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Labour and Social Trends in Nepal 2010

National Planning Commission
Government of Nepal

International Labour Office
ILO Country Office for Nepal

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Preface

The first issue of the *Labour and Social Trends in Nepal* report presents socioeconomic and labour market trends in Nepal and examines some of the key opportunities and challenges present in the country's labour market. Such an analysis is aimed at informing the formulation and implementation of development plans and efforts to achieve the Millennium Development Goal (MDG) target of achieving full and productive employment and decent work for all, including women and young people.

The global economic and jobs crisis and subsequent recovery has highlighted the global need for a framework of strong, sustainable and balanced growth that delivers quality jobs. Such a framework is critical also for Nepal. The ILO Global Jobs Pact, which provides a set of policies that places employment, productive investment and social protection at the centre of the recovery while strengthening the foundations for economic, social and environmental sustainability, provides particular inspiration to delivering more and better jobs in Nepal.

The report was produced by Professor Bishwambher Pyakuryal, President, Economic Association, Nepal and Kee Beom Kim of the ILO Regional Office for Asia and the Pacific. The report benefited substantially from technical guidance and valuable comments provided by members and staff of the National Planning Commission and from Duncan Campbell and Gyorgy Sziraczki of the ILO. Workshops organized in November 2009 and September 2010 that brought together the National Planning Commission, the Ministry of Labour and Transport Management, Central Bureau of Statistics, workers' and employers' organizations and leading research institutes were instrumental in the report's design and finalization. The report has been enriched by support provided by Dadhi Adhikari of Tribhuvan University, Kamal Gautam of the Ministry of Agriculture and Nita Neupane of the ILO Country Office for Nepal.

We hope that the report will contribute to constructive policy debate and in informing a sustainable and inclusive development for Nepal.

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Table of Contents

List of Tables

List of Figures

List of Boxes

1

Overview

As Nepal moves toward peace-building and state-restructuring, the country faces numerous social and economic opportunities and challenges. How Nepal will respond to these opportunities and challenges today will determine the country's future prospects. This report analyses the current opportunities and challenges in promoting productive and decent employment in Nepal using available data, and raises a number of policy implications aimed at strengthening future growth and employment prospects.

The demographic dividend in Nepal

One key area of opportunity is Nepal's favourable demographic trends. The increase in the relative share of the country's working-age population, together with the expected decline in the proportion of economic dependants can lead to "demographic dividend", whereby more people are working and greater investments and savings are taking place. Nepal is expected to have one of the highest rates of labour force growth in the Asia and the Pacific region and this presents an important opportunity to raise the country's potential rate of economic growth and development. Such a potential however cannot be realized if the working-age population are not absorbed into productive and decent jobs. A critical policy agenda in Nepal is therefore attaining high rates of employment growth to meet the demands for jobs.

Urbanization and its associated opportunities and challenges

Nepal has been experiencing high levels of rural-to-urban migration and this also provides an important opportunity as urban areas are often the engines of economic and productivity growth and centres of trade and innovation. Nonetheless, if there are not enough decent jobs available in urban areas, these areas risk becoming zones of inequality, misery and degeneration. A key policy challenge in this regard is the generation of quality jobs to meet the demands for better work from those migrating to urban areas, as well as investments in the current weak infrastructure of urban areas. To avoid the threat of serious environmental degradation linked to this rapid urbanization, Nepal will also need to transition towards a greener economy and more sustainable patterns of consumption and production. This is turn can provide opportunities for the creation of green jobs.

Volatile economic growth

High levels of economic growth are essential for absorbing the supply of workers coming into the labour force, whether in rural or urban areas. In the past decades however, Nepal has experienced volatile economic growth, as the country experienced a prolonged conflict between 1995 and 2005 and as agricultural production, typically dependent on unpredictable annual monsoons, plays an important role in the economy. Between 2003 and 2009, the Nepalese economy grew at an annual average rate of 4.1 per cent.

The global economic and jobs crisis and Nepal

Economic growth in 2010 is expected to slow to 3.0 per cent as a result of the global economic and jobs crisis, which has impacted Nepal mainly though two channels: remittances and foreign trade. Remittances have been surging since 2002, but the rate of growth is estimated to have fallen sharply in 2009/2010. Exports in 2009/2010 are estimated to have declined by over 10 per cent compared to its previous year. These developments are likely to have led to adverse impacts on Nepal's labour market, including a rise in informal employment. The ILO Global Jobs Pact, which can be adopted in accordance to the situation in Nepal, provides a set of integrated policies that put employment and social protection at the centre of the recovery while strengthening the foundations for economic, social and environmental sustainability.

A macroeconomic policy framework for full and productive employment

It is clear that economic growth in Nepal will need to be raised and sustained. Equally important however is the need to raise the employment content of any given level of growth. This will require a macroeconomic policy framework that, in addition to addressing economic growth targets, inflation and sustainable public finances, integrates full and productive employment as a core macroeconomic policy goal. Employment outcomes could be mainstreamed in macroeconomic policy – monetary policy and fiscal policy. Furthermore industrial policy and trade policy could be better oriented towards the employment outcome. In this regard, "employment targets", such as the commonly used national "growth targets", that are based on reliable statistics and information and that are set as per Nepal's requirements over a specific period of time, could be explored.

Fiscal policies and an employment-orientated macroeconomic framework

Country experiences in responding to the global economic and jobs crisis in particular suggests that countries can better harness fiscal policies to address decent work deficits. Given the existing fiscal space in Nepal, consideration could be given to nurturing the "automatic stabilizers" of social protection. Nepal has made considerable progress in establishing some components of a basic social protection floor, including an old-age pension scheme and benefits for the disabled and working poor. Going forward, the challenge will be to strengthen the existing schemes and to extend their coverage while building the elements of a contributory social security schemes over the medium-term. Public works programmes can provide basic income support with infrastructure development, and consideration could be given to an employment guarantee scheme.

Coordinated macroeconomic, employment and social protection policies

The multi-dimensional and yet closely interlinked issues discussed above points to the need for better coordinated macroeconomic, employment and social protection policies. This will require policy coordination between the National Planning Commission, the Ministry of Labour and Transport Management, the Central Bank of Nepal, economic, financial, and sectoral ministries, the Central Bureau of Statistics and workers' and employers' organizations and strengthened capacities of these institutions for coordinated policy design, implementation and monitoring.

Working poverty in Nepal

Coordinated macroeconomic, employment and social protection policies will be particularly critical for Nepal in addressing its challenge of working poverty. Nepal has made significant progress in the past decade in reducing poverty, but nonetheless there are a substantial number of persons who work, yet still live in households whose members are living in poverty. ILO estimates indicate that in 2003/04, 50.4 per cent of those working were not earning enough to lift themselves and their families above the US$ 1.25 a day poverty line. At the US$2 a day poverty line, the working poverty rate was 74.1 per cent. Almost all Nepali workers (96.2 per cent of those employed) are in informal employment. Less than 1.5 per cent of employed Nepalese women had formal jobs. Consequently, for the vast majority of workers in Nepal, the primary challenge is employment of poor quality, including low wages and productivity, and reducing the overall poverty rate and rolling back informality necessitates the generation of jobs of better quality. As a starting point, increasing the quality of jobs, including for youth, women and marginalized groups, will require an enabling environment, including rule of law, secure property rights and respect for fundamental principles and rights at work.

Productivity growth is essential in increasing the quality of jobs

Improving the quality of jobs in Nepal will also depend on higher labour productivity growth, which measured as output per worker, grew by only an annual average rate of 0.56 per cent between 1999 and 2008. A coherent strategy will be required to significantly raise levels of productivity. One key driver in this regard is to facilitate structural employment shifts. Agriculture accounts for 33 per cent of Nepal's gross domestic product (GDP) but accounts for 74 per cent of total employment in Nepal. The differences in the contribution of the agriculture to output and employment underscore substantial productivity differences between the agricultural sector and the other sectors. That is, if the agricultural sector were as productive as the other sectors, their contribution to GDP would approximate the shares in employment. Facilitating structural employment shifts will require boosting investment in agricultural productivity, including through improved rural infrastructure and rural-urban linkages and support to micro- and small- sized enterprises, while at the same time stimulating investment in industries with high potential for economic growth and employment generation with a view to absorbing the surplus agricultural labour.

Facilitating structural employment shifts

Facilitating structural employment shifts will also require enhancing the skills of the workforce, including through further investment in the technical and vocational education and training system. Building on the sconsiderable progress made in the past decade in the provision of education, a renewed focus on improving the quantity and quality of basic education will also be essential. Furthermore, combined with measures aimed at strengthening the social protection floor and promoting decent and productive employment opportunities for parents, improving the quantity and quality of basic education is key in tackling the challenge of 2.1 million Nepali working girls and boys.

Enhanced labour market infor mation and analysis

Timely and accurate data collection and analysis are also important in facilitating structural shifts, including for tracking employment trends in industries with high growth potential and identifying the current and future skills being demanded. Further efforts are required in a more regular collection of labour statistics and the in the analysis of labour market information to shape appropriate policies.

Improvements in working conditions drive productivity growth

Improvements in workplace conditions, including occupational safety and health standards, are also important to productivity. This is as relevant in the formal economy as in the informal economy. Simple, locally-available and low-cost solutions such as good housekeeping, good lighting, improved workstations for better work posture, machine guards, safer handling of hazardous substances, and basic welfare needs such as safe drinking water and sanitary toilets can play an important role in enhancing the productivity of workers in the informal economy.

A rights-based approach to labour migration

More than 2 million Nepalis are estimated to be currently working abroad (including in India) and every year 200,000 persons are leaving for work overseas (excluding India), with the vast majority of migrant workers being male. This rapid increase in the number of overseas migrant workers has resulted in large inflows of remittances, which are used for investments in education and health as well as consumption. Nonetheless, labour migration is likely also to raise a number of challenges, including brain drain, risk dependency, reintegration into productive work upon return and the abuse of migrant workers. The ILO's Multilateral Framework for Migration provides non-binding principles for a rights-based approach to labour migration for the Government to work with other countries to ensure that migration is beneficial for both Nepal and receiving countries.

Social dialogue and tripartism of critical importance

Ultimately, seizing the opportunities in Nepal and addressing the labour and social challenges highlighted in this report will depend on harmonious industrial relations based on social dialogue and triapartism. The current poor and hostile industrial relations environment is seen as a as a significant constraint to increased investment and faster growth in Nepal. Effective mechanisms for dialogue, organization and voice, based on fundamental principles and rights at work, are critical in the identification of partnerships required to seize the opportunities of Nepal's development, while also finding negotiated and sustainable solutions to the challenges.

2

Demographic developments

In looking at progress and future prospects for productive and decent employment in a country, the supply side offers a starting point. How has the demographic structure changed in Nepal? What will happen to the growth of the working-age population, the primary source of labour force growth? This chapter examines such questions and raises a number of policy implications.

2.1 Population growth

The last population census of Nepal in 2001 indicated the country's population totaled 23.2 million, with an annual growth rate of 2.25 per cent (table 2.1). Going forward, Nepal's population is projected to continue to grow and reach 34.2 million in 2021, although the pace of growth is likely to slow from that registered in 2001.

Table 2.1: Population projection by age group, 2001-2021

Age Group	2001	2006	2011	2016	2021
Children (aged 14 and below)	9,098,200 (39.3)	9,698,365 (37.5)	10,168,500 (35.6)	10,659,666 (34.0)	10,919,129 (32.0)
Economically active population (aged 15-59)	12,650,712 (54.6)	14,606,067 (56.4)	16,614,465 (58.1)	18,587,138 (59.3)	20,818,447 (60.9)
Elderly population (aged 60+)	1,402,911 (6.1)	1,582,304 (6.1)	1,802,010 (6.3)	2,080,537 (6.6)	2,434,568 (7.1)
Total	23,151,823 (100.0)	25,886,736 (100.0)	28,584,975 (100.0)	31,327,341 (100.0)	34,172,144 (100.0)
Youth population (aged 15-24)	4,603,170 (19.8)	5,326,606 (19.3)	5,843,344 (20.4)	6,055,724 (19.3)	6,545,431 (19.2)

Source: Ministry of Population and Environment (MoPE) and Central Bureau of Statistics (CBS): *Population projections for Nepal 2001-2021* (MoPE and CBS, 2003).

