

# **Employment Challenges in Nepal: Trends, Characteristics and Policy Options for Inclusive Growth and Development (Study Summary)**

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# Outline

- Study Objectives
- Methodology and Data Sources
- Major findings
- Policy Implications/Options

# Study Objectives

- i. Assess the key characteristics of employment and labor market conditions in Nepal,
- ii. Review major employment and labor market policies and programs,
- iii. Undertake an empirical analysis to identify the linkages between employment and growth pattern taking structural transformation into special account with focus on productive employment aspects,
- iv. Analyze the labor demand aspects of industrial development with focus on the prospect of raising productive capacity for higher value added employment and decent work, and
- v. Derive some important policy implications/options.

# Methodology and Data Sources

- Both descriptive and quantitative methodological approaches followed
- A decomposition analysis to examine employment, productivity and demographic effect
- Traditional employment elasticity and labor productivity ratios calculated taking time intervals into special account.
- For identifying the high value added or growth enhancing manufacturing industries from the point of view of productive employment, a separate quantitative analysis in the form of elasticity and productivity were made added by correlation analysis to gauge the relationship between employment and productivity.
- Population censuses, various survey reports and published secondary data were the main data and information sources. Various earlier studies were also used for the study purposes.

# Major Findings of the Study

## 1. High Labor Force Participation Rate , Higher Underemployment, Wage Discriminations, Soaring Migration and Increased Labor Market Vulnerability

- Labor force participation rate and share of youth population are high at 80.1 % and 40.43 % (15-39) respectively.
- With 36.5 percent self-employed without regular pay and 19.8 percent family members, share of underutilized labor is at 30 percent, combining 49.9 and 26.9 percent in urban and rural areas respectively.
- Never attended school workers constitute almost half in 'elementary occupation' and 'subsistence agriculture' . Such a ratio of female workers in such occupation is more than two-thirds.
- Monthly earnings of female workers is almost 60 percent of what male workers get.
- Extreme exclusionary practices persists in the labour market with, among others, female employment ratio about 3.5 % non-agriculture sector formal employment.
- Share of vulnerable employment is estimated to be around 71.6 % resulting from share of female as a contributing family member at about 40.6 percent in a situation of informal employment rate at 96.2 % with no job security.

# Findings..

- Very high internal and external labour mobility and migration with almost 53 percent families having at least one absentee member in a family with more than 33 percent out migration
- Remittances now accounts for more than 17 % in total household income.
- Of the total remittances, as opposed to 79 percent in daily consumption only 4 and 2% is used for education and capital formation, respectively.
- In foreign employment a system of fraud and cheating is rampant added by too much discrimination in the host countries in terms of wages, facilities and job security leading to almost half of the workers depriving from the jobs as per the agreement or contract. This means vulnerability in external employment extremely high.

# Findings..

## **2. Rigidity in Labor Market, Strategic Lapses to Productive Employment and Ineffective Numerous Programs**

- The Labor Act 1992 and Trade Union Act 1923 are the legislative foundation of labor market in Nepal and are considered to be rigid.
- Act is consistently been criticized and regarded to detrimental to expand both investment and employment.
- The institutional framework and arrangements enforcing the law are equally complicated and weak and debate is often exclusively centered around rigidity vs flexibility of labor market
  - Like the multi-unions, syndicate system is very pervasive in some key sectors like transport and retail trades
  - The labor market debate often ignores or undermines the severity of the problem emanating from the predominance of informal labor market. Apart from the absence of guaranteed minimum wages to the workers in the informal sector, no social security related facilities existent to them.
  - Despite commitment to minimum wage floor as per the ILO declaration on Fundamental Principles and Rights at Work which covers all workers, regardless of whether they are in the formal or informal economy, Nepal is yet to fully implement such a commitment.

