</sup> The labour sector in Nepal is marked by absenteeism, lack of discipline among workers and also of adequate education, and poor productiveness. The labour legislation has, therefore, fallen far short of establishing an 'industrial culture' in Nepal,<sup>136</sup> while the absence of a system of advertising positions, lack of fixed working hours, non-implementation of the minimum wage standard or provision of insurance for workers, and non-hygienic workplaces further illustrate the ineffective implementation of the Labour Act.<sup>137</sup>

### National Youth Policy 2010

The National Youth Policy (NYP) 2010 recognises the youth to be important agents of change for the country's economic, social, political and cultural transformation. The age cohort of 16-40 years is rec-

ognised as the youth in Nepal, which translates to 40 per cent of the national population. The NYP emphasises the need to build the capacity of this group to enable them to be involved in national development. It also looks briefly at the directives provided by the Interim Constitution of Nepal 2007 that calls for a special policy to mobilise the youth human resources for national development.

The main objectives of the NYP are to develop and expand the role of the youth in nation building and national development; enhance their sense of accountability and responsibility; develop the strength of the youth as the basis of development by bringing out their inherent capacity; prepare them through the 'proper development of their physical, mental, intellectual, moral and emotional capacities' while instilling respect for labour; develop the leadership capacity of the youth as the driving force for development; support individual and social development of youth in both education and career settings; and bring youth from special priority groups into mainstream development through affirmative action.

Despite obvious overlaps, the NYP distinguishes between several target groups: 'priority groups';<sup>138</sup> 'special priority groups';<sup>139</sup> 'youth victims of conflict';<sup>140</sup> 'vulnerable youths';<sup>141</sup> 'youths with disability';<sup>142</sup> and 'youths of marginalised minority groups'.<sup>143</sup> The working policies cover areas such as basic right to livelihood; education; health and family welfare; social security; employment; youth empowerment and

<sup>134</sup> Bishnu Rimal, 'Trade Union Effort to Develop Labour Law in Nepal' accessed 7 November, 2013, <http://gefont.org/index.php>.

<sup>135</sup> Nepal et al, op cit, 2013.

<sup>136</sup> Robert Klyoh, *From Conflict to Cooperation: Labour Market Reforms That Can Work in Nepal* (Geneva: ILO, 2008, pp. 37-56).

<sup>137</sup> Dev Raj Adhikari, 'Decent Work: The case of Nepal' (paper submitted to International Labour and Employment Relations Association (ILERA) World Congress, Philadelphia, Pennsylvania, July 2012).

<sup>138</sup> That is, youths who are females, indigenous groups, Dalits, Madhesis and those belonging to backward regions.

<sup>139</sup> Youth victims of conflict, vulnerable, disabled and those belonging to marginalised minority groups.

<sup>140</sup> Youths from families of those who have died, been disabled or displaced in or due to the Maoist insurgency and subsequent conflicts.

<sup>141</sup> Youths affected by HIV/AIDS, victims of trafficking, narcotic drug users, sex workers, street children, hailing from families of bonded labourers, and migrants to unsafe destinations.

<sup>142</sup> Youths with any kind of physical or mental disability.

<sup>143</sup> Youths deprived of state and non-state services and facilities, marginalised, not involved in the mainstream of national development due to geographical remoteness or on the grounds of ethnicity, language, culture, region, class and gender.

leadership development; participation and mobilisation; the arts, culture, sports and entertainment; control of drug addiction; control of trafficking in and sale of human beings; participation in environment protection and sustainable development; access to science and information technology; freedom from involvement in crime and violence; participation in sustainable peace building and conflict resolution; and equitable development.

The NYP proposes a number of programmes to involve and the youth in the overall development of the country. It is not clear though on the implementing institution for each programme or budget allocation, while the range of 16-40 years to define youths poses challenges in launching age-specific programmes.<sup>144</sup> However, an implementation plan has since been developed to implement the National Youth Policy using a multi-sectoral approach and underlining the responsible institution, provision of funding and government accountability.<sup>145</sup> The effectiveness of the programmes is yet to be evaluated.

