



REPORT BRIEF

YOUTH EMPLOYMENT IN NEPAL

Promoting the smooth integration of workers into the labor market and ensuring their early success has increasingly emerged as an important economic and social development goal around the globe. Many low-income countries, including Nepal, are in the middle of a youth bulge in their demographic structure. In addition, today's youth are, on average, more educated than past generations. These dynamics present real opportunities for Nepal's economic growth and development. Nepal also faces risks from failing to provide sufficient, suitable employment that is productive and remunerative for the country's youth.

The Nepal government sees addressing the social and economic challenges of youth, and leveraging their social and economic prospects, as critical for the country's economic growth and development. This priority is reflected, for example, in the government's latest national economic program document, the *14th Periodic Plan*, and the *Youth Vision 2025 and Ten-Year Strategic Plan* and *National Youth Policy*.

The report **Youth Employment in Nepal** aims to improve our understanding of the labor market conditions, behaviors, and outcomes of Nepalese youth. It examines these issues for Nepal's domestic labor as well as in relation to labor migration by Nepalese youth to India and other countries, including the temporary "foreign employment" of Nepalese

workers under bilateral labor agreements between Nepal and destination countries. The report seeks to present insights and implications for research and public policy, with the goal of improving the labor prospects of Nepalese youth.

Youth are defined as individuals ages 16–34 years. The definition largely overlaps with Nepal's official definition (ages 16–40 years), is consistent with the "extended youth" definition applied in other research internationally, and is appropriate given that sizeable shares of men and women ages 15–24 years (24 percent and 17 percent, respectively, in 2010–11) are still attending education institutions. Because Nepalese law considers individuals as children at 15 years, the minimum age for youth is set at 16 years.

REPORT STRUCTURE

The report comprises five main chapters.

1. **Youth Sensitivity of Labor Laws and Policies** examines Nepal's labor laws and policies in terms of whether and to what extent they cover youth labor issues and interests.
2. **A Profile of Youth in the Domestic Labor Market** examines how youth fare in the domestic labor market, mainly based on Nepal Living Standards Survey (NLSS) data.

3. Labor Market Perceptions and Sentiments among Youth Workers examines the views of employed and unemployed workers ages 16–29 years towards their labor decisions and outcomes, based on 2013 Nepal School-to-Work Transition Survey data

4. Youth Labor Migration examines internal and external labor migration by Nepalese youth, based on NLSS data and employment permit data from the Nepal Government’s Department of Foreign Employment.

5. Youth Labor Skill Training examines formal off-the-job training for youth, mainly based on 2008 Nepal Labour Force Survey data. Such training involves short courses or vocational education tracks that confer a Technical School Leaving Certificate or a technical diploma.

MAIN FINDINGS

YOUTH SENSITIVITY OF LABOR LAWS AND POLICIES

Nepal’s labor laws and policies have largely failed to influence the labor decisions and outcomes of youth or older individuals because of poor implementation, stemming from weak government commitment and capacity. With the exception of civil and armed services recruitment rules, labor laws generally do not include special provisions for youth.

Government policies on domestic employment, foreign employment, and training tend to focus on or prioritize youth. The policies set ambitious targets for youth employment, but these targets often are not based on sound estimations or predictions using suitable data. The government also does not have in place the organizational arrangements, operational plans, or resources needed to meet these targets.

A PROFILE OF YOUTH IN THE DOMESTIC LABOR MARKET

Youth unemployment and time-related underemployment rates tend to be low. An analysis of trends between 2003–04 and 2010–11 indicates two major shifts in labor patterns for youth in general:

a. an increase in the share of youth attending school, which indicates more years of schooling and thus later entry into the labor market; and

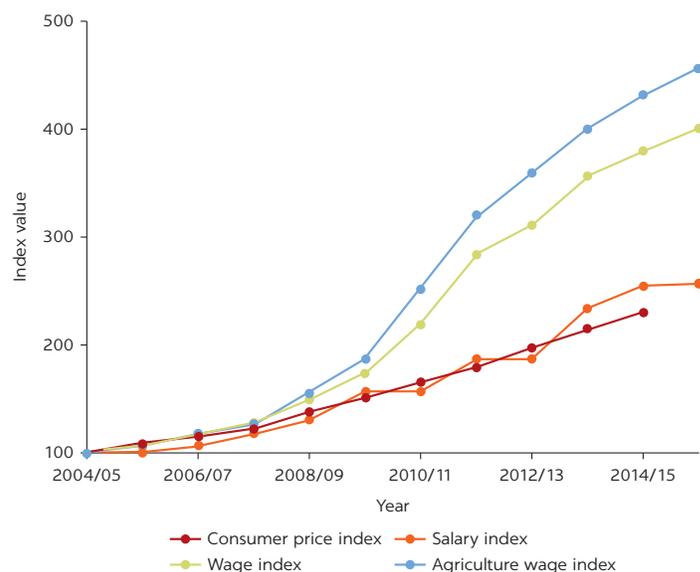
b. a decline in the share of workers who are self-employed in agriculture and an increase in the share who are self- or wage-employed in nonagricultural sectors.