# Findings...

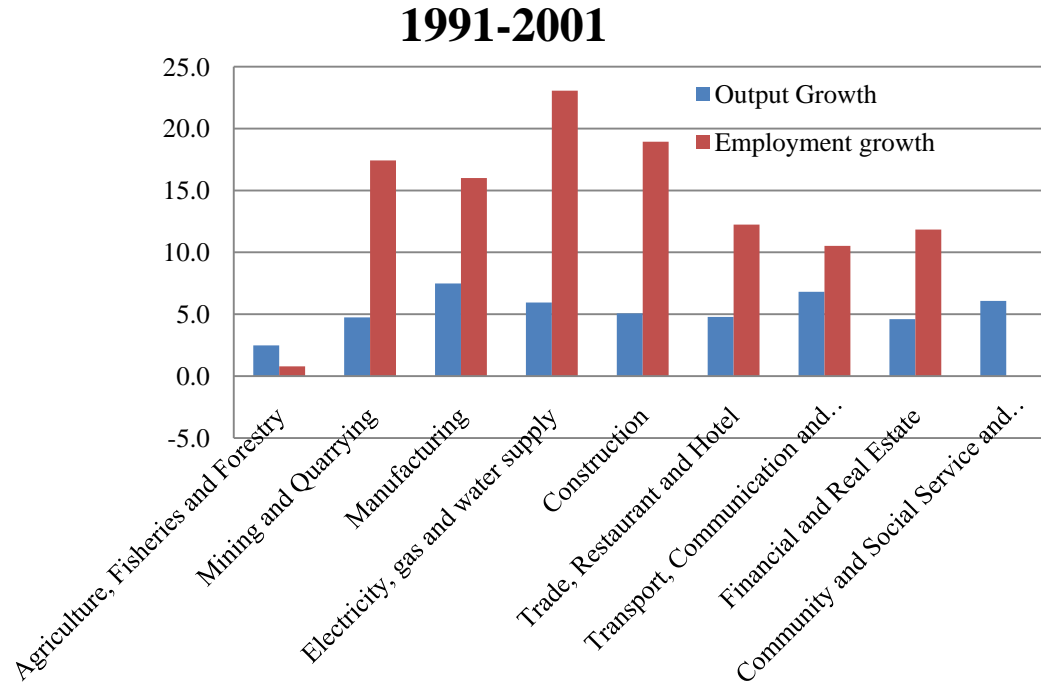
- In terms of policies and programs some positive developments which include:
  - Labor and employment policy focuses on decent employment.
  - High priority to employment generation with added focus on productive employment and inclusive growth in recent plans.
  - Emphasis on various targeted employment and income generating programs with focus on remote areas, youths and excluded including women, indigenous people and minorities.
  - But many lapses and problems:
    - Development framework envisaging employment defective as it overlooks the underemployment dimension, key from the productive employment perspectives.
    - Programs like Karnali one family one employment and youth self-employment widely politicized have virtually failed.
    - Other numerous programs ranging from food for work , labor intensive infrastructure development to micro finance, entrepreneurship promotion, skill development, appropriate technology promotion, micro enterprise development , quality assuring skill trainings etc are either seasonal or diverse and tiny with limited impact.