### **Labour and Employment Policy 2006**

The Labour and Employment Policy (LEP) 2006 provides a comprehensive framework for Nepal's labour sector. It has seven distinct objectives: i) the creation of an investment-friendly environment to generate employment; ii) the elimination of forced labour and discrimination to standardise the labour force; iii) the establishment of a social security system; iv) augmentation of employment through production of competent and skilled human resources; v) increasing access of historically marginalised groups; vi) elimination of child labour; and vii) increasing the efficiency of labour and employment administration.

The LEP identifies the creation of income-generating employment as a means of poverty alleviation. It recognises the elasticity of the labour market and social security as catalysts to generate new employ-

ment opportunities. Gender mainstreaming is also emphasised, and micro-credit programmes have been identified as a way to generate self-employment for enterprising, educated youth and school dropouts through the provision of vocational and entrepreneurial training and loans at concessional rates.

Like the National Youth Policy 2010, the LEP also recognises youth as a priority group alongside Dalits, the poor, women, indigenous peoples, the displaced and differently-abled as being in need of increased access to activities such as vocational training programmes that develop their capacities and also make them more employable. Linking employment and self-employment with quality vocational training and skills development training, the Policy proposes two levels in the management of training, wherein the central level is involved only in planning, coordination and curriculum development while implementation is entrusted to the local or district level. The forms of training targeted at individuals in the informal sector include entrepreneurial development, skill, organisational and leadership development, and labour standards.

Besides its emphasis on the generation of self-employment through entrepreneurship and micro-enterprises, the LEP clearly indicates the need for a 'distinct programme...for creating self-employment opportunities by developing entrepreneurial qualities among the youth.' This seems to have paved the way for the Youth Self Employment and Small Enterprises Fund (YSESEF) that was introduced three years later. Additionally, the Policy acknowledges the need for a Foreign Employment Policy, which has been only recently adopted.

Overall, the LEP, though not officially adopted as a government policy, ventures into new arenas yet unexplored by other government policies with clear re-

<sup>144</sup> 'Investing in Youth Policy,' Asia-Pacific Interagency Group on Youth, accessed 12 August, 2013, <http://www.investinginyouthpolicy.com>.

<sup>145</sup> Ibid.

forms outlined such as the streamlining of all labour agencies, decentralisation of training, setting minimum wages, gender mainstreaming, employment generation and increased access to opportunities for priority groups. However, the lack of a clear policy focus and the merging of issues of labour and employment has made the implementation of LEP difficult and hence the need for a new employment policy.

### **Trade Union Act, 1992**

The Trade Union (First Amendment) Act 1999 has provisions for individuals engaged in self-employment as well as working in various industries, trades, professions and services. It mandates that trade unions have to be registered with the government. Further, for an enterprise-level trade union to be recognised at least 25 per cent of the workers of the concerned enterprise have to be members of the union. A worker cannot be a member of more than one enterprise-level trade union at the same time. Likewise, membership of at least 50 enterprise-level trade unions is required for the registration of an association of trade unions and membership of at least 10 trade union associations is required for registration as a federation of trade unions.

The Act spells out that the objectives of trade union associations and federations are also to establish relations with international institutions for the benefit of workers, to provide the necessary advice to the government in formulating policies on labour, and to negotiate with the government and take other necessary measures to protect and promote the rights and interests of workers. At a more fundamental level, the unions are required to make provisions for dissemination of information beneficial to workers, engage in the economic and social development of workers by improving their working conditions, and conduct activities that provide education to workers.

Despite the provision of the Trade Union Act, 1992 that calls for collective bargaining between employers and employees, many enterprises in Nepal are not open to allowing the establishment of trade unions and most enterprises are still not unionised.<sup>146</sup>

### **Child Labour (Prohibition and Regulation) Act 2000**

The Child Labour (Prohibition and Regulation) Act 2000 is a comprehensive legal document that prohibits children below the age of 14 from being engaged in labour. It has strict and detailed provisions for employing children where necessary with a focus on opportunities to develop the skills of the children and provide them with education. The Act, in particular, imposes severe punishment for involving a child in risky work or in work without the approval of the Labour Office. Despite these measures and concerns of the government with regard to child labour, it is still highly prevalent in the country. About 34 per cent of the children between the ages of 5 and 14 years are economically active.<sup>147</sup> In addition, frequent news of child workers going back to work after their removal from the workplace by authorities also point to ineffective rehabilitation of child workers.