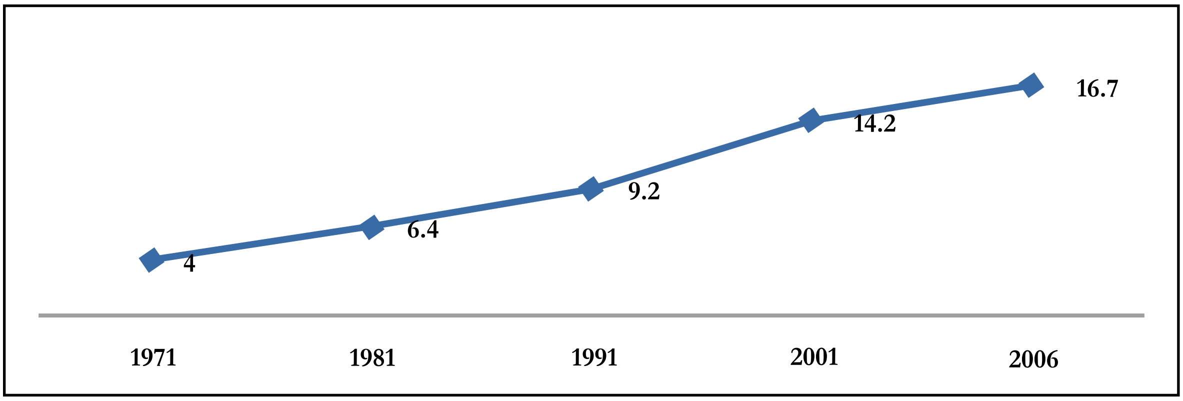
Examining the population age structure, the share of Nepal's economically active population (ages 15-59) is expected to continue to expand, reaching 60.9 per cent of the total population in 2021. Within the economically active population, the share of those aged 15-24 (youth) is expected to decrease to 19.2 per cent by 2021. The share of the population aged 60 and over will continue to grow while the share of the population younger than 15 is expected to shrink from 39.3 per cent in 2001 to 32.0 per cent in 2021.

This projected increase in the relative share of Nepal's working age population, together with the expected decline in the proportion of economic dependants, can result in "demographic dividend", whereby greater investments can be made in economic development and family welfare. Nonetheless, such a demographic dividend is not a guarantee, but rather depends critically on effective policies in realizing the opportunities provided during the period. Such policies include among others investment in education and training in order to raise the productivity of workers and mobilizing sufficient capital to productively employ the economically-active population.

2.2 Urbanization

Most of Nepal's population increase will occur in urban areas. In addition to natural increases, rural-urban migration is expected to continue. According to the Nepal Labour Foce Survey 2008, 76.5 per cent of migrants in urban areas had migrated from rural areas. While the level of urbanization, at 16.7 per cent of the population in 2006, remains low compared to other countries, it is expected to grow rapidly (figure 2.1).[1] The rapid growth in urbanization provides both opportunities and challenges. Urban areas are often the engines of economic and productivity growth and centres of trade and innovation. Nonetheless, rapid urbanization also poses critical challenges, including job creation, urbanization of poverty, provision of social services and environmental degradation. Without addressing these challenges in an integrated and coherent manner, urban areas risk becoming zones of inequality, misery and degeneration.

Figure 2.1: Percentage of urban population in Nepal (%)



Source: CBS: *Population profile of Nepal* (CBS, 2007).

As a result of population growth and rural-to-urban migration, population densities have been increasing throughout Nepal, but particularly rapidly in the Central Development Region. In that region, the population density in 2001 was 293 persons per square kilometer compared to a national average of 157 (table 2.2).

Table 2.2: Population density per square kilometer

	1981	1991	2001
Ecological belts			
Mountain	25.14	27.85	32.57
Hill	116.76	137.25	167.11
Terai	192.71	253.58	329.59
Development region			
Eastern	130.32	156.25	187.82
Central	179.10	225.61	293.02
Western	106.43	128.26	155.49
Mid-western	46.14	56.87	71.10
Far-western	67.56	85.95	112.15
NEPAL	102.01	125.63	157.30

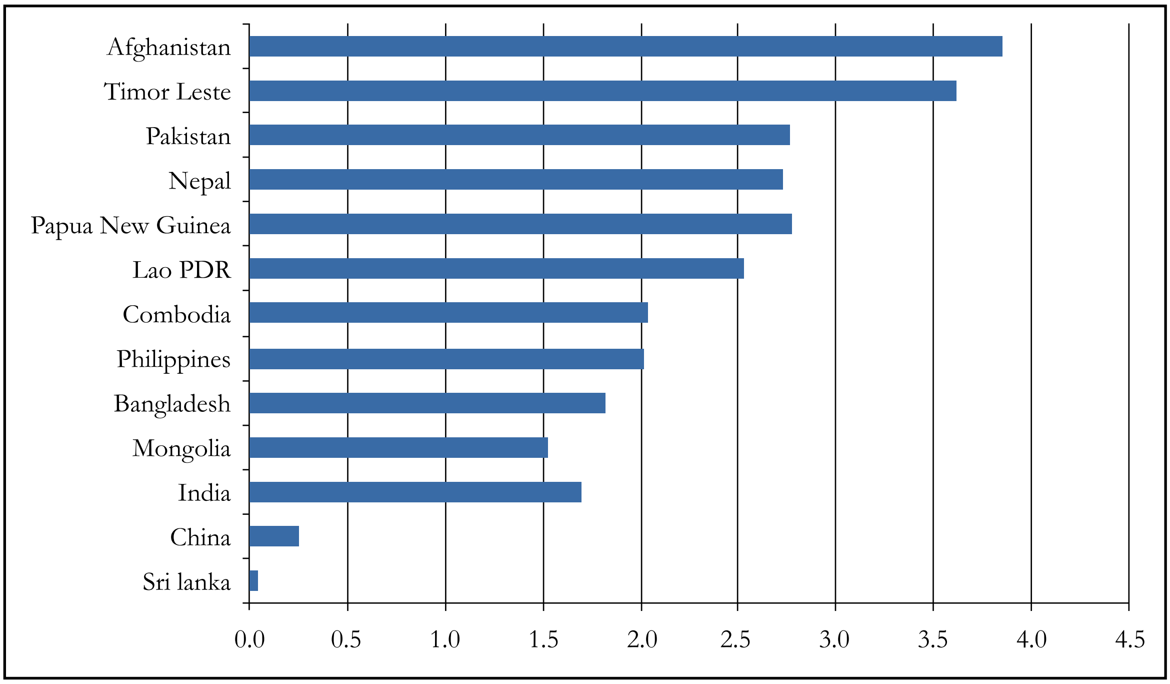
Source: CBS: *Population Census* (CBS, various years).

[1] In comparison, average levels of urbanization were 22.8 per cent in the South Asian Association for Regional Cooperation (SAARC), 42.6 per cent in Asia and 55.0 per cent globally. See United Nations Development Programme (UNDP): *Human Development Report 2003* (New York, UNDP and Oxford University Press, 2003).

2.3 Policy implications

- In light of the demographic developments discussed earlier, Nepal is expected to have one of the highest rates of labour force growth in the Asia and the Pacific region (figure 2.2). This presents an important opportunity to raise the country's potential rate of economic growth and development. Such a potential however cannot be realized if the working-age population are not absorbed into productive and decent jobs. A critical policy agenda in Nepal is therefore attaining high rates of employment growth to meet the demands for jobs.

Figure 2.2: Projected labour force growth, annual average, selected Asian economies (%)



Source: ILO, LABORSTA, Economically Active Population Estimates and Projections database (5th edition, revision 2009).

- Nepal's rapid rate of urbanization is expected to continue. A key challenge in this regard is the generation of jobs of good quality to meet the demands for better work from those migrating to urban areas, as well as investments in infrastructure. To avoid the threat of serious environmental degradation linked to this rapid urbanization, Nepal will also need to transition towards a greener economy and more sustainable patterns of consumption and production. This is turn can provide opportunities for the creation of green jobs.

3

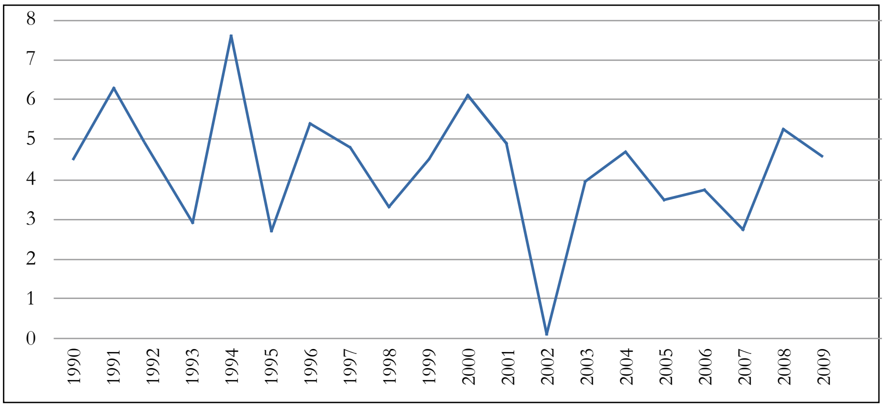
Socio-economic developments

Economic growth is a starting point for the generation of productive and decent employment. Furthermore, it is critical to ensure that growth benefits all of society and leads to sustained poverty reduction. How has Nepal's economy fared recently? How has the economy been impacted by the global economic and jobs crisis? How is Nepal doing in terms of poverty alleviation? This chapter examines such socio-economic developments in the recent past and raises a number of policy implications.

3.1 Economic performance

Nepal has experienced volatile economic growth in the past two decades, as the country experienced a prolonged conflict between 1995 and 2005 and as agricultural production, typically dependent on unpredictable annual monsoons, plays an important role in the economy (figure 3.1). Between 2003 and 2009, the Nepalese economy grew at an annual average rate of 4.1 per cent. Going forward, projections indicate that the pace of growth will slow to 3.0 per cent in 2010 before rising again to 4.0 per cent in 2011.[2]

Figure 3.1: Gross domestic product, annual growth rate (%)

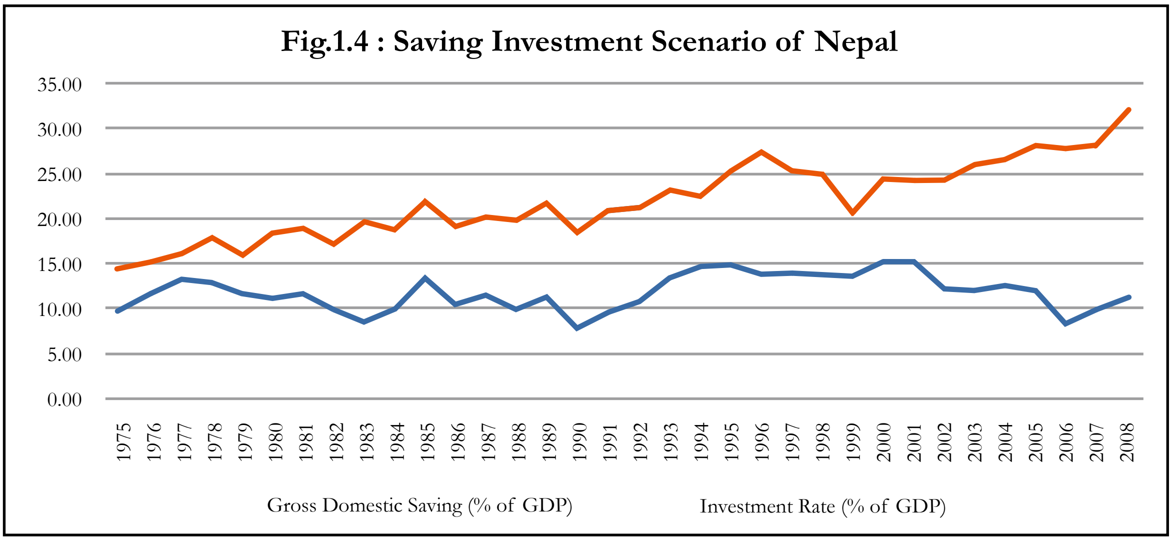


Source: Ministry of Finance (MoF): *Economic Survey* (MoF, various years).

A possible factor behind the relatively modest economic growth levels is the low level of domestic savings. Nepal's domestic savings as a share of GDP has in general ranged from 10 per cent to 15 per cent between 1975 and 2008 (figure 3.2). Relatively higher rates of domestic savings were witnessed in the 1990s but have fallen since 2002. The savings rate in 2008 was estimated at 11.2 per cent in 2008. On the other had, relative to the savings rate, the investment rate has increased significantly in the past several decades, rising from less than 15 per cent in 1975 to more than 30 per cent in 2008. The gap between the two rates has increased in particular since 2002, during which period remittances inflows into Nepal also increased rapidly, suggesting that the investment-savings gap is being financed by remittances from Nepalese workers and citizens abroad (figure 3.3).[3]

[2] International Monetary Fund (IMF): World Economic Outlook Database (April 2010).
[3] See also ADB, DFID, ILO: *Nepal: Critical Development Constraints* (Manila, ADB, 2009).