# Findings...

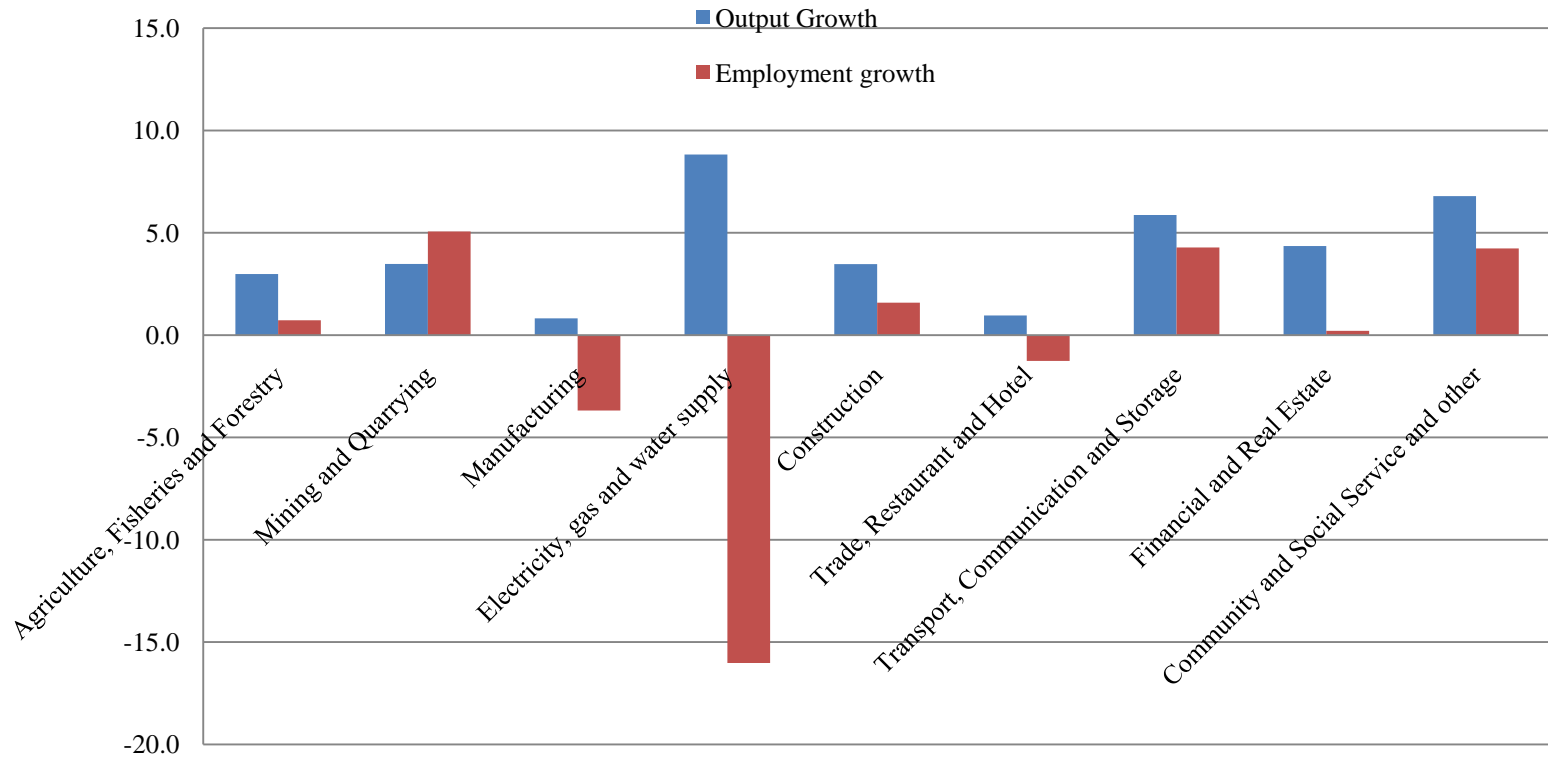
## **3. Low Growth, Anomalous Structural Change and Declining Employment Elasticity**

# GDP Growth and Employment Trend



# Cont...

2001-2011



## Findings ...

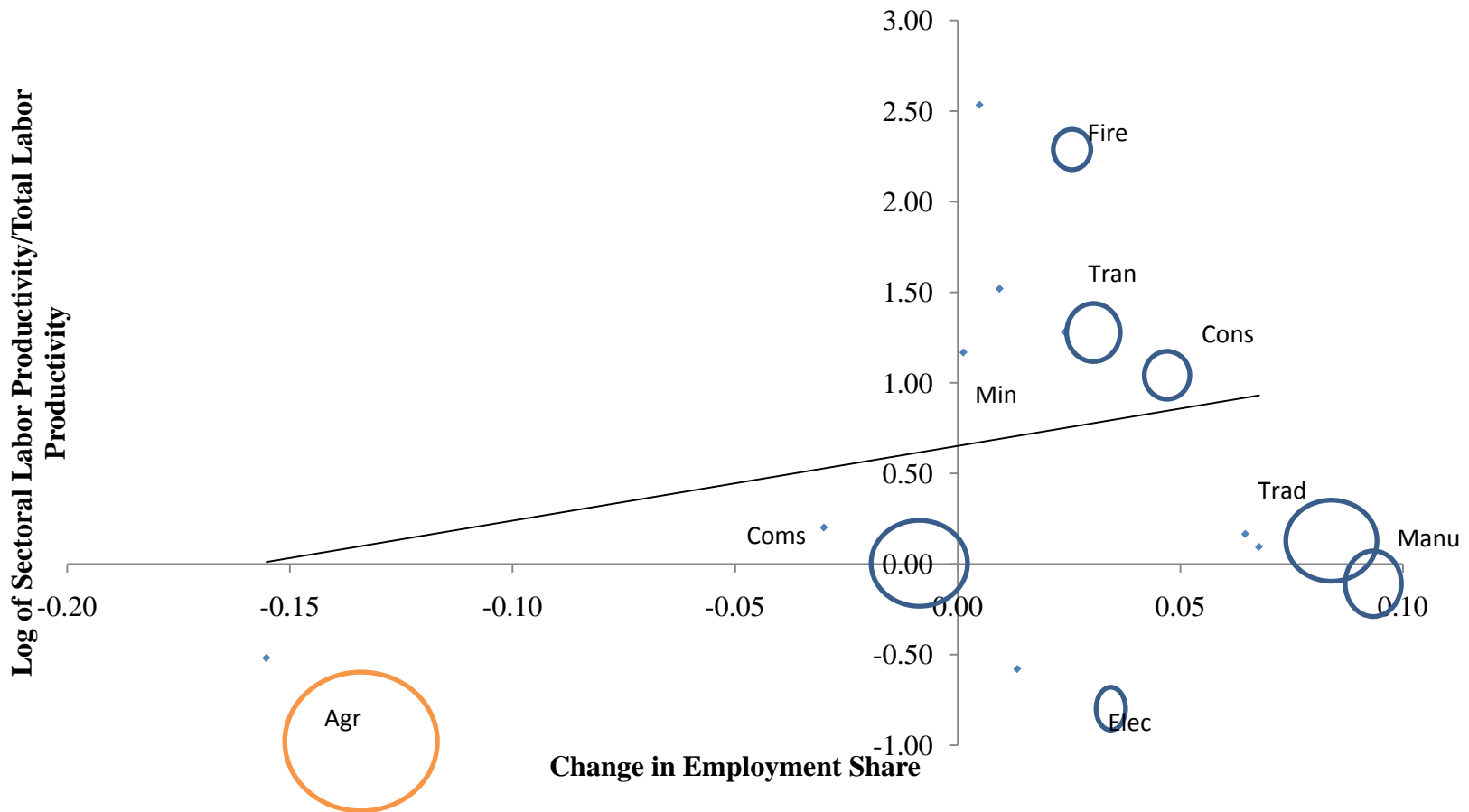
- Employment elasticity reduced to 0.18 during 2001-2011 from 0.64 during 1991-2001.
- In sectors like transport, community services and construction some moderate elasticity ( 0.74, 0.63 and 0.43 respectively ). In agriculture and finance, even lower at 0.25 and 0.05 respectively in 2001-2011.
- More noticeably, elasticity in sectors like electricity, manufacturing and trade turned into negative at -4.85 , -1.83 and -1.43 during 2001-2011 from 3.93, 2.15 and 2.58 respectively during 1991-2001.