The Act grants authority to the Labour Office to provide approval to employ children, carry out inspection of enterprises, and impose punishments. At present, there are only 10 Labour Offices across the country: in Chandragadi, Biratnagar, Janakpur, Birgunj, Hetauda, Kathmandu, Pokhara, Butwal, Nepalgunj and Dhangadi.<sup>148</sup> Though these offices are situated in the major industrial hubs of the country, the number seems somewhat inadequate in terms of institutional mechanisms to implement the protective instruments of the Act.

<sup>146</sup> Adhikari, op cit, 2012.

<sup>147</sup> CBS, op cit, 2009.

<sup>148</sup> 'Sram Karyalaya Bibaran [Labour Office Description]', Department of Labour, accessed 11 November, 2013, <http://www.dol.gov.np/uploads/9sram%20karyalaya%20bbaran.pdf>.

### C. Other Initiatives to Support Labour and Employment

#### Youth and Small Enterprise Self-Employment Fund (YSESEF) Programme

The Youth and Small Enterprise Self-Employment Fund (YSESEF) was launched in 2009 as a government initiative to help reduce the situation of unemployment in the country. The main target groups of the programme are unemployed youth and small business people who would be provided with collateral-free, low-interest loans of up to NPR 200,000 to serve as seed capital. The Programme is guided by the Youth and Small Enterprise Self-Employment Fund (Management) Regulations 2009 that lists out its operating structure and mandate in six main articles. The objectives of the Fund as mentioned in Article 2.4 are to provide training on different aspects of agriculture such as commercial farming, livestock farming, and agro- and forestry-based industries; provide loans for service-oriented self-employment such as rickshaws, etc, in urban areas; invest in traditional skills-based occupations; provide loans to people affected by conflict, marginalised communities, indigenous peoples, and women; provide training to the unemployed to operate a self-employment fund; work towards giving priority to raw materials found locally apart from providing skills-based trainings for localised production and consumption; and invest in the project 'one village one product' by creating suitable mechanisms at the local level with the assistance of partner institutions and coordinating with relevant governmental and non-governmental agencies in the course of programme implementation.

#### Social Security Fund

The Social Security Fund, established in 2011, is managed by the Social Security Fund Secretariat. According to the Social Security Fund Management and Operation Regulation 2011, the Fund is meant to provide insurance plans towards unemployment, employment accidents, sickness, maternity, dependence, disability, old age, medical treatment and family. However, the 2011 regulation only mentions the establishment of the Social Security Fund and does not deal with the benefits. As a result, the nature of coverage and the size of the benefits have not been established.

From the mandatory 1 per cent tax deduction from the salary of all formal sector workers, a sum of NPR 4.4 billion had been collected from about 1.2 million contributors until the end of the Fiscal Year 2012/13.<sup>149</sup> However, despite the significant amount of money in the Fund, the schemes have yet to be put into operation. Following criticism from all sides, in the 2011/12 budget the government had mentioned that operational guidelines for the use of the funds would be clarified through the proposed Social Security Act. However, despite the draft being ready, the government has not yet passed it into law, partly because the country has been without a national legislative body since May 2012.

In the interim, trade unions in Nepal have been demanding that the new Act also include informal sector workers and provide them with social security (or registration cards) so that nobody is excluded from the government's social security schemes. Another major demand of the trade unions is that

<sup>149</sup> 'SSF mulls rolling out at least one social security scheme by next FY', *My Republica*, 29 June, 2013, accessed on 7 November, 2013, [http://www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=56977](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=56977); 'Social Security Schemes Yet to Start', *The Himalayan Times*, 11 July, 2013, accessed on 7 November, 2013, <http://www.thehimalayantimes.com/fullNews.php?headline=Social+security+schemes+yet+to+start+&NewsID=383407>;

employers contribute an additional 20 per cent of the total salary received by an individual worker and workers in the formal sector 10 per cent more to the Fund (in addition to the 1 per cent currently being levied).<sup>150</sup> While the employers have agreed to their share in principle, citing the absence of a governing law, they have not yet made any contribution.<sup>151</sup> Furthermore, the employers also want a new labour law that grants them the right to hire and fire workers and also includes the provision of 'no work, no pay' before they begin contributing to the Fund.<sup>152</sup>

### Employees Provident Fund

The Employees Provident Fund (EPF), established in 1962, is considered to be one of the most well-established schemes in Nepal, providing various social security benefits like personal accident insurance, survivor benefits, disability allowance and funeral grants.<sup>153</sup> The scheme requires workers and the employers to each contribute 10 per cent of the payroll to the Fund.