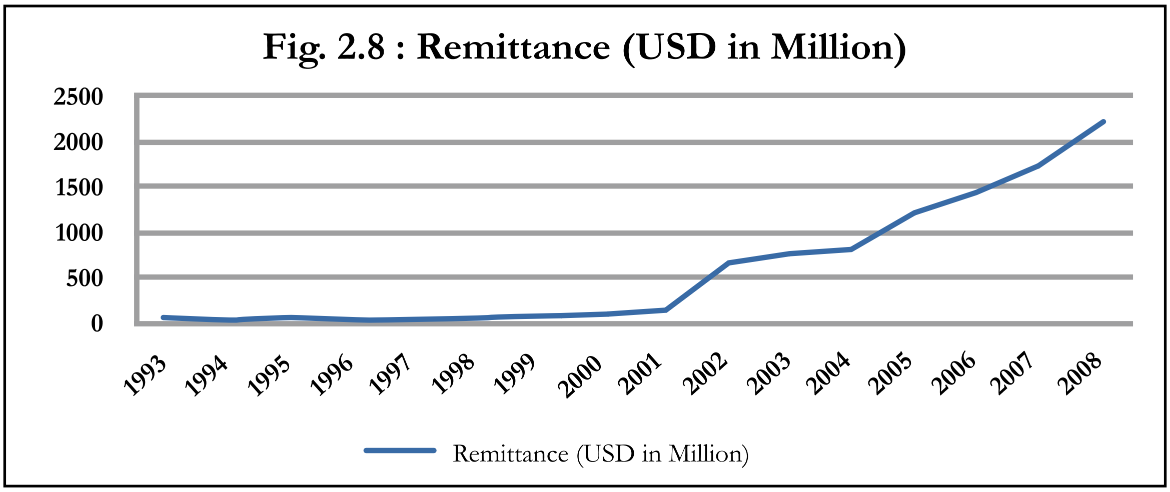
Figure 3.2: Gross domestic savings and investment (% of GDP)



Note: Data for 2008 is a revised estimate.

Source: Ministry of Finance: op. cit.

Figure 3.3: Remittances (US$ millions)



Sources: ADB, DFID, ILO: *Nepal: Critical Development Constraints* (Manila, ADB, 2009); Ministry of Finance (MoF): *Economic Survey 2008/09* (MoF, 2009).

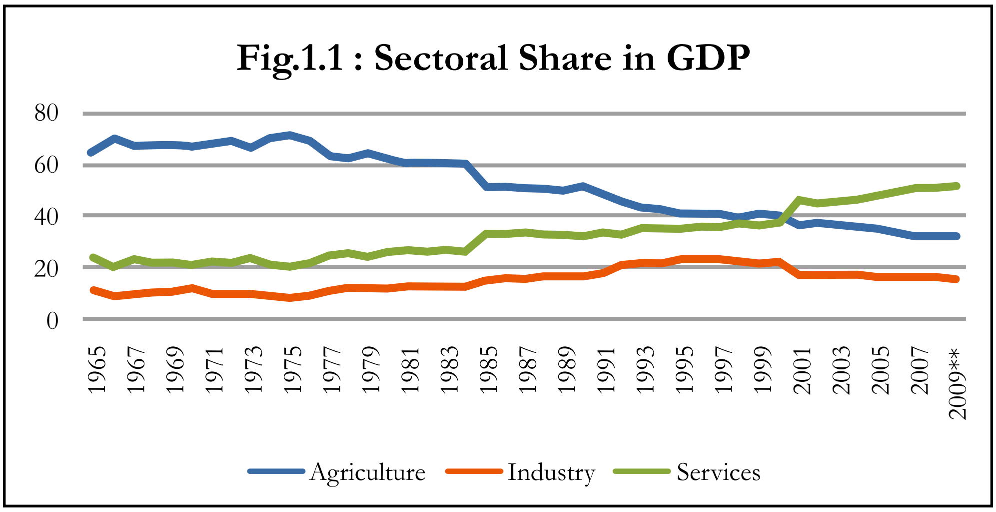
Taken together, the trends suggest a need to raise domestic savings as well as ensuring that continued investments take place, particularly in raising productivity in agriculture, where the vast majority of the labour force is employed, while at the same time investing in physical capital formation – such as additional machinery, information and communications technology, as well as improved infrastructure – thereby facilitating structural economic transformation.

3.2 Structural transformation

While agriculture continues to play an important part of the Nepalese economy, the country has been undergoing gradual structural transformation in the past several decades (figure 3.4). The share of total GDP accounted for by agriculture was around 60 to 70 per cent between 1965 and 1980, but this ratio declined to 41 per cent by 1999. In 2009, the agriculture sector was estimated to account for around 33 per cent of GDP, while the share of the industry and services sector was 15 and 52 per cent respectively.[4]

[4] For further discussion on structural transformation in Nepal, see P. Bishwambher: "Integration of Industrial Activities of Disadvantaged Groups of Countries to the Regional and Global Levels: Prospects and Challenges in an Era of Globalization and Liberalization" (Bangkok, UNESCAP, March 2001).

Figure 3.4: Sectoral share in GDP (%)

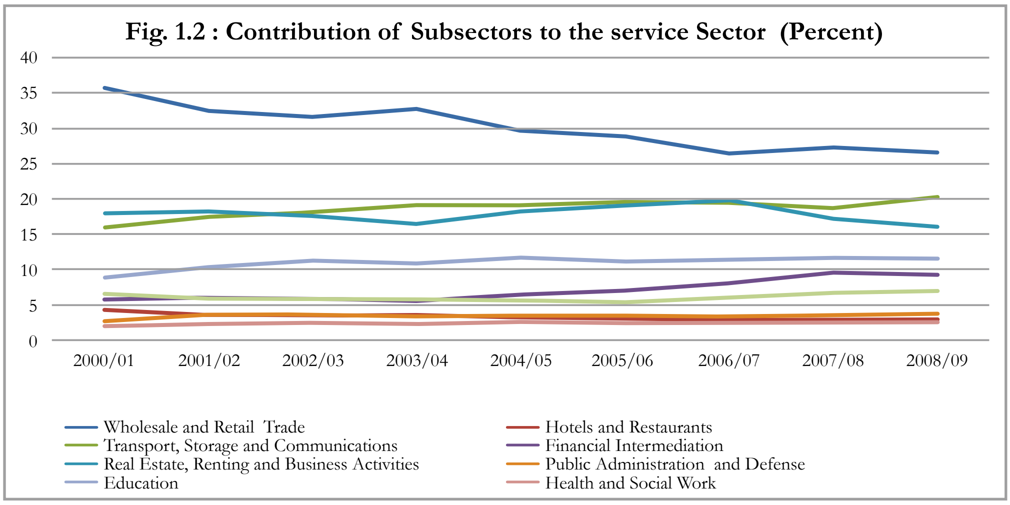


Note: ** Revised estimate

Source: ADB, DFID, ILO: op. cit.

Among the sub-sectors of services sector, wholesale and retail trade accounts for the bulk, followed by transportation & communication and real estate (figure 3.5). However, the contribution of wholesale and retail trade sub-sector has been declining while it has been increasing for transportation and communication and financial intermediation. On the other hand, the contribution of other sub-sectors has remained more or less stable between 2000 and 2009.

Figure 3.5: Contribution of sub-sectors to the services sector (%)



Note: Data for 2007/08 is a revised estimate and that for 2008/09 is an estimate.

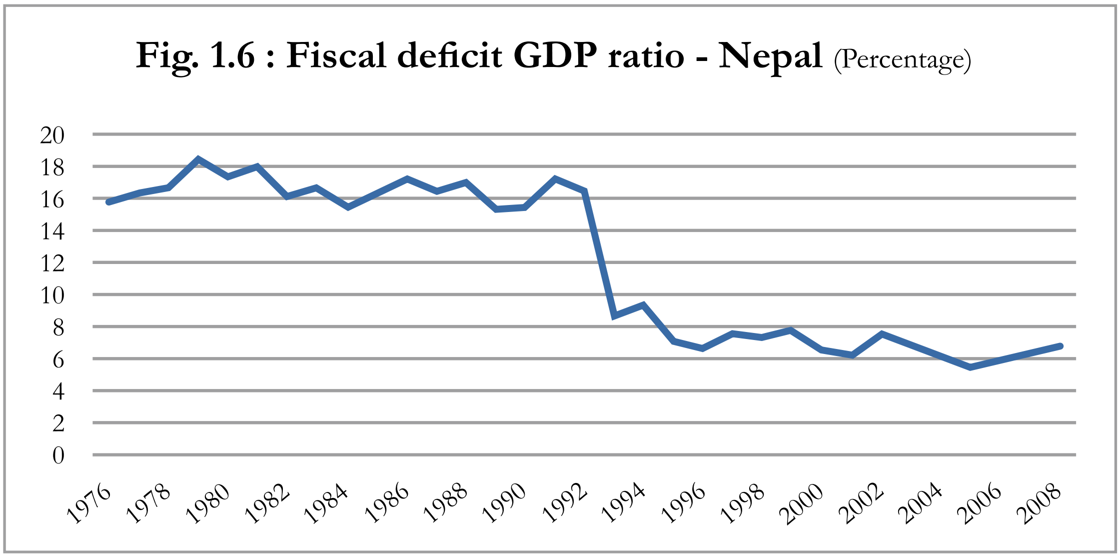
Source: Authors' calculations from Ministry of Finance (MoF*): Economic Survey 2008/09* (MoF, 2009).

3.3 Fiscal balance

Nepal has historically experienced fiscal deficits. Since 1990, the fiscal deficit as a percentage of GDP has shown a declining trend, in part due to the Government's effort to collect more tax revenues, privatizing public enterprises and public debt consolidation (figure 3.6). According to the IMF, fiscal disciple has created fiscal space.[5] Such a development provide an opportunity in investing in the country's development while ensuring sound and sustainable public finances

[5] See IMF: "Nepal: 2010 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility", (Washington, DC, IMF, 2010). Available at: http://www.imf.org/external/pubs/ft/scr/2010/cr10185.pdf

Figure 3.6: Fiscal deficit (% of GDP)



Source: Ministry of Finance: op. cit.

3.4 Poverty and income inequalities

Poverty alleviation is a key priority of Government of Nepal and significant progress has been achieved in reducing poverty in the past decades. Past experiences indicate that the objective of poverty alleviation might not be achieved even if the overall economic indicators remain positive and as a consequence, three categories of poverty have been targeted in Nepal: income poverty, human poverty and social exclusion. The analysis of all these categories indicates that the overall poverty and human development indices have significantly improved during the past years. To illustrate, in 1995/96, the share of the population living below the absolute poverty line was estimated at 41.8 per cent (table 3.1). This ratio was estimated to have fallen to 30.9 per cent in 2003/04 and to 25.4 per cent in 2009. The gains in poverty reduction were particularly rapid in the five years preceding 2009, with the poverty rate falling by five percentage points during that period.[6] Factors contributing to poverty reduction included (i) increased wage rates in both the agricultural and non-agricultural sectors; (ii) increasing urbanization; (iii) increased proportion of active human resources in the population; (iv) inflows of large amounts of remittances; and (v) increased public expenditure in the social sector.

Table 3.1: Poverty, working poverty and income distribution

	1995/96	2003/04	2009
Poverty rate, national poverty line (%)	41.8	30.9	25.4
Working poverty, US$ 1.25 a day line (%)	n.a.	50.4	n.a.
Working poverty, US$ 2 a day line (%)	n.a.	74.1	n.a.
Gini coefficient	0.34	0.41	0.46

Sources: National Planning Commission and UNDP: *Nepal Millennium Development Goals Progress Report 2010* (Kathmandu, National Planning Commission and UNDP, 2010); ILO, *Key Indicators of the Labour Market* (KILM), 6th Edition.

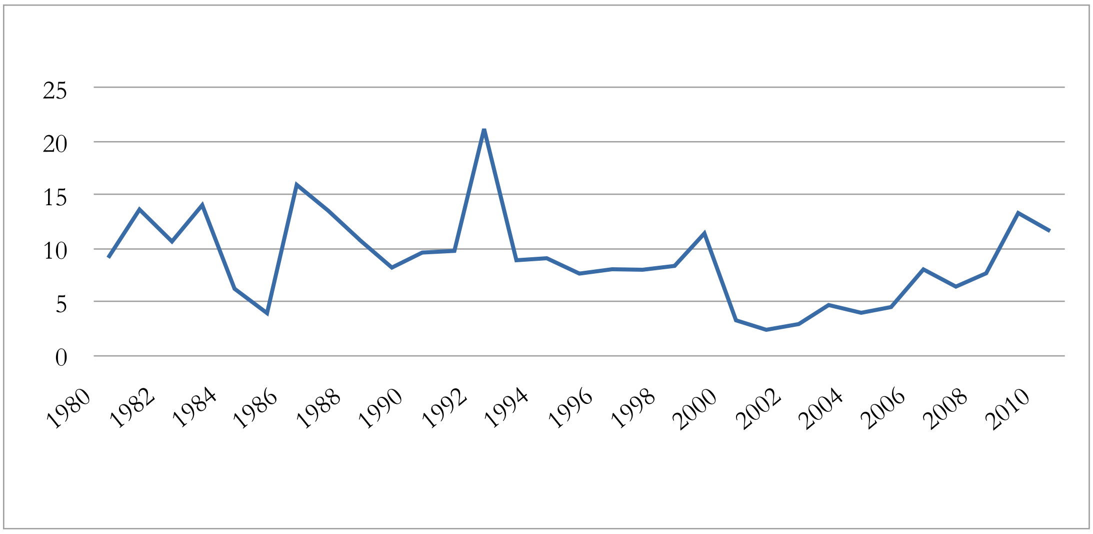
[6] National Planning Commission and UNDP: *Nepal Millennium Development Goals Progress Report 2010* (Kathmandu, National Planning Commission and UNDP, 2010).