Three major shifts in labor patterns are documented among youth in rural areas:

- a. a decline in the employment rate for women;
- b. a decline in average hours worked by female and male workers; and
- c. an increase in real hourly earnings for male wage workers in agriculture.

Annual wage statistics corroborate the labor earnings trends for Nepal, showing that agricultural workers have experienced the largest real gains in wages, whereas salaried workers essentially have experienced no real gains (figure 1). Given that salaried workers tend to be more educated than wage workers, real labor-earnings returns to education appear to be declining. The evidence suggests that the demand for more-educated workers is not keeping up with the increase in supply.

FIGURE 1
Evolution of Salary and Wage Indexes



Source: Statistics obtained from the Government of Nepal’s Economic Surveys for the various fiscal years.

Note: The base year for all indexes is 2004/05.

LABOR MARKET PERCEPTIONS AND SENTIMENTS AMONG YOUTH WORKERS

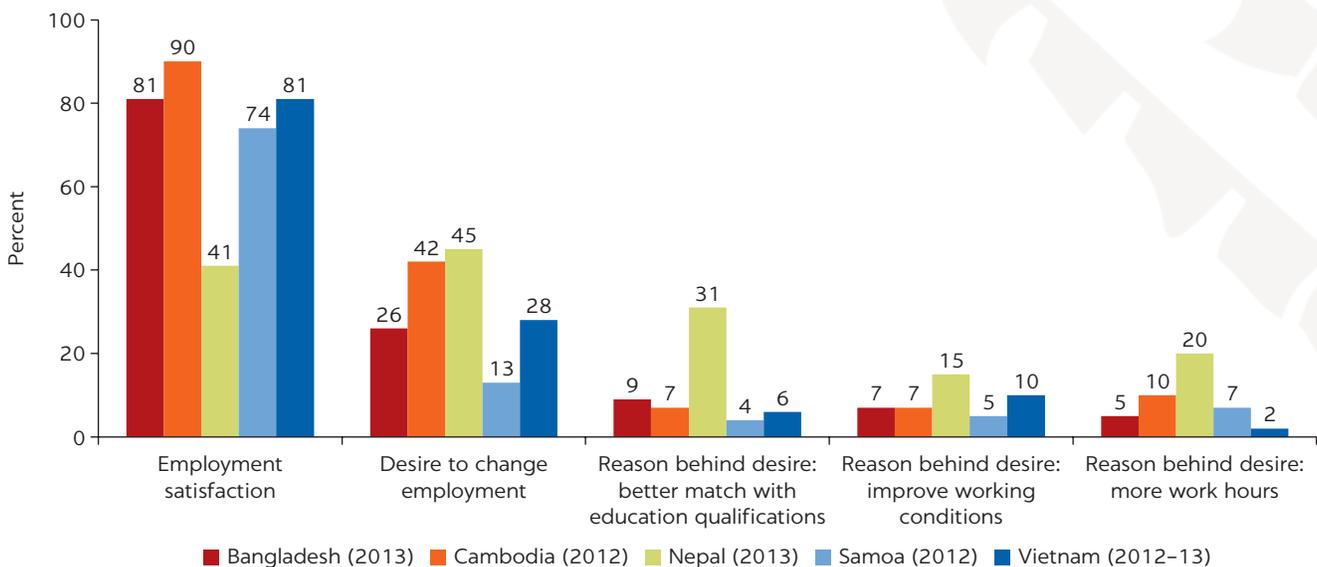
Most employed workers found their employment by either joining their family’s income-generating activity or asking friends or family for assistance. The majority of employed workers say their qualifications are relevant, but a sizeable minority believe that they need additional education or training.

Most employed workers report that their main difficulty in finding employment is either insufficient employment opportunities or inadequate qualifications. In rural areas, wage workers are more likely to report insufficient employment opportunities, whereas unpaid family workers are more likely to report inadequate qualifications. Most workers are dissatisfied with their employment, at a rate that is much higher than for workers in other countries with comparable data (figure 2). A large share of workers desire to change

employment, mainly to find work that has better conditions, offers more hours, or better matches their qualifications.