The EPF, however, only covers workers in the formal sector and also includes mandatory participation by all government and semi-government employees, while it is voluntary for private or non-government organisations.<sup>154</sup> Thus far, membership from the private sector is relatively minimal, while those from the public sector benefit from the EPF as well as the Civil Service Pension Scheme, which provides monthly retirement pensions.<sup>155</sup>

The benefits from EPF are paid as a lumpsum but there is also a loan scheme where members can borrow up to 90 per cent of their equity at a low interest rate, which currently stands at 9-10.5 per cent. The EPF started out with 40,000 members in 1962. Membership has since grown more than ten fold, and by 2010/11, it had reached 450,000.<sup>156</sup>

### Karnali Employment Programme (KEP)

The Karnali Employment Programme (KEP) was launched by the government in its budget speech of 2006. Initiated with a sum of NPR 180 million, the objective of KEP was to provide employment through its scheme 'Ek ghar ek rojgar' (one family, one employment) in Karnali Zone. The plan was to guarantee 100 days of wage employment for at least one person in every household, with the poor particularly targeted. Households with at least one family member with a source of income (temporary, permanent or pensioned), families that have enough food to last the year and entrepreneurs are ineligible to benefit from the programme.<sup>157</sup>

The programme is financed totally by the government and managed by the Ministry of Federal Affairs and Local Development (MoFALD). The amount allocated to KEP between 2006/2007 and 2011/12 was NPR 1,316 million.<sup>158</sup> The KEP covers the five districts of Karnali Zone, which accounts for 14.5 per cent of the country's geographical area and 1.3 per cent of the population.<sup>159</sup> KEP is primar-

<sup>150</sup> Dilli Raj Khanal, *Social Security/Social Protection in Nepal: Situation Analysis* (Kathmandu: ILO, January 2012).

<sup>151</sup> 'Bring Social Security, Labour Acts simultaneously', *The Himalayan Times*, 28 June, 2013, accessed on 7 November, 2013, [http://www.thehimalayantimes.com/fullNews.php?headline=Bring+Social+Security%26sbquo%3B+Labour+Acts+simultaneously"&NewsID=381827](http://www.thehimalayantimes.com/fullNews.php?headline=Bring+Social+Security%26sbquo%3B+Labour+Acts+simultaneously).

<sup>152</sup> 'SSF mulls rolling out at least one social security scheme by next FY', op cit.

<sup>153</sup> Khanal, op cit, 2012.

<sup>154</sup> The EPF scheme excludes self-employed, temporary, part-time and household workers. However, private sector is broadly defined to include private schools, universities, diplomatic missions and non-governmental organizations that have at least 10 permanent employees.

<sup>155</sup> 'Nepal: Labour Market Profile 2013', op cit.

<sup>156</sup> Data obtained from EPF, cited in Khanal, op cit, 2012.

<sup>157</sup> National Planning Commission, *Assessment of Karnali Employment Program* (Kathmandu: National Planning Commission, Government of Nepal, May 2012).

<sup>158</sup> Ibid.

<sup>159</sup> Ibid.

ily a public works programme and has been called a 'public works based social protection scheme.'<sup>160</sup> It, however, has been criticised for having achieved little in terms of assets created or being very costly for the output.<sup>161</sup>

### Cash Transfer Schemes

The Government of Nepal also supports a number of non-contributory cash transfer schemes. The Senior Citizens' Allowance targets people over 70 years of age and Dalits and people living in Karnali Zone over 60 years of age. Allowances are also provided to single women and widows above 60 years; for the support of the disabled; for child protection for up to two children to families from Karnali Zone and to poor Dalit families; for education scholarships for Dalits, people with disabilities, from Karnali Zone, and marginalised and conflict-affected children; for maternity protection in government hospitals;

for elderly citizens' health check-up and treatment; and to people belonging to 10 endangered ethnic/indigenous groups.<sup>162</sup>