While it is clear that significant progress in reducing poverty has been made, it is also the case that critical challenges abound. In particular, a significant number of the Nepali population are clustered around the poverty line. To illustrate, whereas 55.1% of the population lived below the US$ 1.25 a day poverty line in 2004, more than three-fourths of the population lived under the US$ 2 a day poverty line.[7] Furthermore, there is an unequal distribution of poverty in the dimensions of regions, caste/ethnicity, and occupations. Rural areas account for the vast majority of the poor, at 95 per cent. Among the various castes/ethnicities, the percentage of poor among *Dalits* was 46 per cent, 44 per cent among the Hill ethnic groups, and 41 per cent among Muslims. These ratios are in stark contrast to the 30.9 per cent national average in that year. Among those under the poverty line, 67 per cent were engaged in agro-based employment and 11 per cent were agricultural labourers. This indicates that 78 per cent of the total poor had made the agriculture sector their prime means of eking a living.

The analysis of poverty by occupations also illustrate that there is a substantial number of persons who work, yet still live in households whose members are estimated to be below the US$1.25 a day or US$2 a day poverty line, i.e. the "working poor."[8] ILO estimates indicate that in 2003/04, 50.4 per cent of those working were not earning enough to lift themselves and their families above the US$ 1.25 a day poverty line.[9] At the US$2 a day poverty line, the working poverty rate was 74.1 per cent. For the vast majority of workers in Nepal, the primary challenge is employment of poor quality, including low wages and productivity, and reducing the overall poverty rate necessitates the generation of jobs of higher quality. This is the reason "achieving full and productive employment and decent work for all, including women and young people" is a Millennium Development Goal (MDG) target under the broader goal of poverty alleviation.

Another critical challenge is rising income inequalities. The Gini coefficient, which provides a measure for income inequality, is estimated to have increased from 0.34 in 1996 to 0.46 in 2008/09. Rising inflation, driven recently from higher food prices resulting from a poor monsoon, is also a challenge, particularly as the share of food expenditure in total consumption is relatively higher among poor households (figure 3.7).

Figure 3.7: Inflation in Nepal (%)



Source: National Reserve Bank of Nepal (NRB): *Bulletin* (NRB, various years).

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7 ILO, *Key Indicators of the Labour Market* (KILM), 6th Edition.

8 For a discussion on approaches to estimating working poverty, see S. Kapsos et al.: "Micro- and macro-based approaches for estimating working poverty" (2007), paper published by the United Nations Economic and Social Commission for Asia and the Pacific, available at: http://www.unescap.org/pdd/CPR/CPR2007/English/CPR4_5E.pdf

9 ILO, op. cit.

3.5 Impacts of the global economic and jobs crisis

The global economic and jobs crisis has impacted Nepal mainly through two channels: remittances and foreign trade. As noted earlier, remittances had been growing quickly since 2002 (see figure 3.3). In 2007/2008 and 2008/09, remittances grew by more than 30 per cent compared to their previous years, but this rate of growth is estimated to have fallen sharply to 9.0 per cent in 2009/2010 (table 3.2).

In 2009/10, exports are estimated to have declined by 11.0 per cent.[10] The evidence to date also suggests that the number of tourist arrivals in Nepal has fallen in 2009/10 compared to its previous year. Imports on the other hand are estimated to have grown by 30 per cent the same fiscal year, resulting in a projected negative trade balance of around -26.4 per cent of GDP. Combined with slower growth in remittances, these developments are estimated to have led to the negative current account balance of -2.1 per cent of GDP in 2009/10.

Table 3.2: Selected balance of payments indicators

	2006/07	2007/08	2008/09	2009/10*
Current account (% of GDP)	-0.1	2.7	4.3	-2.1
Remittances (y/y per cent change)	16.0	34.9	30.9	9.0
Exports (y/y per cent change)	13.4	-4.6	0.5	-11.0
Imports (y/y per cent change)	25.8	8.4	14.1	30.0
Trade balance (% of GDP)	-19.1	-18.0	-21.5	-26.4

Note: * projection
Source: IMF: "Nepal 2010 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility" (Washington, DC, IMF, 2010).

These developments are likely to have led to adverse impacts on Nepal's labour market. Given the estimated steep contraction in exports and surge in imports in 2009/10, workers in export-orientated sectors as well as import-competing sectors are likely to have lost jobs. While recent labour market information does not exist in Nepal to adequately assess the situation, the evidence and analysis from other Asian economies which do not have unemployment insurance schemes suggest that such job losses often translates into an expansion in "vulnerable employment", rather than a rise in unemployment levels.[11] Many women and men in vulnerable employment – measured by the number of own-account and unpaid family workers – operate in the informal economy, which typically offers low-quality, unproductive and poorly remunerated employment opportunities. Moreover, many of these jobs often are not recognized or protected by law, offer little or no social protection and are typically characterized by the absence of rights at work and a lack of representation and voice in the workplace.

[10] India accounts for approximately 60 per cent of Nepal's total exports. Major exports to India include agricultural commodities (jute goods, cardamom, vegetable ghee, juice etc.), zinc sheets, thread and polyester yarn. Carpets, garments and Pashmina are the major exports to the other countries.

[11] For a discussion on the labour market impacts of the global crisis in the broader Asia and the pacific region, see P. Huynh; S. Kapsos; K.B. Kim; G. Sziraczki: "Impacts of Current Global Economic Crisis on Asia's Labor Market", Asian Development Bank Institute (ADBI) Working Paper 243 (Tokyo, ADBI, 2010). Available at: http://www.adbi.org/working-paper/2010/08/23/4044.impacts.gec.asia.labor.market/

3.6 Policy implications

- Economic development prior to the global economic and jobs crisis, as well as the crisis itself, has highlighted a number of challenges. In particular, the crisis has highlighted the need to revisit the macroeconomic policy framework. It is essential that this framework, in addition to addressing economic growth targets, inflation and sustainable public finances, ensures that growth translates into the creation of quality jobs and is inclusive. A post-crisis macroeconomic framework that fosters a more employment-rich and inclusive growth in Nepal calls for a renewed commitment to full and productive employment as a core macroeconomic policy goal. Employment outcomes could be mainstreamed in macroeconomic policy – monetary policy and fiscal policy. Furthermore industrial policy and trade policy could be better oriented towards the employment outcome (see box 3.2 for an overview of key development policies in Nepal). In this regard, "employment targets", such as the commonly used national "growth targets", that are based on reliable statistics and information and that are set as per Nepal's requirements over a specific period of time could be explored.[12]

- The ILO Global Jobs Pact, which can be adopted in accordance to the situation in Nepal, provides set of integrated policies that put employment and social protection at the centre of the recovery while strengthening the foundations for economic, social and environmental sustainability (see box 3.1).

Box 3.1: The ILO Global Jobs Pact

Faced with the prospect of a prolonged global increase in unemployment, poverty and inequality, and the continuing collapse of enterprises, the ILO in June 2009 adopted a Global Jobs Pact. It provides both a range of crisis-response measures that countries can adapt to their specific needs and situation, and measures aimed at promoting and sustaining a productive recovery centred on investments, employment and social protection. The Pact is designed to reduce the time lag between economic recovery and a recovery with decent work opportunities.

The Pact calls on governments and organizations representing workers and employers to work together to collectively undertake policies that are in line with the ILO's Decent Work Agenda. It urges governments to consider options such as public infrastructure investment, special employment programmes, broadening of social protection and minimum wages. Particularly in developing countries, such measures can reduce poverty, increase demand and contribute to economic stability. It further urges a shift to a low-carbon, environmentally-friendly economy that will help accelerate a job-rich recovery. Donor countries and multilateral agencies are called on to consider providing funding for the implementation of the Pact's recommendations and policy options.
The challenge is to translate the measures in and commitment to the Global Jobs Pact into measures at national and regional levels which generate real jobs, real incomes and contribute to a sustained recovery and development of Nepal.

Note: See Annex I for full text of the ILO Global Jobs Pact.

[12] For a discussion on employment targets in Nepal, see D. Campbell et al.: "Employment-led growth in Nepal" (Geneva, ILO 2010). For a discussion on employment targets see P. Ronnas and M. Kwong: "Deriving Targets for Productive Employment from Poverty Targets" (Geneva, ILO, 2009).

- National experiences in responding to the global economic and jobs crisis suggests that countries can better harness fiscal policies to address decent work deficits.[13] With the existing fiscal space, consideration could be given to nurturing the "automatic stabilizers" of social protection and strengthening a basic social protection floor that includes access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor.[14] Setting such a floor can be made affordable in Nepal. ILO calculations indicate that providing a set of cash benefits to all the elderly, to families with children and to poor in the working age in Nepal would cost 5.7 per cent of GDP, which could be financed from domestic sources and the international donor community.[15]

- While significant progress has been made in reducing poverty, large numbers of the population are living under the poverty line and many more are extremely vulnerable to falling into poverty. At the same time, income inequalities have been growing in Nepal. These trends suggest the need to strengthen the tax and benefit system, including its objectives and distributional impacts, while keeping in mind the need to promote investment and employment incentives.

- Taking the above policy implications together, a resulting implication is to better coordinate economic, employment and social protection policies. This will require policy coordination between the National Planning Commission, the Ministry of Labour and Transport Management, the Central Bank of Nepal, economic, financial, and sectoral ministries, the Central Bureau of Statistics and workers' and employers' organizations and strengthened capacities of these institutions for coordinated policy design, implementation and monitoring.

[13] For an analysis on lessons learned from crisis policy interventions, see ILO: *Accelerating a job-rich recovery in G20 countries: Building on experience*, ILO Report to the Meeting of G20 Labour and Employment Ministers, 20-21 April 2010, Washington, DC(Geneva, ILO, 2010).

[14] The IMF for example notes that prudent fiscal policy "has created fiscal space that could be used for much needed infrastructure, human capital, and the peace process provided spending quality is ensured." See IMF: op. cit.

[15] See ILO: "Can low-income countries afford basic social security?" ILO Social Security Policy Briefings, Paper No 3 (Geneva, ILO, 2008); and S. Mizunoya et al.: "Can Low Income Countries Afford Basic Social Protection? First Results of a Modelling Exercise for Five Asian Countries", Issues in Social Protection Discussion Paper 17 (Geneva, ILO, 2006). Available at: http://www.ilo.org/public/english/protection/secsoc/downloads/1527sp1.pdf

Box 3.2: Key development policies of Nepal and employment

National Agriculture Policy 2005

The National Agriculture Policy 2005 seeks to improve living standards of people through the development of sustainable agriculture by changing its subsistence nature into commercialized and competitive agriculture, in the context economic liberalization and Nepal's commitments in the World Trade Organization and other regional forums. The policy has three broad objectives:

To increase agriculture product and productivity;
To develop commercialized and competitive agriculture;
To conserve, promote and utilize natural resource, environment and biodiversity.

To achieve the objectives, the policy seeks to create employment opportunities through commercialization and diversification of agriculture and provide training on the establishment and operation of agricultural enterprises. A number of other policy areas, including the expanding irrigation, roads, rural electrification and development and expansion of appropriate agriculture technology; tax incentives on agriculture research and development; guarantee of agriculture credit; training for farmers; establishment of agriculture college and universities; insurance for animals and selected crops; attracting foreign investment in agriculture; establishing a Market Information System; and the guarantee of organized agriculture market seeks to support productive employment and transform agriculture into a sector with less risk and higher productivity.

Commerce Policy 2009

Nepal's commerce policy 2009, which replaced a similar policy formulated in 1992, has made "increasing employment opportunities" a priority. The policy seeks:

To increase employment opportunities for marginalized and deprived people through the promotion of commerce-related employment-oriented skill and entrepreneurship development;
To develop and promote industrial zones and special thrust areas for producing exportable items using traditional art and skill.

The commerce policy also seeks to promote employment by promoting and developing the services sector, in particular the tourism, education, health and information technology sub-sectors have been identified. Furthermore, the policy includes programmes to reduce supply side constraints in order to enhance internal and external trade that will lead to increased employment opportunities. Such programmes include tax incentives in the transportation of raw materials within the country and policies to reduce transaction costs; simplifying the tax policy; modernizing information systems, and improving the services provided in dry ports.

Industrial Policy 1992

The industrial policy provides several incentives for promoting and developing the industrial sector that have employment impacts. One of the objectives of the policy is to reduce the pressure of unemployment and underemployment in the agriculture sector through the development of labor intensive industries. To achieve this objective, major policies adopted by Government which have direct employment impacts are:

To develop industries utilizing national labour, skill and resources as well as industries having national importance;
To emphasize development of small, cottage and agro-based industries in order to create employment opportunities, particularly in rural areas.

Under the policy, if any industry provides direct employment to six hundred or more citizens throughout a year, it will be, in addition to other facilities, granted an additional income tax rebate at the rate of ten per cent for that year.