Unemployed workers underwent longer searches to find employment and are more likely than employed workers to have refused employment offers. The main reason unemployed workers give for turning down an offer is low wages. Similar to employed workers, most unemployed workers report that the main difficulty they face in finding employment is either insufficient employment opportunities or inadequate qualifications. Nepalese unemployed workers are more likely to report insufficient employment opportunities than their counterparts in other countries with comparable data (figure 3). Within Nepal, more-educated, unemployed workers are more likely to report insufficient employment opportunities.

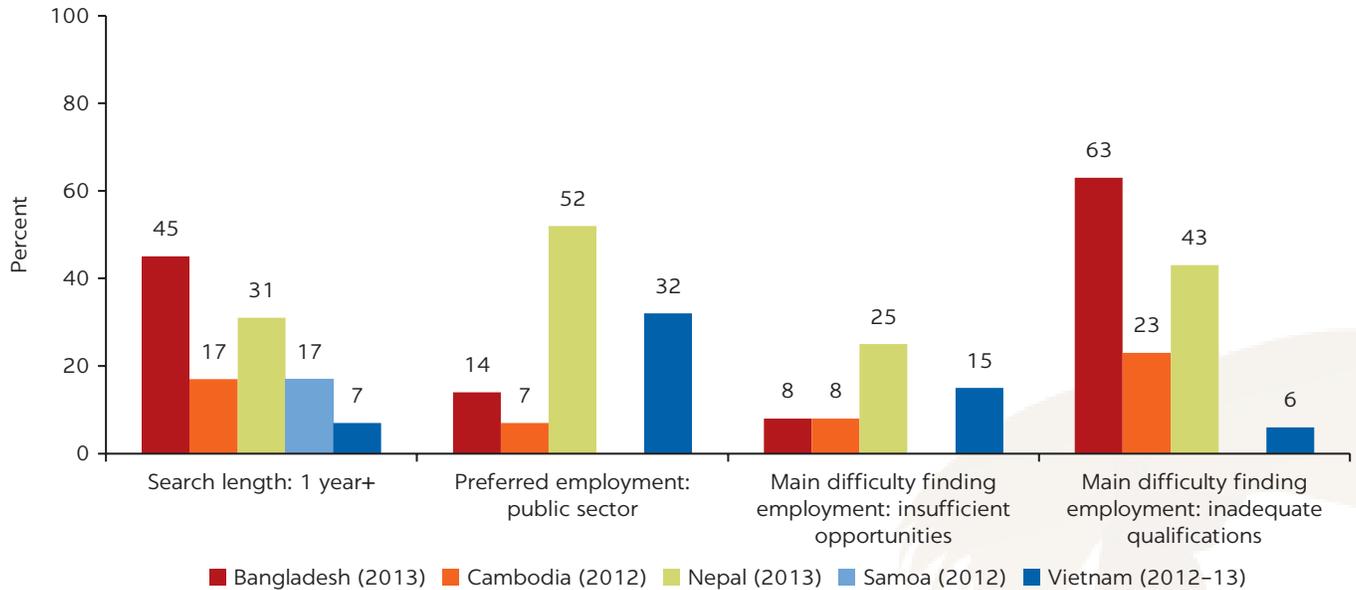
FIGURE 2
Comparison of Sentiments and Opinions of Employed Worker Ages 15–29 Years, Nepal Versus Other Countries



Source: Based on statistics drawn from Elder, Sara. 2014. *Labour Market Transitions of Young Women and Men in Asia and the Pacific*. Work4Youth Publication 19. Geneva: International Labour Office.

FIGURE 3

Comparison of Sentiments and Opinions of Unemployed Workers Ages 15–29 Years, Nepal Versus Other Countries



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YOUTH LABOR MIGRATION

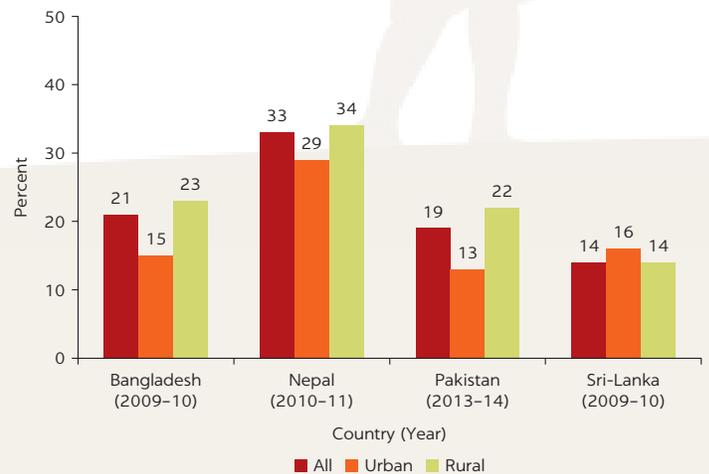
The extent of labor migration by Nepalese youth is so large that it deserves special attention within the broader discussion of Nepal’s youth employment. One-third of households in Nepal report receiving remittances from members who have migrated—a very large share compared to other South Asian countries (figure 4).