The benefits of these schemes are monthly cash transfers of NPR 200-1000 (USD 2-10). Most of these cash transfers are financed by the Government of Nepal, contributing 95 per cent with only 5 per cent coming from external financing.<sup>163</sup> Despite being largely universal in terms of coverage, the cash transfer programmes have been criticised for their design and implementation – low coverage of poor beneficiaries and low levels of benefits relative to income per capital, irregular delivery of cash transfers, and exclusion errors, all of which have reportedly led to minimal impact on poverty reduction. However, these programmes have also been acclaimed for their social impact in terms of improved family relations and also a sense of being cared for by the state.<sup>164</sup>

---

<sup>160</sup> Kirit Vaidya with Punya Prasad Regmi and Bhesh Ghimire, *Appraisal of the Karnali Employment Program as a Regional Social Protection Scheme* (Kathmandu: Ministry of Local Development, Government of Nepal and ILO in Nepal, 2010).

<sup>161</sup> Ibid.

<sup>162</sup> Rebecca Holmes and Shizu Upadhyaya, *The Role of Cash Transfers in Post-Conflict Nepal* (London: Overseas Development Institute, August 2009); Khanal, op cit, 2012.

<sup>163</sup> Government of Nepal, *Budget Speech 2009*, quoted in Khanal, op cit, 2012. p. 17.

<sup>164</sup> Holmes and Uphadya, op cit, 2009.

# Recommendations

The purpose of this report is to assess the challenges and opportunities for enhancing employment-centric growth and decent work in Nepal. To a large extent, this is about generating economic growth, since without growth the potential for sustainable job creation and productive employment are limited. However, growth needs to lead to the creation of jobs for most citizens, and these jobs need to be productive and embrace the notion of ‘decent work.’

It is clear from the analysis presented in the report that Nepal has been experiencing sustained growth and substantial decreases in poverty in recent years, but the country needs to address a number of challenges and implement a range of strategies and interventions to sustain the present momentum. In particular, the need for inclusive and job-rich growth is as important as ever. At present, the main safety valve and labour market adjustment takes place through labour migration. This will undoubtedly require the formulation of a comprehensive and realistic employment promotion policy for Nepal, which would bring together the relevant ministries, social partners and other important sections of civil society.

The following are the main areas that a policy to promote employment in Nepal should take into consideration:

## **A. Broader Policies/Measures in Support of an Employment Policy**

Any policy, whether designed to promote employment, education or reduce poverty, needs to bear in mind that policies do not exist or operate in a vacuum. Rather, an enabling environment is required not only for the effective implementation of the policy but also

to build on the achievements and challenges posed by others. This is particularly the case with a cross-cutting policy such as an employment policy that is influenced by a host of other measures and legislations. In this regard, the following set of recommendations are meant to serve as factors that need to be strengthened or better streamlined in order for the policy to be effective, and not necessarily meant as elements that need to be incorporated into the policy itself.

## **National Development Framework**

- For the past few decades, the periodic plans of Nepal have been consistent in their focus on poverty reduction. With significant declines in poverty in the past few years, there is now a need to move away from a vaguely defined ‘poverty-reduction’ strategy and towards a stronger emphasis on productive employment within the framework of ‘inclusive growth’ and ‘poverty reduction’ as well as ‘broad-based development.’
- Shift focus towards support for capital formation via public and private investment, in particular, economic infrastructure in order to create employment opportunities while at the same time engendering economic growth. This recommendation is in line with the emphasis of the Thirteenth Plan on infrastructure development. However, a clearer strategy to leverage policies that encourage growth while also targeting employment creation is required.
- Economic and social development plans and programmes are often treated as being discrete. Since issues of employment have social as well as economic implications, there is a need to integrate both these objectives by making employment central in the national development strategy.

### Economic Diversification

- Policies to stimulate the diversification of the economy beyond agriculture are urgently needed and focusing on existing policies on trade, industry, tourism, etc, to create synergies with the existing agriculture development strategy would provide a starting point. Having said that, since shifting from one sector to another will not be easy, a sustained focus on agriculture while seeking to promote other sectors of the economy is required, particularly since agriculture continues to be the major source of employment for a significant section of the population of Nepal.
- In the agricultural sector, efforts need to focus on measures to improve productivity levels such as agriculture commercialisation, value chain development, agro-processing, and access to finance. The Government of Nepal should thus facilitate both public and private sector investment in these activities, particularly in rural areas, which would generate rural employment opportunities.