Note: See also Annex II for tax and other Incentives for the development of the industrial sector in Nepal

4

Labour market developments

The analysis labour market trends and developments, based on reliable and up-to-date information, is critical in identifying decent work gaps and in measuring progress made in the different dimensions of decent work.[16] How has Nepal's labour market developed between 1998/99 and 2008, the two periods in which labour force surveys were undertaken? What are the key policy challenges posed by the trends in employment and social conditions? This chapter addresses these questions.

4.1 Labour force

In 2008, Nepal's economically active population aged 15 and above (labour force) totaled 12.03 million people, consisting of 6.39 million women and 5.65 million men. The higher number of women in the labour force compared to men is partly a reflection of migration abroad, which is predominantly undertaken by men (see section 4.6).

The overall labour force participation rate showed a small decline between 1998/99 and 2008, declining from 85.8 per cent to 83.4 per cent respectively (table 4.1). The labour force participation rate for men, at 87.5 per cent in 2008 continues to be significantly higher than that of women, at 80.1 per cent. On the other hand, the labour force participation rate of youth (aged 15-24) showed a marked declining trend between 1998/99 and 2008, falling from 81.5 per cent to 75.5 per cent respectively. Rural areas continued to show higher labour force participation rates and these areas did not experience much change in the rates between 1998/99 and 2008. This was in contrast to urban areas, where the labour force participation rate decreased by six percentage points between the same periods. Examining geographical areas, the labour force participation rate remained relatively stable in all areas between 1998/99 and 2008, except in the Hill belt and the Central development region. The labour force participation rate in the Hill belt fell from 87.9 per cent in 1998/99 to 83.4 per cent in 2008, and in the Central development region, the rate decreased from 83.4 per cent in 1998/99 to 77.6 per cent in 2008.

The declining labour force participation for youth and in urban, Hill belt and the Central development region is partly a reflection of increased participation in education in these areas (see table 4.2). The share of the population aged 15 and above who have never attended school fell from 60.3 per cent in 199899 to 46.7 per cent in 2008, while the share of the working-age population who have completed secondary or higher level education more than doubled between the same periods, rising from 8.8 per cent in 1998/99 to 20.1 per cent in 2008. While educational levels in urban areas improved during the period, only 15.2 per cent of the rural working-age-population have completed secondary education or higher, compared to 44.0 per cent in urban areas. There has also been a considerable increase in the proportion of people having not only formal education but also the vocational training during the periods of 1998/99 and 2008. Only around 400 thousand people had received vocational training in 1998/99, representing three per cent of population aged 15 years and above, but this number increased to 1.03 million in 2008, which represents seven per cent of the working-age population.

[16] This section draws from "Report on the Nepal Labour Force Survey 2008: Statistical Report" a joint initiative of the National Planning Commission, the Central Bureau of Statistics, ILO and UNDP.

Table 4.1: Labour force participation rate (%)

	1998/99	2008
Labour force participation rate (ages 15+)	85.8	83.4
Men	90.1	87.5
Women	81.9	80.1
Urban	73.3	67.3
Rural	87.7	86.8
Mountain	91.7	90.1
Hill	87.9	83.4
Terai	82.9	82.5
Eastern development region	84.4	85.3
Central development region	83.4	77.6
Western development region	87.0	86.3
Mid-Western development region	89.9	87.7
Far-western development region	89.7	88.9
Youth labour force participation rate (ages 15-24)	81.5	75.5
Male	83.1	75.6
Female	80.1	75.4

Source: Nepal Labour Force Survey 1998/99 and 2008.

Table 4.2: Education status of population aged 15 years and above in Nepal (%)

	1998/99	2008
Population (ages 15+) who never attended school	60.3	46.7
Population (ages 15+) who have completed secondary or higher level education	8.8	20.1
Urban	26.3	44.0
Rural	6.4	15.2
Number of people (ages 15+) who have received vocational training (in millions)	0.40	1.03

Source: Nepal Labour Force Survey 1998/99 and 2008.

4.2 Employment situation

The total number of employed persons increased from 9.46 million in 1998/99 to 11.78 million in 2008 (table 4.3). While total employment increased, the employment-to-population ratio declined between these two periods, from 84.3 per cent in 1998/99 to 81.7 per cent in 2008, reflecting in part higher participation in education. In 2008, more than 81 per cent of Nepali workers were in vulnerable employment - defined as the share own account workers and contributing family workers in total employment – although this represented a slight decrease from the rate in 1998/98 (84.3 per cent).[17]

[17] The employment-to-popultation ratio and vulnerable employment (in addition to working poverty and labour productivity) are MDG indicators used to monitor progress towards MDG target 1B of "achieving full and productive employment and decent work for all, including women and young people."

The share of paid employees in total employment increased by less than one percentage point between 1998/99 and 2008. In 2008, men accounted for 73.9 per cent of those in paid employment, with women accounting for a relatively meager 26.2 per cent. Even many of the paid employees are not working under formal conditions, with paid annual leave or where the employer provides social security contributions for the worker. In all, 96.2 per cent of those employed were in informal employment.[18] Less than 1.5 per cent of employed Nepalese women had formal jobs.

Table 4.3: Trends in key employment indicators

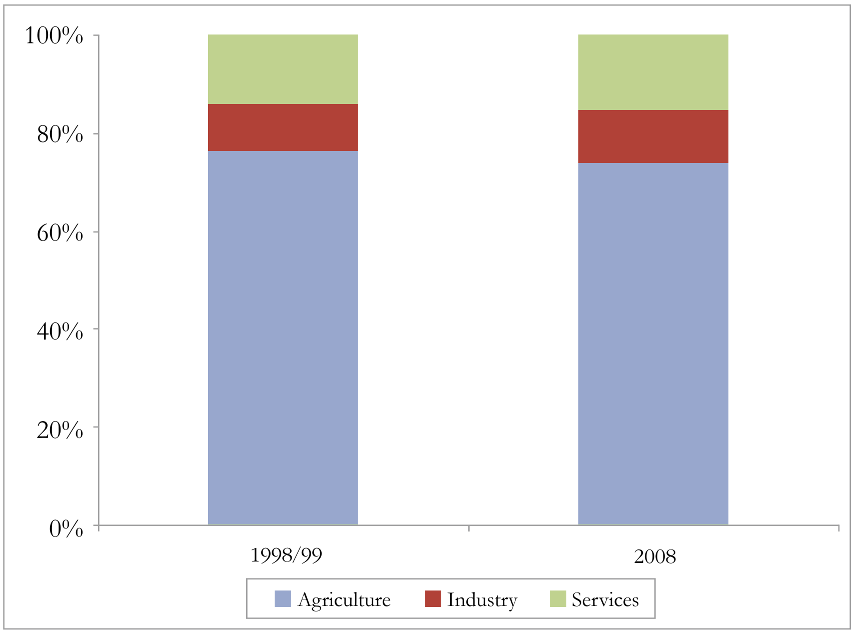
	1998/99	2008
Total number of employed (ages 15+) (thousands)	9,463	11,779
Male	4,736	5,519
Female	4,727	6,259
Employment-to-population ratio (ages 15+) (per cent)	84.3	81.7
Male	88.3	85.5
Female	80.5	78.5
Share of vulnerable employment in total employment (per cent)	83.1	81.9
Male	74.4	71.4
Female	92.0	91.2
Paid employees as percentage of total employment (per cent)	16.0	16.9
Male share of paid employees	76.0	73.9
Female share of paid employees	24.1	26.2
Informal employment (thousands)	n.a.	11,332
Male	n.a.	5,163
Female	n.a.	6,169
Share of informal employment in total employment (per cent)	n.a.	96.2
Male	n.a.	93.5
Female	n.a.	98.6

Source: Nepal Labour Force Survey 1998/99 and 2008.

As noted in Section 3.2, Nepal's economy experienced has experienced structural transformation between 1999 and 2009, with services overtaking agriculture to account for the largest share of GDP. Such a structural shift in output in Nepal however has not translated into employment shifts (see figure 4.1). In 2008, 8.7 million people were working in agriculture, accounting for 73.9 per cent of total employment. This ratio was 76.1 per cent in 1998/99. The industry and services sector accounted for 10.8 and 15.3 per cent of employment respectively in 2008. The differences in the contribution of the agricultural sector to output and employment underscore substantial productivity differences between the agricultural sector and the other sectors. That is, if the agricultural sector were as productive as the other sectors, their contribution to GDP would approximate the shares in employment.

[18] Informal employment includes own-account workers without employees, employers in the informal sector, contributing family workers and employees not having paid annual leave or where the employer does not pay social security contributions for the worker and follows the ILO Guidelines concerning a statistical definition of informal employment, ILO 2003.

Figure 4.1: Distribution of employment by sector, 1998/99 and 2008 (%)



Source: Nepal Labour Force Survey 1998/99 and 2008.

4.3 Unemployment and labour underutilization

The unemployment rate in Nepal has not shown a significant change between 1998/99 and 2008, and stood at 2.1 per cent in 2008 (table 4.4). The low unemployment level in Nepal is a reflection that in the absence of well-developed social protection schemes, most people in Nepal simply cannot afford to be unemployed and instead are engaged in any work that becomes available in order to support themselves and their families. While there were not significant gender gaps in unemployment rates, the urban unemployment rate continues to be significantly higher than the rural unemployment rate, a reflection of migration of jobseekers into urban areas in search of jobs.

While the overall unemployment rate remains low, youth unemployment remains a challenge in Nepal. Young people aged 15 to 24 are approximately 2.2 times more likely as adults to be without work. In particular, unemployment for urban youth is acute and the situation has changed for the worse in the past decade. In 2008, the youth unemployment rate in urban areas stood at 13.0 per cent, having nearly doubled from 7.6 per cent in 1998/99.

There are a number of factors behind rising urban youth unemployment. Typically, young women and men are more mobile than adults and migrate to urban areas in search of jobs. Unemployment among urban youth also reflects the reservations regarding jobs and wages – they are more likely than the less educated (typically from rural areas) to search and queue for "good" jobs, as well as reject job opportunities perceived to be inadequate according to social or cultural norms.[19] As a consequence, the well-educated from wealthier families, who often reside in urban areas, are over-represented in unemployment numbers as it is only these relatively advantaged youth who can afford to wait for a good job.

[19] ILO: Labour and Social Trends in ASEAN 2007: Integration, Challenges and Opportunities (Bangkok, 2007).

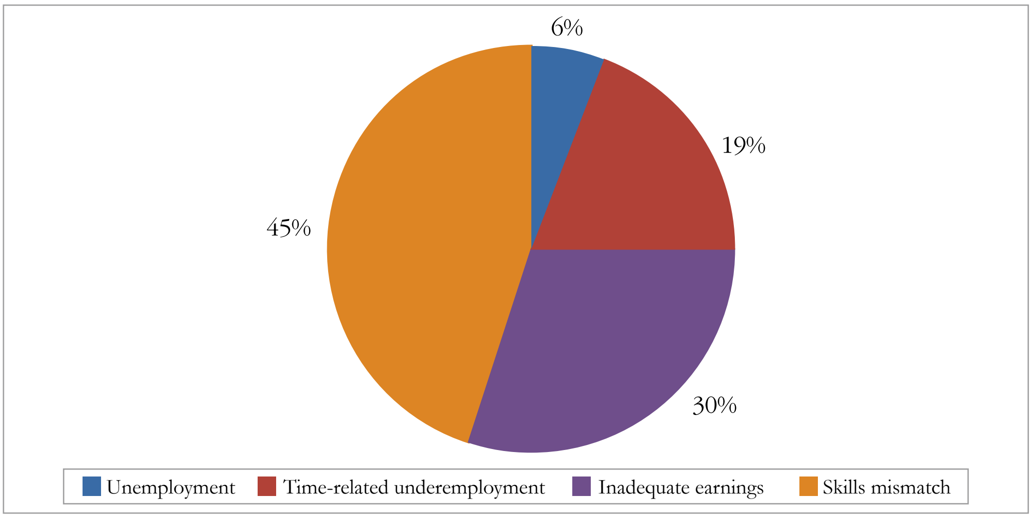
Table 4.4: Trends in key unemployment and underemployment indicators

	1998/99	2008
Number of unemployed (ages 15+) (thousands)	178	253
Male	98	127
Female	80	126
Urban	77	125
Rural	101	128
Unemployment rate (ages 15+) (per cent)	1.8	2.1
Male	2.0	2.2
Female	1.7	2.0
Urban	7.4	7.5
Rural	1.2	1.2
Youth Unemployment rate (ages 15-24) (per cent)	2.4	3.5
Male	3.3	4.2
Female	1.7	2.9
Urban	7.6	13.0
Rural	1.6	2.1
Time-related underemployment (per cent)	4.1	6.7

Source: Nepal Labour Force Survey 2008

While youth unemployment is a key challenge for Nepal, in relation to adults, the challenge is not of unemployment but rather the lack of decent and productive work, which results in various forms of labour underutilization. In this regard, 30 per cent of Nepal's labour force are estimated to be underutilized, that is, either unemployed, working less than 40 hours a week while wanting to work more but unable to do so for involuntary reasons, or working but where skills are mismatched. As depicted in Figure 4.2, unemployment accounts for only 6 per cent of labour underutilization, with skills mismatch accounting for 45 per cent, inadequate earnings for 30 per cent, and time-related underemployment for 19 per cent.

