

JOBS FOR DEVELOPMENT CONFERENCE 2015
DECEMBER 3- 4, NEW DELHI, INDIA

FRAGILE SITUATIONS AND JOBS:
CHALLENGE FOR NEPAL

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OVERVIEW

- ❑ In spite of uncertainties brought about protracted political transaction, economic prospects of Nepal remained positive and macroeconomic management prudent until early this year.
- ❑ Despite the 10 year conflict and post conflict challenges the country , surprisingly, demonstrated strong results especially in poverty reduction and human development. Nepal attained first Millennium Development Goal to halve extreme poverty, ahead of time.

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- ❑ Over the past decade country maintained average annual growth rate of 3.9% of GDP well above demographic growth rate, even though it could not manage to significantly develop its industrial base. But the declining share of industrial sector has been compensated by growth in services sector.
- ❑ Impressive achievement of other MDGs including areas of primary education, maternal and infant mortality and gender parity, and has also made significant progress in enhancing gender equality and women's empowerment.

Growth Remains Subdued

- ❑ However, economic growth has been relatively lower compared to other South Asian countries, but likely to pick-up with improved political stability
- ❑ Volatility in agricultural output which still represents about one third of GDP translates into variability in aggregate growth rates.
- ❑ Current account balance which is typically major source of macroeconomic stability in South Asia is pushed into positive territory in Nepal as a consequence of strong inflow of remittance which amounts more than \$6 billion (more than 28% of GDP).
- ❑ Like most countries in the region, a major macroeconomic challenge in Nepal is high inflation which is close to 10% in recent years.

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- ❑ Though economy has shifted to being driven by services sector (which is about 52% of GDP) agriculture still remains to account for significant share of output. The shares of other sectors have nevertheless moved in opposing direction (i.e. share of industry has declined from 17 % in 2000/01 to about 7 percent in 2013/14). Perhaps a case of “premature deindustrialization”.
- ❑ Accordingly , vast majority of Nepali people still remain dependent on agriculture for their living even though the number has declined from about 76% in 1998/99 to about 65 percent in 2013/14.

Labor and Employment Situation

- ❑ Nepal's population has grown rapidly over recent decade from 23 million in 2001 to 26 million in 2011. Around 70% of population are under age of 35.
- ❑ There is opportunity in reaping demographic dividend in coming years. However success of demographic transition depends on nature of economic growth, structural transformation and job creation in coming years.
- ❑ Meanwhile unemployment rate for youth aged 15 – 24 years has risen alarmingly specially in urban areas from about 7.6 % in 1998/99 to about 13% in 2008/2009 and significantly higher in recent years.

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- ❑ In response to lack of job opportunities, Nepali labours continue to seek employment outside the country mostly in GCC countries, Malaysia, and India. It is estimated that about 3 million Nepali labours are presently working outside the country, thereby remitting more than \$6 billion dollar a year to the country.
- ❑ These remittances have played critical role not only in maintaining macroeconomic stability, but also in reducing poverty level from about 42% in 1995/96 to about 25% in 2010/11. At the same time, remittances have also fueled substantial rise in imports to cover rapid growth in consumption: merchandise imports rose significantly by about 27 percent in 2013/14 compared to previous year. Overall, these inflows have created imbalance in the economy. Thus the economy needs to be more diversified in terms of capital flows and drivers of GDP growth and job creation.

Female Labor Force Participation

- ❑ In South Asia, historical gender roles and stereotypes continue to affect outcomes, even in a context of a rapidly changing society. Overall, women in South Asia are far less likely than men to have job or to be looking for one.
- ❑ The rate of female labor participation in South Asia was about 30.5% in 2013, while the rate for men was 80.7 %. Female labor participation in South Asia is much lower than global average which was about 50.3 percent in 2012.
- ❑ However, Nepal seems to be an outlier among South Asian countries; female labor participation rate in 2008 was 80.1 compared to 87.5 % for men.

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- ❑ Nepal's rate of female labor participation stands in stark contrast to the figures witnessed in Bangladesh (36% in 2010), India (27.2% in 2012), Sri Lanka (32.9% in 2012), and Pakistan (24.4% in 2011)
- ❑ There are various factors to drive participation of women such as level of development, cultural and social norms, educational attainment, etc. Differences in definitions and measurement could potentially explain some of variations in the region. In particular, collection of goods for own consumption (i.e. firewood) is included in the definition of work in Nepal, where as it is excluded in case of India).

Growing Structural Unemployment

- ❑ Agriculture is still largest sector which employs almost 51% of labor force in Nepal. Among other sectors, financial sector is flying high, and the construction sector is also booming.
- ❑ Despite what we believe private education in Nepal has become an industry in itself and has been growing rapidly all over country.

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- ❑ However, manufacturing industry is in the dumps and agricultural production is also in decline. This has resulted in an increase in net unemployment in Nepal
- ❑ Manufacturing and agricultural labor force in Nepal lacks necessary training and skills to succeed in construction, education or financial sectors. This lack of transferable skills has resulted in growing structural unemployment in Nepal. As a consequence, Nepal has had to depend on skilled labors from neighboring countries, where as Nepali laborers , mostly unskilled and from rural areas, are leaving country for employment to other countries.

In Summary

- With the uncertain political situation especially after the promulgation of the new federal constitution, prospects for higher rates of growth are not very encouraging. However, this will depend on the Government's ability to promote investment, which will be a key driver of growth, and to improve agricultural productivity.
- It is estimated that the labor force in Nepal will grow by 4.7 million during 2015 to 2030. Over the longer term, therefore, the creation of more employment and entrepreneurship opportunities is critical. Only then will more Nepalis be able to earn a descent income in their country, further promoting sustainable development and poverty reduction.
- Until this is achieved, migration of workers especially the youth will continue to be the main form of labour market adjustment and contributor to economic growth and poverty reduction.
- More importantly, youth unemployment in Nepal is all time high. Country is losing a large chunk of labor force during their prime and productive years, to other countries due to lack of better opportunities at home.

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- Most youths going overseas are rural youths involved in agriculture. These youths leave Nepal because they lack necessary skills and education to become employed in other sectors in Nepal.
- The best and easiest way to stop this mass exodus is to initiate a nationwide program to educate youth who will be able to seek employment within the nation's boundaries.
- Finally since most youths who go overseas for jobs are engaged in construction jobs, efforts should be made to provide such jobs at home, while ensuring at the same time that more of them are also sent to schools and colleges. There is a need for government to make maximum efforts in highway constructions in a scale the country has never seen before so that these labours are engaged.



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