# Findings...

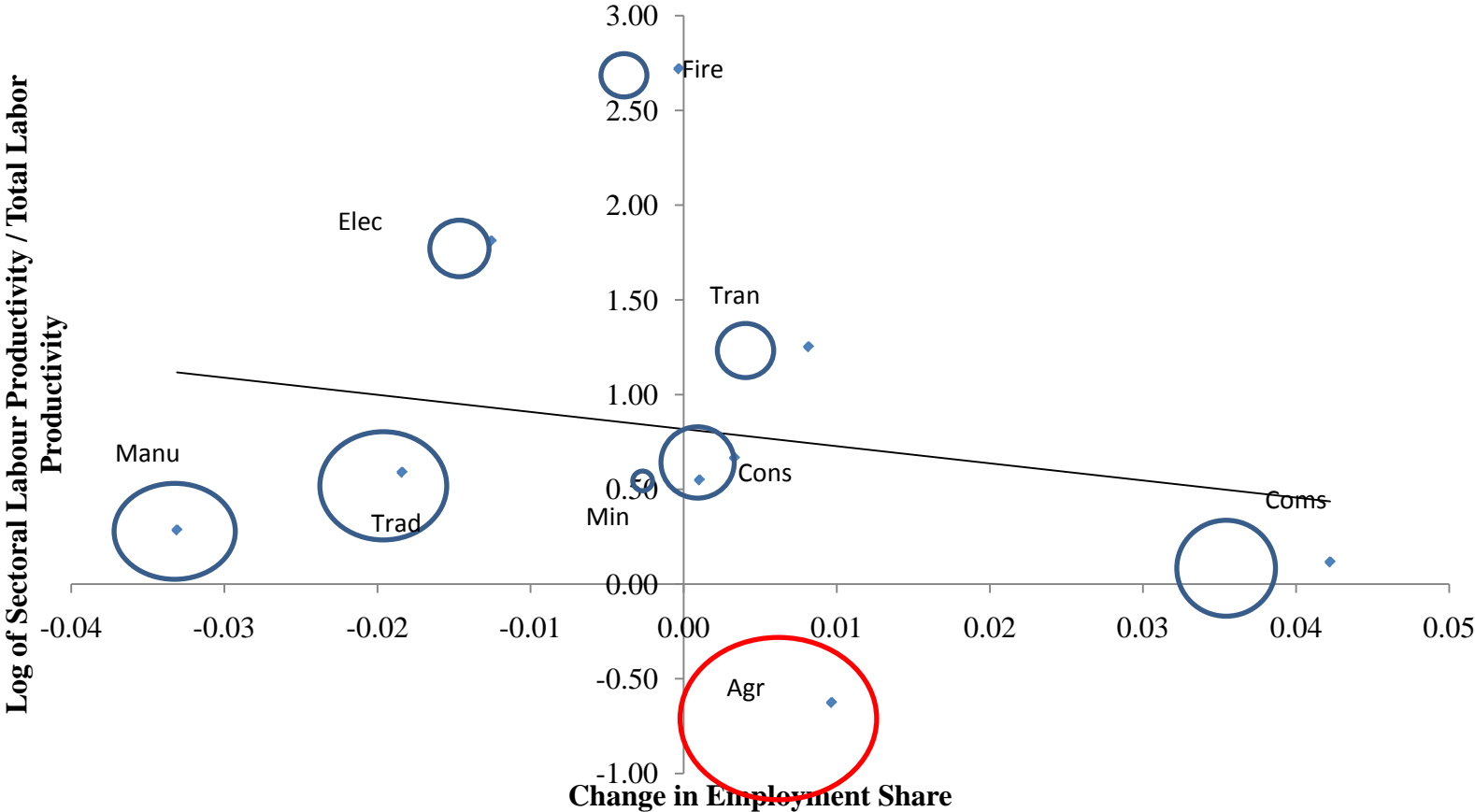
## **3. Low Productivity in Labor Absorbing Sectors and Negative Correlation between Labor Productivity and Employment Share**