Figure 4.2: Components of labour underutilization (% of total labour underutilization)



Source: Nepal Labour Force Survey 2008.

4.4 Working time and earnings

According to the 2008 Nepal Labour Force Survey, 68.2 per cent of employed Nepali persons worked 40 hours and more (table 4.5). The corresponding rate for those working between 20 and 39 hours was 19.9 per cent whereas 11.2 per cent of the employed worked between 1 and 19 hours. Among those working less than 40 hours in the reference week, the percentage of people who did not work more hours due to involuntary reasons increased from 15.4 per cent to 21.1 per cent in between 1998/99 and 2008, whereas the share of those who did not work more hours for voluntary reasons decreased from 83.3 per cent to 78.9 per cent during the same period.

Table 4.5: Working time and wages

	1998/99	2008
Average hours per week in the main job (15 years and more)	39.4	38.7
Male	42.6	43.1
Female	36.6	34.8
Percentage of employed individuals aged 15 years and above by hours worked:		
0 hours	2.0	0.6
1-19 hours	8.1	11.2
20-39 hours	17.3	19.9
40 hours and above	72.6	68.2
Average monthly earnings (Rupees) cash and kind combined) of paid employees (15 years and more)	2,143	5,117
Male	2,389	5,721
Female	1,368	3,402

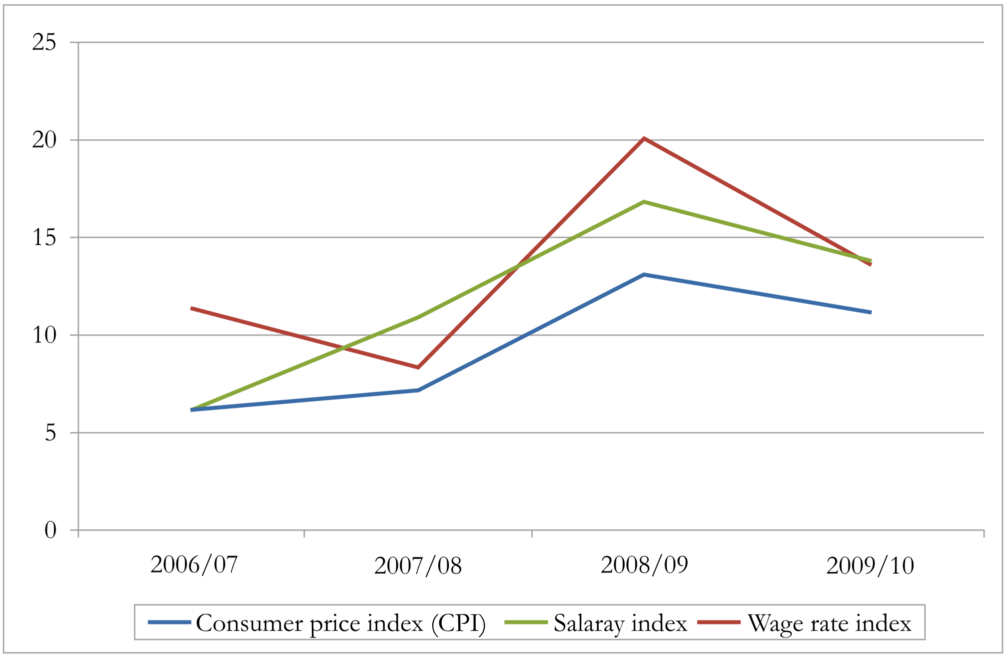
Source: Nepal Labour Force Survey 2008.

Average nominal monthly earnings increased between 1998/99 and 2008, rising from 2,143 rupees to 5,117 rupees. Significant gender discrepancies continue to exist. In 2008, women's average monthly earnings were 59.5 per cent of that of males, although this ratio had increased from 1998/99.[20]

Examining real wages, available data suggests that real wages have risen between 2006/07 and 2009/10 (figure 4.3). Between these periods, the consumer price index (CPI) rose by an annual average rate of 9.4 per cent, whereas the salary index rose by 11.9 per cent and the wage index rose 13.4 per cent.

[20] The gender discrepancy in monthly earnings can arise partly from differences in hours of worked between women and men.

Figure 4.3: Annual percentage change in CPI, salary index and wage index (%)



Source: Ministry of Finance: *Economic Survey 2009/2010*.

4.5 Labour productivity

In the long-run, labour productivity is the primary determinant of economic growth and sustainable increases in living standards. Between 1999 and 2008, available evidence indicates that GDP per worker grew by an annual average rate of 0.56 per cent (table 4.6). Output per workers in mining and quarrying, manufacturing, wholesale and retail trade, hotels and restaurants, real estate and renting and social work declined between 1999 and 2008, whereas it increased relatively strongly in construction, utilities and financial intermediation.

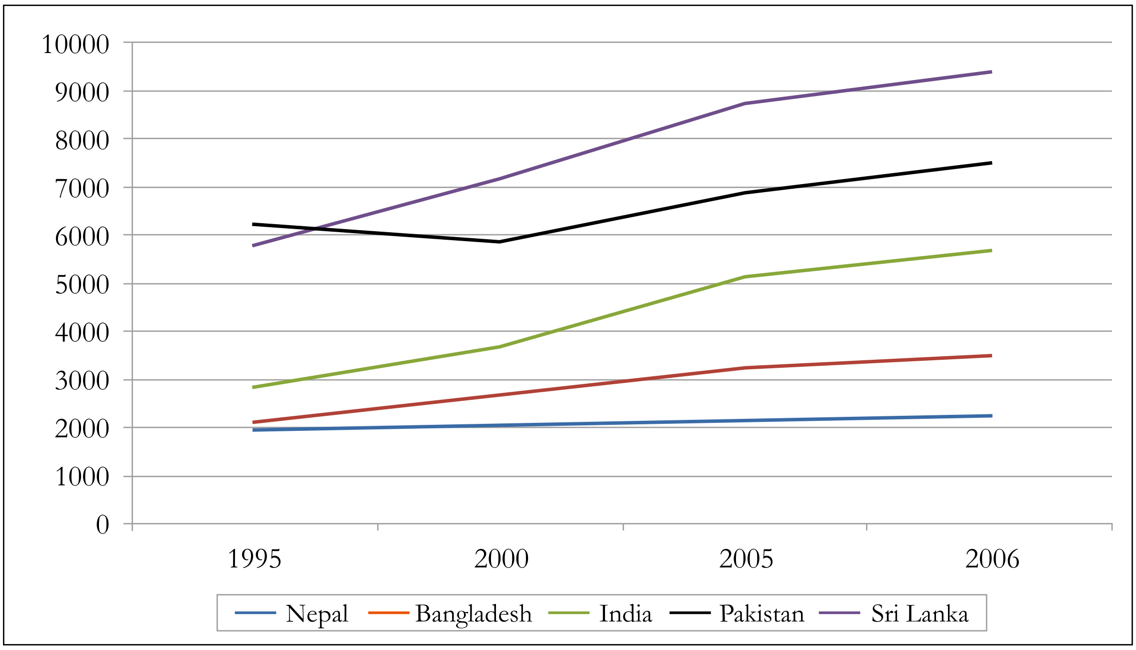
Table 4.6: GDP per worker, average annual growth (%)

	Average annual GROWTH in GDP PER WORKER 1999-2008 (%)
Total	0.56
Agriculture	0.72
Mining and quarrying	-5.90
Construction	2.25
Electricity, gas, water supply	3.33
Manufacturing	-2.59
Wholesale and retail trade	-3.88
Hotels and restaurants	-3.54
Real estate, renting	-4.25
Public administration	1.66
Transport and storage	1.00
Financial intermediation	3.46
Education	1.45
Health and social work	-1.19

Source: D. Campbell et al.: "Employment-led growth in Nepal" (ILO, 2010). Available at: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_144425.pdf

Figure 4.4 provides a picture of national labour productivity trends in Nepal and other South Asian countries. There is a considerable gap between the level of productivity in Nepal and other South Asian countries. For example, in 2006, Nepal's productivity level was only one fourth of that in Sri Lanka. More significantly, average annual productivity growth has increased in Bangladesh, India, Pakistan and Sri Lanka between 1995 and 2006, whereas it has stagnated in Nepal.

Figure 4.4: GDP per worker, selected South Asian countries (current US$)



Source: APO: APO Productivity Databook 2009 (Tokyo, APO, 2009).

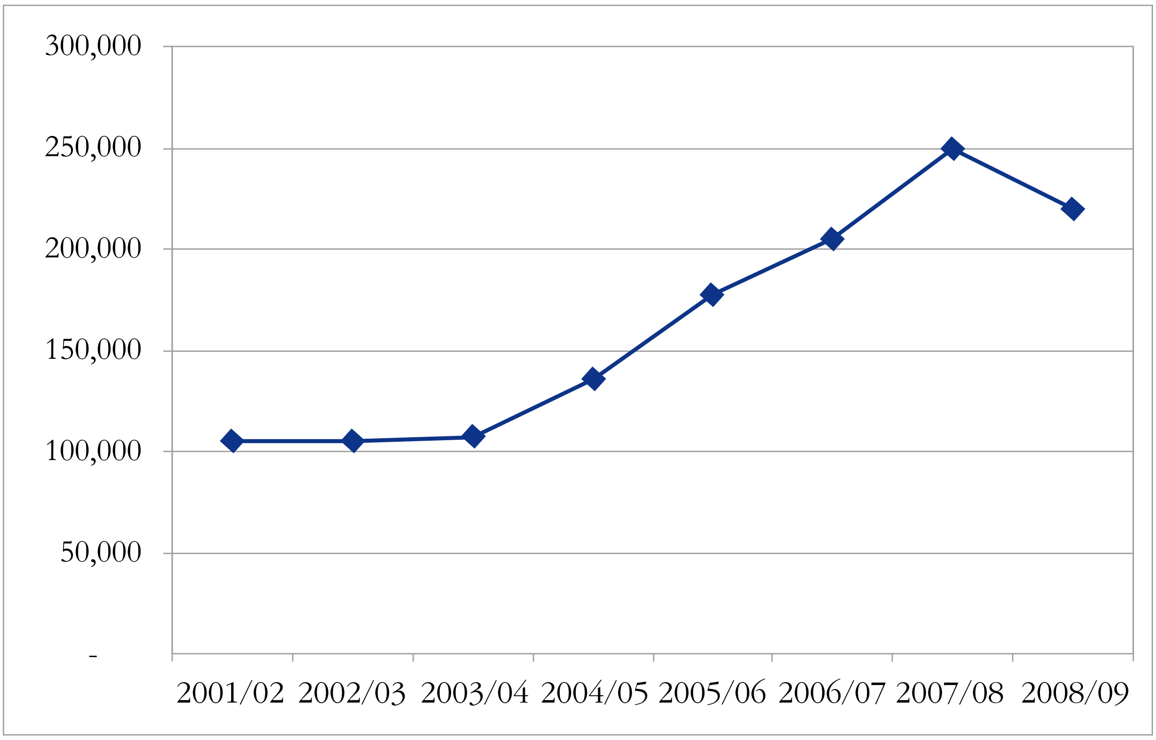
4.6 International migration

The 2008 Nepal Labour Force Survey indicates that 29.1 per cent of households had at lease one household member living abroad. The Survey also revealed that 23.0 per cent of households received remittances from abroad, principally from India, Qatar, Malaysia and Saudi Arabia. In 2009, more than 2 million Nepalis were estimated to be working abroad (including in India).[21] Data from the Ministry of Foreign Employment indicate that in the recent years, more than 200,000 Nepails have left every year for work overseas (excluding India), with the vast majority of migrants being male (96 per cent in 2008/09) (figure 4.5) . This was a double the average number of people who were leaving for work in the early 2000s and has translated in a surge in remittances as outlined in chapter 2. Furthermore, a number of undocumented migrants leave each year for work overseas. The available evidence suggests that the majority of overseas workers are employed in low-skilled occupations such as domestic service (drivers and security guards among others).[22]

[21] NIDS: Nepal Migration Year Book 2009 (Nepal Institute of Development Studies, Kathmandu, 2010).

[22] See NIDS: A Study on Foreign Employment in Nepal with Particular Emphasis on Skill Requirements.(2004) and Mr. G. Gurung: "An Overiew Paper on Overseas Employment in Nepal" (Kathmandu, ILO, 2004).

Figure 4.5: Labour migration outflows from Nepal (excluding to India)



Source: Ministry of Finance: *Economic Survey 2009/2010*.