### Invest in Human Development

- Initiatives and interventions geared towards employment creation will be effective and sustainable only if there are strategic complementarities with investments in human resources. This will require prioritising the education sector which will be able to produce skilled manpower.
- Given the formidable achievements up to the primary level, the Government of Nepal needs to place more focus on improving secondary- and tertiary-level education, and also create opportunities for the enhancement of vocational and technical skills. This will require more and better-managed investments in higher education by the government, donors and civil society groups.

### B. Supporting Employment Policy

Building on the analysis presented in this report, the following are recommendations specific to the employment policy.

#### Clear and Focused Strategic Direction and Targets

- The strategic direction of the new employment policy should be focused clearly towards enhanc-

ing productive, inclusive and decent employment opportunities. The goals and strategies should be geared towards delivering on the priorities set in the national development plans and building on existing policies related to other sectors such as investment, youth and education that have a strong bearing on the creation of employment.

- Employment-related targets and indicators should be a core part of the employment policy and be used for monitoring progress. The targets set should be reasonable and agreed upon by the relevant stakeholders. At present, the Thirteenth Plan has a target of an average annual employment growth rate of 3.2 per cent against the actual rate in 2012/13 of 2.9 per cent.
- In the context of increasing labour migration, the policy should focus on ensuring the rights and welfare of the migrant workers while at the same time creating domestic employment opportunities such that foreign employment becomes a choice and not a compulsion.

#### Target Employment-intensive Sectors

- Existing studies on labour markets and growth in Nepal have identified sectors such as agriculture, manufacturing, services, tourism and construction as being the key ones that provide opportunities for growth and employment generation. The employment policy should target these sectors in the policy document.
- Given the significance of the agricultural sector in Nepal, short-term measures to promote employment in the agricultural sector should be prioritised, including support for building financial capital, training on modern agricultural techniques, enhanced agriculture extension services, and commercialisation and scaling up of agricultural activities.
- Support to the priority sectors identified above should seek to improve backward and forward linkages with a special focus on rural employment creation.

#### Focus on Youth Employment

- Given the current conditions of youth unemployment, the dividends of focusing on the creation

of youth employment would be high, especially in the long run.

- The Youth Self Employment and Small Enterprises Fund (YSESEF) is an existing scheme that, if managed better, could potentially serve as an important vehicle in promoting youth employment. However, more coordinated efforts to inform youths of the opportunities provided through the YSESEF are necessary. Similarly, there is also a need to revise the provisions in the Fund to include mentoring and guidance to aspiring entrepreneurs; awareness-raising on administrative, legal and regulatory frameworks for business start-ups; information dissemination about training and other support services; business skills training; and business incubation.
- To further aid youth employment, other initiatives such as providing tax incentives to companies that create jobs for young people or provide internship opportunities are also much required. The tax incentives could comprise monetary incentives like providing direct cash grants or tax breaks while non-monetary benefits could include fast-track approval processes or exemptions from certain regulations.
- To the extent possible, such incentives should target companies in areas outside the urban centres and therefore, have the potential to avail the young rural population with employment opportunities.

#### **Creation of Job Centres and Labour Market Information and Monitoring System**

- Provisions for the creation or further upgrading of existing job centres across the country need to be envisaged in future initiatives. These job centres would help coordinate demand and supply in the labour market by providing a forum for the public and private sectors to advertise vacancies while also giving information to young job-seekers on available placements.
- The job centres could function as forums for providing the youth with career counselling by bringing together employers, training institutions, young job-seekers and the already employed. The success of these job centres will, however, depend

on the extent to which they are able to develop linkages with employers' organisations, government institutions mandated to work on youth and labour issues such as the Ministry of Youth and Sports and the Department of Labour, and training institutions.

- The job centres should be equipped with access to a national Labour Market Information and Monitoring System (LMIMS) that would enable skills matching according to the demands of the labour market. To better monitor the trends of the labour market, the LMIMS should also include elements that would collect and track indicators disaggregated along gender, age group, disability, social category, etc.