- Unlike the positive correlation between labor productivity and change in employment share during the period 1991-2001, a negative relation was found for the period 2001-2011. A relative loss of employment in sectors like manufacturing, trade and restaurant and electricity contributed to this.
- A decomposition analysis shows that during 1991-2001 almost 65 percent of the change in per capita value added was linked to the changes in productivity. Change in employment was also important, accounting for 23 percent of observed growth. The remaining 12.1 percent of growth was linked to the changes in the structure of the population i.e. increase in the proportion of working age population.
- Contrary to 1991-2001, changes in employment rate acted in opposite direction during 2001-2011. A decline in per capita value added due to fall in employment rate was compensated by increase in productivity. A rise in working age population contributed to increase per capita value added by 27.0 percent in 2001-2011 from 12.1 percent in the previous period. In this way, there was "job- less growth" during this period.
- One additional phenomenon showed by the analysis was that unlike during 1991-2001, inter-sectoral shift had adverse effect on productivity during 2001-2011. This indicated that labor moved out from high-productive non-agricultural sectors to agriculture or remained unemployed and largely opted for foreign employment.

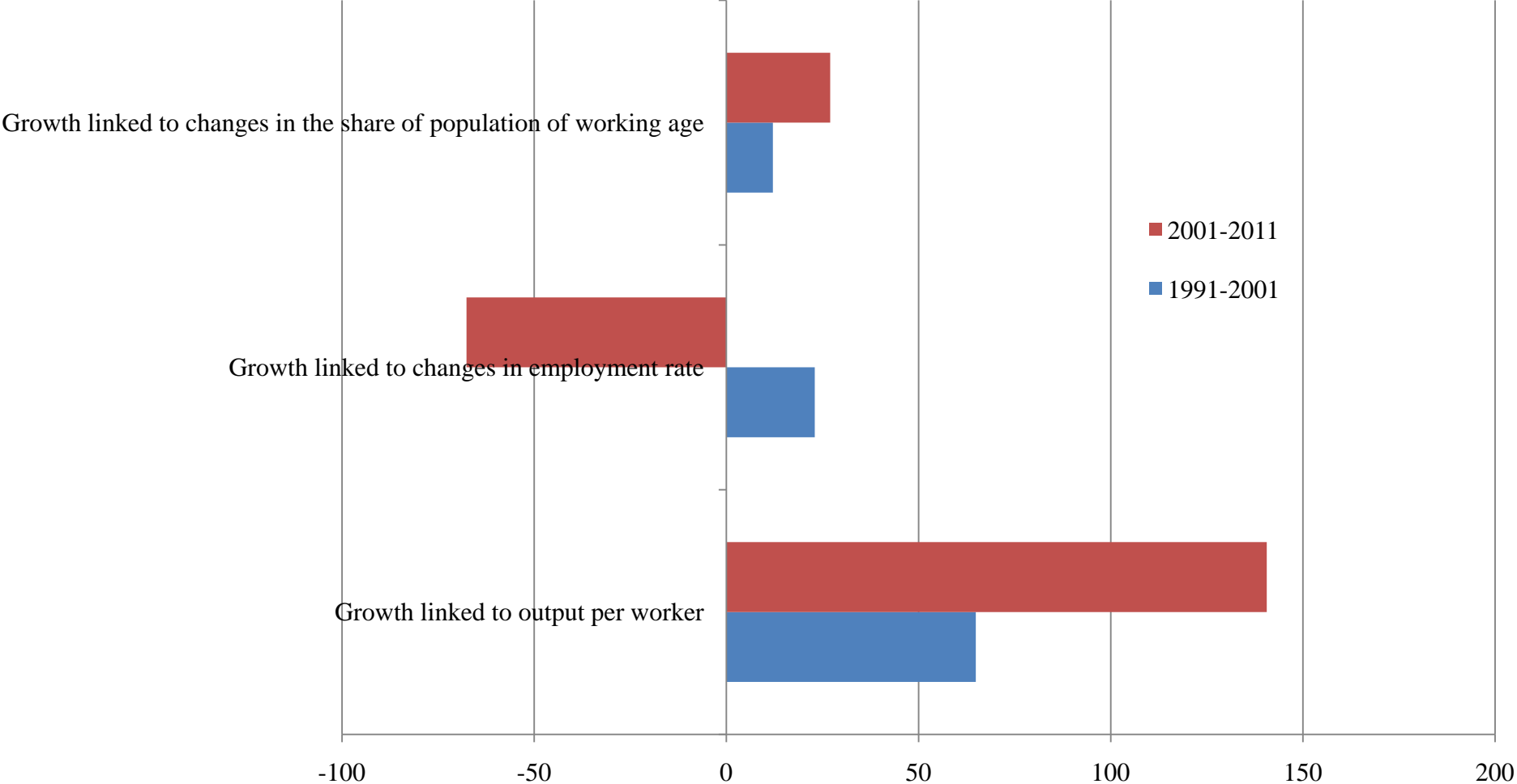
# Correlation Between Sectoral Productivity and Change in Employment Shares in Nepal (1991-2001)



# Correlation Between Sectoral Productivity and Change in Employment Shares in Nepal (2001-2011)



# Cont... Aggregate Employment, Productivity and Demographic Profile of Growth (1991-2011)





#### **4. Inter-industry Restructuring Essential for Improved Correlation between Labor Productivity and Change in Employment Share in Manufacturing**

- Amidst decline in total output in recent years and large variation in both output and labor productivity across various manufacturing industries, industries employing large numbers of people were found to be facing the low productivity problem indicating on the need of inter-industry restructuring.

-The correlation analysis further indicated that industries like chemical, rubber & plastic and some others were able to maintain labor productivity above average level and expand employment simultaneously reinforcing that to move both of them in same direction is possible.

# Policy Implications/Options

- A need of development paradigm shift grounded on transformational strategic approach with priority to move away of work force from agriculture to industry and other potential sectors with priority on productivity enhancement which will also need
  - Comprehensive reform in tandem for correcting policy inconsistencies or gaps and removing both vertical and horizontal structural and institutional impediments.
  - A balanced role of the state and market aimed at correcting deliberate distortions by both type of institutions
- Social aspect should form the major ingredient of macroeconomic policy frame in which strategic focus is given on productive ability of the excluded in general and women and youth in particular.
- Replacement of pro-cyclical stabilization centric macroeconomic policy by growth friendly accommodative one.
- For equity in employment opportunities and growth processes, more focused inclusive policies and institutional arrangements for enhancing access of deprived to assets, infrastructure and various services.
- A minimum employment guarantee scheme aimed at productive employment to all with focus on deprived including women and youth accompanied by more effective targeted employment programs
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# Policy...

- Enabling environment to the private sector to invest in productive sectors with incentives to promote and safeguard micro, small and medium enterprises .
- Intra-firm level and inter-industry restructuring in the manufacturing industry for high value added and productive employment led industrial transformation.
- Reform in labor market institutions to make them adoptable to a new, more dynamic and changeable economic and social context with steps to bring flexibility in the labor market policy but at the same time ensuring guarantee of social protection to the informal workers.
- More effective targeted policies and programs including improved access to credit and capital, vocational education and skill enhancement besides employment linked infrastructure development programs for increasing labor productivity in the informal sectors. Focus on more targeted occupational training, employment services and schemes of self employment schemes as well.