Youth labor migration is male dominated. Male youth labor outmigration rates are highest from rural Terai, rural Hill, and Mountain regions (figure 5). Most female youth labor migrants move within Nepal, whereas most male youth labor migrants go to other countries (figure 6). Irrespective of gender, most youth migrants appear to be wage-employed, particularly when they go to other countries, and to engage in services.

Labor migration is positively associated with education attainment for women, but negatively associated for men. Labor migration is also positively associated with household economic status for women.

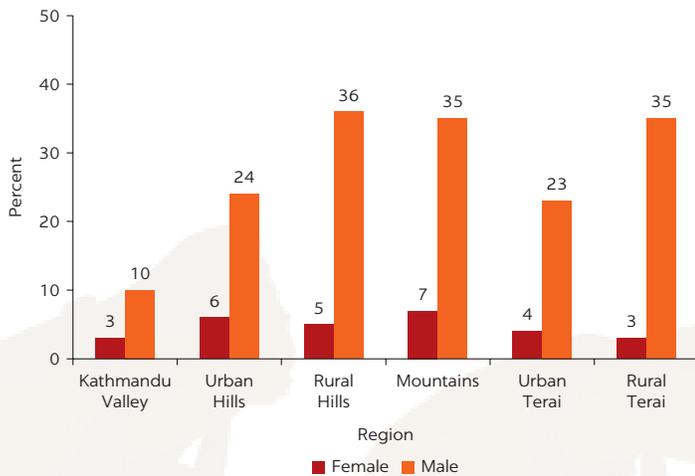
FIGURE 4

Share of Households That Report Receiving Remittances, Nepal Versus Other South Asian Countries



Source: Estimated using data from the 2009–10 Bangladesh Household Income and Expenditure Survey, the 2010–11 Nepal Living Standards Survey, the 2013–14 Pakistan Household Income and Expenditure Survey and the 2009–10 Sri Lanka Household Income and Expenditure Survey.

FIGURE 5
Share of Youth Who Have Migrated for Labor,
by Home Region, 2010–11



Source: Estimated using data from the 2010–11 Nepal Living Standards Survey (NLSS).

Note: A youth labor migrant is defined as an individual ages 16–34 years who is absent from the household for labor reasons at the time the 2010–11 NLSS was administered to the household and who has the intention to return as reported by the household.

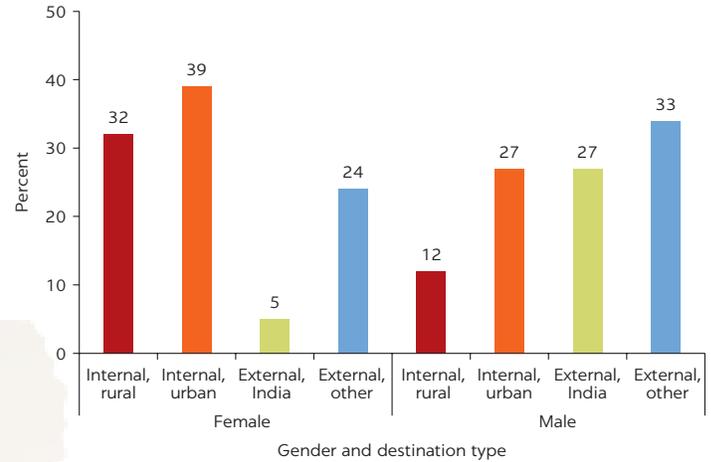
Foreign employment workers from Nepal primarily go to Malaysia, Qatar, Saudi Arabia, and the United Arab Emirates. Foreign employment outflow appears to be mainly influenced by economic and other forces in destination countries, rather than by factors in Nepal. Nepal’s foreign employment system faces several challenges, including implementation shortcomings in the government’s institutional arrangements for workers, and the substantial market power of private recruitment agencies in Nepal over workers.