#### **Enhancement of Decent Employment Opportunities**

- That markets do not work perfectly has become an adage, thus making it essential for governments to intervene in manifold ways. In the context of Nepal, government interventions are required particularly in areas of labour standards, such as occupational safety and quality control.
- Despite existing legislation against labour exploitation, including child labour, these practices have continued. There is thus a need to strengthen existing provisions by focusing on their implementation, strengthening the capacity of respective government institutions, enhancing the monitoring mechanisms, and enforcing higher penalties in case of their occurrence.
- Given the vertical as well as horizontal inequalities that exist in the labour market, particularly with regard to rural-urban, gender and caste/ethnic divides, there is a need to focus on creating employment opportunities that will help erase these inequalities. This might require introducing quotas, formulating policies of positive discrimination, and presenting tax and other incentives to employers across all sectors that undertake such measures.
- Ensuring decent work will also require more sustained efforts towards stronger labour inspection in order to identify legal abuses among employers of all types.

### **Transition from Informality to Formality**

- As is evident from the analysis, the informal sector as well as informal employment is pervasive in Nepal. There is a need to support initiatives that would facilitate their transition to formality. However, approaches and methodologies that would effectively facilitate such transition are unclear and, hence, studies and analyses, including lessons from global practices, are required.
- Efforts to demonstrate the benefits of engaging in the formal sector and formal employment by paying close attention to sectors such as agriculture where informal employment is high would be important. This would require supporting small and medium enterprises (SMEs) through greater awareness on the benefits and protection that come with formalisation, business development services, improved access to finance, market access, value-chain development, credit programmes as well as training and promotional activities.
- It is important to develop provisions that would support the state and other actors to incorporate social protection for workers in the informal economy, and also apply and enforce labour standards, minimum wages, and health and safety regulations in all sectors so that the issue of employment in the informal economy as well as that of informal employment are tackled together. This can be done through a social protection floor for all.

### **Improving Industrial Relations and Facilitating Social Dialogue**

- A national framework for social dialogue that is inclusive needs to be developed. First and fore-

most, this will require creating a platform for social dialogue and strengthening dispute-resolution mechanisms at the enterprise level.

- Provisions for building the capacity of social partners should be emphasised. In particular, as highlighted in the report, trade unions in Nepal are highly fragmented, which has proved to be detrimental not only for the trade union movement in Nepal but also for collective bargaining and for ensuring a better industrial climate. Thus, developing the institutional and organisational capacity of social partners is much required through training, awareness raising, periodic elections, etc.
- Revising the existing labour legislation has been on the agenda of the government as well as employers' and workers' organisations for some time now. It is important that such reforms shift the current focus of the labour law from protecting jobs to protecting workers. This will require coordinated strategies that relax statutory protection (especially procedures and costs associated with dismissal) but at the same time provide social security and social protection to workers.

### **Strengthen Labour Market Information and Monitoring**

- A labour market information and monitoring system is essential to provide for rigorous tracking and monitoring of employment-related indicators.
- Provisions should be made for the findings of national surveys to be used to provide regular analysis to policy-makers, and enable monitoring of the policy, targets and indicators mentioned above.





Growth aimed at creating employment is considered one of the main conduits for sustainable economic development and poverty reduction. This is particularly the case in countries like Nepal, which is experiencing significant demographic shifts as well as a structural transformation of the economy, cycles of political instability, poverty and inequality, all of which have led to a massive exodus of the productive workforce out of the country. This report has been prepared as a background document to assist the Government of Nepal in preparing the national employment policy within the framework of current economic and social policies of the country. Based mainly on secondary sources, the report discusses macroeconomic patterns and trends related to growth in Nepal, and provides an overview of the employment situation and recent performance of the Nepali labour markets. It also includes a review of existing policies dealing with employment, the status of industrial relations and social dialogue in the country, and an analysis of the impact of existing regulatory frameworks on enhancing productive employment opportunities. The report ends with recommendations on policy changes required to encourage progress in enhancing employment-centric growth in Nepal.



**International Labour Organization**

Dhobhighat, Lalitpur.  
P.O.Box 8971, Nepal.  
Tel: 977-1-5555777, 5550691  
Fax: 977-1-5550714.  
Email: [kathmandu@ilo.org](mailto:kathmandu@ilo.org)