4.7 Child Labour

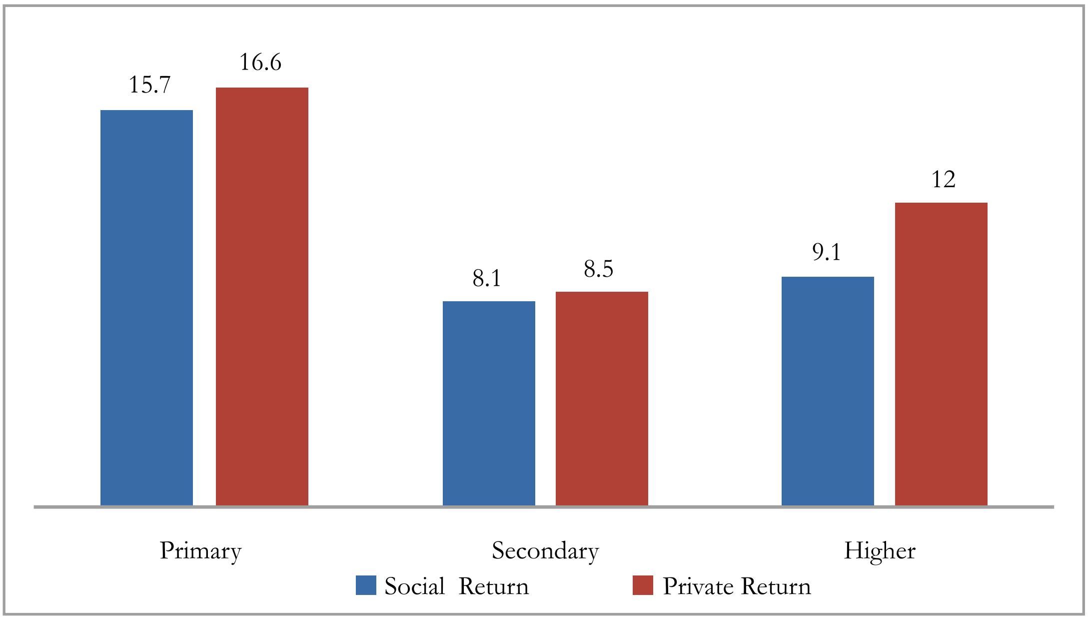
Child labour, including its worst forms, remains a critical challenge in Nepal. According to the 2008 Nepal Labour Force Survey, there were 2.1 million children (ages 5 to 14) who were economically active in Nepal out of the total child population of 6.2 million. The vast majority of children were working in agriculture and more girls than boys are working.

In addition to building a social protection floor and promoting decent and productive employment opportunities for parents, improving the quantity and quality of basic education is critical in the fight against child labour. While Nepal has made considerable progress in enhancing access to education, many children do not remain long enough in the school system to acquire basic skills. The survival to the last grade in primary school was only 62 per cent in 2007.[23] Ensuring completion of basic education, for both boys and girls, is all the important as the returns to primary education are relatively high.[24] Further efforts will also be required in the application of the Child Labor (Prohibition and Regularization) Act and regulations, adopted in 2006 to prevent worst forms of child labour.

[23] UNESCO Institute of Statistics, accessed October 2010.

[24] For barriers faced by girls in education in Nepal, see Bist, Min (2004).*Review of Research Literature on Girl's Education in Nepal.*UNESCO Kathmandu Series of Monograph and Working Paper 03.

Figure 4.6: Returns to Education in Nepal



Source: D. Parajuli: "External efficiency and equity in Nepalese education," Mimeo (World Bank, 1999), cited in ADB, DFID, ILO: op. cit.

4.8 Social protection

Nepal has made considerable progress in establishing components of a basic social protection floor. An old-age pension scheme is in place for all the elderly aged above 70 and senior citizens of the Dalit community and the Karnali zone aged above 60 receive a monthly allowance of 500 rupees (table 4.7). Allowances are also being provided to single women, indigenous peoples at risk of extinction and the disabled. Furthermore, progress in being made to provide a child grant to children under the age of five in a number of districts. The Karnali "One Family, One Employment" programme seeks to provide employment opportunities for poor households in the country's Karnali zone. The challenge going forward is to strengthen the existing schemes and to extend their coverage while also gradually building the other elements of the basic social protection floor.

Table 4.7: Social security components

Target group	No. of beneficiaries	Monthly allowance (rupees)
Senior citizens, aged above 70	545,556	500
Senior citizens, *Dalits* aged above 60	81,820	500
Senior citizens, Karnali zone aged above 60	16,085	500
Single women	296,221	500
Indigenous peoples at risk of extinction	16,470	500
Disabled, completely	15,073	1,000
Disabled, partially	6,875	300

Source: Ministry of Finance: *Economic Survey 2009/2010*.

4.9 Social dialogue and tripartism

The industrial relations climate remains challenging in Nepal and the number of strikes, lockouts and blockages (*banghs*) have been widespread since 2006. The poor industrial relations climate is seen as a significant constraint to increased investment and faster growth in Nepal.[25] It is clear that effective mechanisms for dialogue, organization and voice, based on the fundamental principles and rights at work, are required to foster cooperation and contribute to an enabling environment for domestic and foreign investment. To transform the transform the current hostile industrial relations environment into a more productive and harmonious climate, a comprehensive study on labour market governance in Nepal identified key institutional reforms required:[26]

- The upgrading of mechanisms for monitoring the implementation of labour legislation and collective agreements;
- Supplementing the public labour inspection system by giving greater authority to trade unions so that they can monitor compliance with labour laws and bring complaints to the Labour Court;
- The separation of functions of the Labour Office, which is responsible for labour inspection, on mediation, conciliation or arbitration services;
- More efficient and timely recourse to justice through the Labour Court, in the event of persistent noncompliance of the labour laws;
- Strengthening the status and support available to the Ministry of Labour and Transport Management in the fields of labour administration and labour management.

4.10 Policy implications

- The critical challenge in Nepal is enhancing the quality of jobs, including for youth, women and marginalized groups The vast majority of Nepal's workforce are engaged in unproductive and poorly remunerated jobs, typically in the informal economy, without legal or social protection and often without representation or a voice in the workplace. Such work often entraps Nepalis in a cycle of working poverty. Increasing the quality of jobs will require as a starting point an enabling environment, including rule of law, secure property rights and respect for fundamental principles and rights at work. It will also require a set of effective labour market policies, working in a coordinated manner with macroeconomic and social protection policies as outlined in Chapter 2.

- Improving the quality of jobs in Nepal will depend on higher labour productivity growth, which measured as output per worker, has stagnated in the past decade. A coherent strategy will be required to significantly raise levels of productivity. One key driver in this regard is to facilitate structural employment shifts. This will require boosting investment in agricultural productivity, including through improved rural infrastructure and rural-urban linkages and support to micro- and small- sized enterprises, while at the same time stimulating investment in industries with high potential for economic growth and employment generation with a view to absorbing the surplus agricultural labour.

[25] See B. Kyloh: *From Conflict to Cooperation: Labolur market reforms that can work in Nepal* (ILO and Academic Foundation, 2008) and ADB, DFID, ILO: op cit.
[26] B. Kyloh: op. cit.

- Facilitating structural employment shifts will also require enhancing the skills of the workforce. Building on the considerable progress made in the past decade in the provision of education, a renewed focus on improving the quantity and quality of basic education will be essential. This can nurture a virtuous cycle of mobility, investment, economic diversification and more productive jobs. Combined with measures aimed at strengthening the social protection floor and promoting decent and productive employment opportunities for parents, improving the quantity and quality of basic education is key in tackling the challenge of 2.1 million Nepali working girls and boys. Further investment in the strengthening the vocational education and training system, including through the effective implementation of the Technical Education and Vocational Training (TEVT) Skill Development Policy adopted in 2007 can also play a critical role in facilitating structural employment shifts.

- Timely and accurate data collection and analysis are also key in facilitating structural shifts, including for tracking employment trends in industries with high growth potential and identifying the current and future skills being demanded. Further efforts are required in a more regular collection of labour statistics and the in the analysis of labour market information to shape appropriate policies.

- Improvements in workplace conditions, including occupational safety and health standards, are also important to productivity. This is as relevant in the formal economy as in the informal economy. Simple, locally-available and low-cost solutions such as good housekeeping, good lighting, improved workstations for better work posture, machine guards, safer handling of hazardous substances, and basic welfare needs such as safe drinking water and sanitary toilets can play an important role in enhancing the productivity of workers in the informal economy.[27]

- The rapid increase in the number of overseas migrant workers has resulted in large inflows of remittances, which are used for investments in education and health as well as consumption, Nonetheless, labour migration is likely also to raise a number of challenges, including brain drain, risk dependency, reintegration into productive work upon return and the abuse of migrant workers. The ILO's Multilateral Framework for Migration provides non-binding principles for a rights-based approach to labour migration for the Government to work with other countries to ensure that migration is beneficial for both Nepal and receiving countries.[28]

- Nepal has made considerable progress in establishing components of a basic social protection floor, including an old-age pension scheme and benefits for the disabled and working poor. Going forward, the challenge will be to strengthen the existing schemes and to extend their coverage while over the medium-term, build the elements of a contributory social security schemes.[29] Public works programmes can provide basic income support with infrastructure development and consideration could be given to an employment guarantee scheme.

- Ultimately, seizing the opportunities in Nepal and addressing the labour and social challenges highlighted in this report will depend on harmonious industrial relations based on social dialogue and triapartism. Effective mechanisms for dialogue, organization and voice, based on fundamental principles and rights at work are critical in the identification of partnerships required to seize the opportunities of Nepal's development, while also finding negotiated and sustainable solutions to the challenges.

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[27] See T. Kawakami et al.: *Developing the WIND training programme in Asia: Participatory approaches to improving safety, health and working conditions of farmers* (Bangkok, ILO, 2009).

[28] For further information on the ILO Multilateral Framework on Migration, see http://www.ilo.org/public/libdoc/ilo/2006/106B09_343_engl.pdf

[29] Recognizing the necessity of ensuring universal social protection, the United Nations System of Chieft Executives Board for Coorination (UNCEB) adopted the Social Protection Floor initiative in 2009. For further details, see http://www.ilo.org/public/english/protection/spfag/download/background/spfibrochure-en.pdf

Annex I

Recovering from the crisis: A Global Jobs Pact[30]

The General Conference of the International Labour Organization,

Having heard the Heads of State, Vice-Presidents, Prime Ministers and all other participants in the ILO Summit on the Global Jobs Crisis,

Having received the proposal made by the Conference Committee of the Whole on Crisis Reponses,

Considering the important role that the Governing Body and the International Labour Office have in the implementation of resolutions adopted by the Conference,

Having in mind the Decent Work Agenda and the Declaration on Social Justice for a Fair Globalization as ways of dealing with the social dimension of globalization,

adopts, this nineteenth day of June of the year two thousand and nine, the following resolution.

I. A decent work response to the crisis

1. The global economic crisis and its aftermath mean the world faces the prospect of a prolonged increase in unemployment, deepening poverty and inequality. Employment has usually only recovered several years after economic recovery. In some countries, the simple recovery of previous employment levels will not be enough to contribute effectively to strong economies, and to achieve decent work for women and men.
2. Enterprises and employment are being lost. Addressing this situation must be part of any comprehensive response.
3. The world must do better.
4. There is a need for coordinated global policy options in order to strengthen national and international efforts centred around jobs, sustainable enterprises, quality public services, protecting people whilst safeguarding rights and promoting voice and participation.
5. This will contribute to economic revitalization, fair globalization, prosperity and social justice.
6. The world should look different after the crisis.
7. Our response should contribute to a fair globalization, a greener economy and development that more effectively creates jobs and sustainable enterprises, respects workers' rights, promotes gender equality, protects vulnerable people, assists countries in the provision of quality public services and enables countries to achieve the Millennium Development Goals.
8. Governments and workers' and employers' organizations commit to work together to contribute to the success of the Global Jobs Pact. The International Labour Organization's (ILO's) Decent Work Agenda forms the framework for this response.

II. Principles for promoting recovery and development

9. Action must be guided by the Decent Work Agenda and commitments made by the ILO and its constituents in the 2008 Declaration on Social Justice for a Fair Globalization. We set out here a framework for the period ahead and a resource of practical policies for the multilateral system, governments, workers and employers. It ensures linkages between social progress and economic development and involves the following principles:

   (1) devoting priority attention to protecting and growing employment through sustainable enterprises, quality public services and building adequate social protection for all as part of ongoing international and national action to aid recovery and development. The measures should be implemented quickly in a coordinated manner;

   (2) enhancing support to vulnerable women and men hit hard by the crisis including youth at risk, low-wage, low-skilled, informal economy and migrant workers;

   (3) focusing on measures to maintain employment and facilitate transitions from one job to another as well as to support access to the labour market for those without a job;

   (4) establishing or strengthening effective public employment services and other labour market institutions;

   (5) increasing equal access and opportunities for skills development, quality training and education to prepare for recovery;

[30] Adopted by the International Labour Conference at its 98th Session, Geneva, 19 June 2009.

(6) avoiding protectionist solutions as well as the damaging consequences of deflationary wage spirals and worsening working conditions;

(7) promoting core labour standards and other international labour standards that support the economic and jobs recovery and reduce gender inequality;

(8) engaging in social dialogue, such as tripartism and collective bargaining between employers and workers as constructive processes to maximize the impact of crisis responses to the needs of the real economy;

(9) ensuring that short-term actions are coherent with economic, social and environmental sustainability;

(10) ensuring synergies between the State and the market and effective and efficient regulation of market economies including a legal and regulatory environment which enables enterprise creation, sustainable enterprises and promotes employment generation across sectors; and

(11) the ILO, engaging with other international agencies, international financial institutions and developed countries to strengthen policy coherence and to deepen development assistance and support for least developed, developing and transition countries with restricted fiscal and policy space to respond to the crisis.

III. Decent work responses

10. The above principles set the general framework within which each country can formulate a policy package specific to its situation and priorities. They equally should inform and support action by the multilateral institutions. Set out below are some specific policy options.

Accelerating employment creation, job recovery and sustaining enterprises

11. To limit the risk of long-term unemployment and increased informality which are difficult to reverse, we need to support job creation and help people into work. To achieve this, we agree to put the aim of full and productive employment and decent work at the heart of the crisis responses. These responses may include:

(1) boosting effective demand and helping maintain wage levels including via macroeconomic stimulus packages;

(2) helping jobseekers by:

(i) implementing effective, properly targeted active labour market policies;

(ii) enhancing the competence and increasing resources available to public employment services so that jobseekers receive adequate support and, where they are working with private employment agencies, ensuring that quality services are provided and rights respected; and

(iii) implementing vocational and entrepreneurial skills programmes for paid and self-employment;

(3) investing in workers' skills development, skills upgrading and re-skilling to improve employability, in particular for those having lost or at risk of losing their job and vulnerable groups;

(4) limiting or avoiding job losses and supporting enterprises in retaining their workforce through well-designed schemes implemented through social dialogue and collective bargaining. These could include work-sharing and partial unemployment benefits;

(5) supporting job creation across sectors of the economy, recognizing the multiplier effect of targeted efforts;

(6) recognizing the contribution of small and medium-sized enterprises (SMEs) and micro-enterprises to job creation, and promoting measures, including access to affordable credit, that would ensure a favourable environment for their development;

(7) recognizing that cooperatives provide jobs in our communities from very small businesses to large multinationals and tailoring support for them according to their needs;

(8) using public employment guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes which are well targeted, and include the informal economy;

(9) implementing a supportive regulatory environment conducive to job creation through sustainable enterprise creation and development; and

(10) increasing investment in infrastructure, research and development, public services and "green" production and services as important tools for creating jobs and stimulating sustained economic activity.

Building social protection systems and protecting people

12. Sustainable social protection systems to assist the vulnerable can prevent increased poverty, address social hardship, while also helping to stabilize the economy and maintain and promote employability. In developing countries, social protection systems can also alleviate poverty and contribute to national economic and social development. In a crisis situation, short-term measures to assist the most vulnerable may be appropriate.

    (1) Countries should give consideration, as appropriate, to the following:

    (i) introducing cash transfer schemes for the poor to meet their immediate needs and to alleviate poverty;

    (ii) building adequate social protection for all, drawing on a basic social protection floor including: access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor;

    (iii) extending the duration and coverage of unemployment benefits (hand in hand with relevant measures to create adequate work incentives recognizing the current realities of national labour markets);

    (iv) ensuring that the long-term unemployed stay connected to the labour market through, for example, skills development for employability;

    (v) providing minimum benefit guarantees in countries where pension or health funds may no longer be adequately funded to ensure workers are adequately protected and considering how to better protect workers' savings in future scheme design; and

    (vi) providing adequate coverage for temporary and non-regular workers.

    (2) All countries should, through a combination of income support, skills development and enforcement of rights to equality and non-discrimination, help vulnerable groups most hard hit by the crisis.

    (3) In order to avoid deflationary wage spirals, the following options should be a guide:
    – social dialogue;
    – collective bargaining;
    – statutory or negotiated minimum wages.

    Minimum wages should be regularly reviewed and adapted. Governments as employers and procurers should respect and promote negotiated wage rates. Narrowing the gender pay gap must be an integrated part of these efforts.

13. Countries that have strong and efficiently run social protection systems have a valuable inbuilt mechanism to stabilize their economies and address the social impact of the crisis. These countries may need to reinforce existing social protection systems. For other countries, the priority is to meet urgent needs, while building the foundation for stronger and more effective systems.

Strengthening respect for international labour standards

14. International labour standards create a basis for and support rights at work and contribute to building a culture of social dialogue particularly useful in times of crisis. In order to prevent a downward spiral in labour conditions and build the recovery, it is especially important to recognize that:

    (1) Respect for fundamental principles and rights at work is critical for human dignity. It is also critical for recovery and development. Consequently, it is necessary to increase:

    (i) vigilance to achieve the elimination and prevention of an increase in forms of forced labour, child labour and discrimination at work; and

    (ii) respect for freedom of association, the right to organize and the effective recognition of the right to collective bargaining as enabling mechanisms to productive social dialogue in times of increased social tension, in both the formal and informal economies.

    (2) A number of international labour Conventions and Recommendations, in addition to the fundamental Conventions, are relevant. These include ILO instruments concerning employment policy, wages, social security, the employment relationship, the termination of employment, labour administration and inspection, migrant workers, labour conditions on public contracts, occupational safety and health, working hours and social dialogue mechanisms.

    (3) The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy is an important and useful tool for all enterprises, including those in supply chains, for responding to the crisis in a socially responsible manner.

15. Especially in times of heightened social tension, strengthened respect for, and use of, mechanisms of social dialogue, including collective bargaining, where appropriate at all levels, is vital.

16. Social dialogue is an invaluable mechanism for the design of policies to fit national priorities. Furthermore, it is a strong basis for building the commitment of employers and workers to the joint action with governments needed to overcome the crisis and for a sustainable recovery. Successfully concluded, it inspires confidence in the results achieved.

17. Strengthening capacities for labour administration and labour inspection is an important element in inclusive action on worker protection, social security, labour market policies and social dialogue.

IV. The way forward: Shaping a fair and sustainable globalization

18. The above agenda closely interacts with other dimensions of globalization and requires policy coherence and international coordination. The ILO should collaborate fully with the United Nations and all relevant international organizations.

19. The ILO welcomes the G20 invitation to the ILO, working with other relevant organizations, to assess the actions taken and those required for the future.

20. We affirm our support to the ILO's role within the UN Chief Executives Board (CEB), which can help to create a favourable international environment for the mitigation of the crisis. We encourage the ILO to play a facilitating role to ensure effective and coherent implementation of social and economic policies in this respect.

21. Cooperation is particularly important on the following issues:

    (1) building a stronger, more globally consistent, supervisory and regulatory framework for the financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions of people;

    (2) promoting efficient and well-regulated trade and markets that benefit all and avoiding protectionism by countries. Varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets; and

    (3) shifting to a low-carbon, environment-friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals and realize decent work in the process.

22. For many developing countries, especially the least developed, the global recession exacerbates large-scale structural unemployment, underemployment and poverty. We recognize the need to:

    (1) give much greater priority to the generation of decent work opportunities with systematic, well-resourced, multidimensional programmes to realize decent work and development in the least developed countries;

    (2) promote the creation of employment and create new decent work opportunities through the promotion and development of sustainable enterprises;

    (3) provide vocational and technical training and entrepreneurial skills development especially for unemployed youth;

    (4) address informality to achieve the transition to formal employment;

    (5) recognize the value of agriculture in developing economies and the need for rural infrastructure, industry and employment;

    (6) enhance economic diversity by building capacity for value-added production and services to stimulate both domestic and external demand;

    (7) encourage the international community, including international financial institutions, to make available resources for countercyclical action in countries facing fiscal and policy constraints;

    (8) keep commitments to increased aid to prevent a serious setback to the Millennium Development Goals; and

    (9) urge the international community to provide development assistance, including budgetary support, to build up a basic social protection floor on a national basis.

23. Governments should consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability. The ILO's Minimum Wage Fixing Convention, 1970 (No. 131), can provide guidance in this respect.

24. This current crisis should be viewed as an opportunity to shape new gender equality policy responses. Recovery packages during economic crises need to take into account the impact on women and men and integrate gender concerns in all measures. In discussions on recovery packages, both regarding their design and assessing their success, women must have an equal voice with men.

25. Giving effect to the recommendations and policy options of the Global Jobs Pact requires consideration of financing. Developing countries that lack the fiscal space to adopt response and recovery policies require particular support. Donor countries and multilateral agencies are invited to consider providing funding, including existing crisis resources, for the implementation of these recommendations and policy options.

V. ILO action

26. The ILO has recognized authority in key areas of importance to respond to the crisis and to promote economic and social development. The ILO's capacity for research and economic and social data analysis is important in this context. Its expertise should be at the centre of its work with governments, social partners and the multilateral system. It includes, but is not limited to:
    - employment generation;
    - social protection design and financing models;
    - active labour market programmes;
    - minimum wage setting mechanisms;
    - labour market institutions;
    - labour administration and labour inspection;
    - decent work programmes;
    - enterprise creation and development;
    - international labour standards – implementation and monitoring;
    - social dialogue;
    - data collection;
    - gender equality in the labour market;
    - workplace programmes on HIV/AIDS; and
    - labour migration.

27. The following activities can only strengthen the practical work outlined above:
    - improving countries' capacity to produce and use labour market information, including on wage trends, as a basis for informed policy decisions, and collect and analyse consistent data to help countries benchmark their progress;
    - collecting and disseminating information on countries' crisis response and recovery packages;
    - assessing the actions taken and those required for the future, working with other relevant organizations;
    - strengthening partnerships with regional development banks and other international financial institutions;
    - strengthening country-level diagnostic and policy advisory capacity; and
    - prioritizing crisis response in Decent Work Country Programmes.

28. The ILO commits to allocating the necessary human and financial resources and working with other agencies to assist constituents who request such support to utilize the Global Jobs Pact. In doing so, the ILO will be guided by the 2008 Declaration on Social Justice for a Fair Globalization and accompanying resolution.

Annex II

Industrial sector development taxes and other incentives

No income tax in excess of twenty percent shall be levied on the income derived from any industries other than the ones producing goods tobacco as their basic raw materials, and alcohol or beer producing industries.

Industry using eighty or more than eighty percent of indigenous raw materials in its products and supplying all its manpower from among Nepali citizens shall be granted a rebate at the rate of 10 percent of the income tax.

Any national priority industry, which constructs and operates road, bridge, tunnel, ropeway, flying bridge, and manufactures and operates trolley bus and tram as enlisted in shall be granted a rebate of fifty percent of the income tax on their income for a period of ten years from the date of operation and other industries as enlisted therein shall be granted a rebate of fifty percent of the income tax on their income for a period of seven years from the date of operation.

Any industry, established in any Remote, Undeveloped, and Underdeveloped shall be granted a rebate of thirty, twenty-five and twenty percent of the income tax respectively and thirty-five, twenty-five and fifteen percent of the excise duty respectively for a period of ten years from the date of operation.

Fruit based fruit processing and cider and wine industries with a fixed asset of up to two million five hundred thousand rupees established in remote area shall be entitled to an excise duty exemption

If an industry diversifies itself through reinvestment in the same or any other industry, or expand its installed capacity by 25 percent or more, modernizes its technology or develops ancillary industries, it shall be entitled to a deduction of 40 percent of new additional fixed assets from its taxable income. Such remission may be deducted on a lump sum or on an installment basis within a period of three years.

If any other industry utilizes locally available raw materials on which excise duty is already imposed, the excise duty shall be reimbursed to the industry utilizing such raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded within sixty days after an application to that effect has been duly submitted.

The customs duty is excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its product during its production shall be reimbursed on the basis of the quantity of the export.

In cases where any industry sells its products in the Export Promotion House, the customs duties levied on the raw materials imported for producing the products so sold as well as the excise duty levied on the products so produced shall be reimbursed to the concerned industry on the basis of the quantity of sale and export.

If an industry sells its product within the country in any foreign currency, the excise duty and custom duty on such product and customs duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such product shall be reimbursed.

The customs duties and excise duty on the production materials of intermediate goods to be utilized for the production of exportable industrial goods and excise duty levied on the product shall be reimbursed to the concerned industry producing the intermediate goods, on the basis of the quantity of export.

No tax, fee or charge of any kind shall be levied on the machine, tool, equipment, machinery and raw material to be employed by an Export Promotion Industry as well as on the products of such industry. Provided that if, for any reason, any product of such industry is required to be sold within the country, tax, fee or charge thereof shall be required to be paid on the basis of the quantity of sale.

An industry will be entitled, for the purpose of the income tax to deduct the amount of expenses incurred by it for the long-term benefit provided to its workers and employees including housing, life insurance, health facilities, education and training.

The rate of customs to be levied on the basic raw materials which are not produced in Nepal and are required for the production of industrial machinery or of any other goods may not be more than the rate of import duty that may be levied on the import of industrial machinery or ready made goods as is produced with the use of such raw materials.

If an industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise duty to be levied on such products will be allowed to be adjusted on the basis of the quantity utilized by the industry producing the finished goods. Provided that such a finished goods producing industry shall be required to have been registered for the purpose of excise duty.

No royalty shall be imposed if any industry generates electricity for its use.

Source: Federation of Nepalese Chambers of Commerce and Industry (FNCCI).

“Decent work - A better world starts here”

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