Male youth labor migration appears to have a negative effect on the likelihood of employment and hours worked for both female and male youth household members. Returned youth labor migrants from external destinations other than India appear to have poorer labor outcomes than youth nonmigrants.

YOUTH LABOR SKILL TRAINING

In 2008, 10 percent of youth had received training at some point—a relatively high rate among South Asian countries (figure 7).

FIGURE 6
Distribution of Male and Female Youth Labor Migration,
by Destination Type, 2010–11



Source: Estimated using data from the 2010–11 Nepal Living Standards Survey (NLSS).

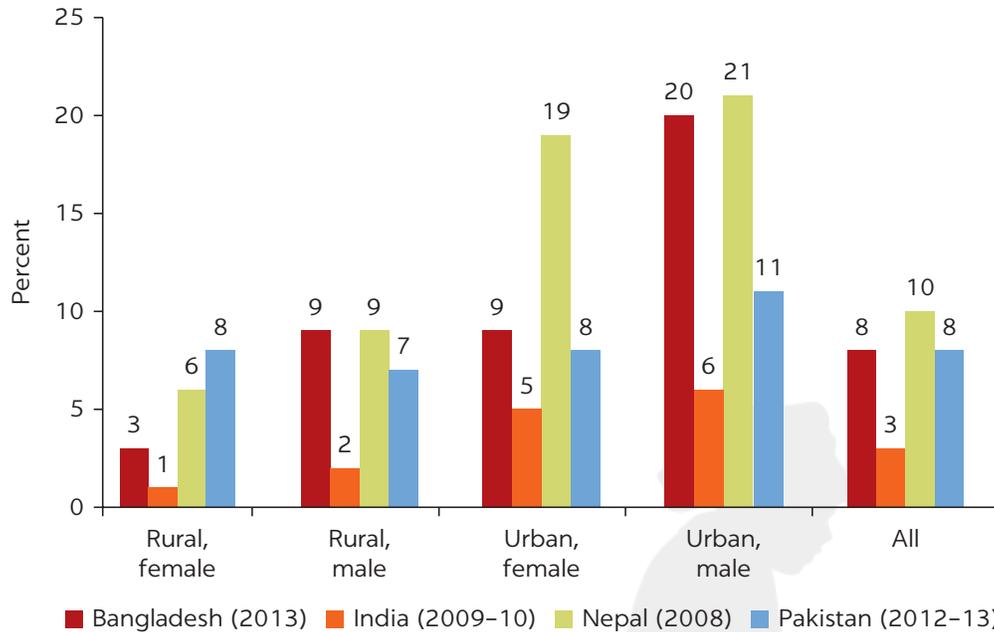
Note: A youth labor migrant is defined as an individual ages 16–34 years who is absent from the household for labor reasons at the time the 2010–11 NLSS was administered to the household and who has the intention to return as reported by the household.

Training rates are higher for urban than for rural residents, and for individuals who have obtained at least a School Leaving Certificate. Differences in training rates are small between women and men, but large among regions in Nepal. Training tends to be short-term, with basic computing and dressmaking and tailoring the most popular fields for women, and basic computing the most popular for men. Youth training recipients tend to be on the older end of the 16–34 years age range, better educated, and more likely to be attending school. They also tend to come from wealthier households and traditionally advantaged ethnic or caste communities, especially for those who received training in basic computing.

Training is associated with higher likelihoods of employment, wage work, and nonfarm work for women. For men, training does not appear to be associated with the likelihood of employment, wage work, or nonfarm work. In general, training does not appear to be associated with wage earnings for either gender.

FIGURE 7

Training Rates for Nepal Versus Other South Asian Countries, Individuals Ages 16–34 Years



Source: Estimated using labor force survey data for Nepal (2008), Bangladesh (2013), and Pakistan (2012–13), and data from India's National Sample Survey 66th round (2009–10).

In 2008, 40 percent said they would like to obtain training, with interest especially high among youth outside the Kathmandu Valley region. Women express the most interest in training in the fields of dressmaking and tailoring and basic computing, whereas men are mostly interested in basic computing. Although wealthier youth tend to have higher rates of training, interest in training is higher among less wealthy youth. Interest in training is also higher among those who have previously received training and among those who are already employed.

DIRECTIONS FOR FUTURE RESEARCH

The analysis and findings indicate several potential areas for further data collection and research on Nepal's youth labor market. These include:

- a. Evolution of female labor force participation in rural areas
- b. Employment search and worker-employment match process
- c. Labor productivity
- d. Worker preferences for employment
- e. Gains and costs of internal and external migration
- f. Organization and functioning of the foreign-employment recruitment market
- g. Structure and functioning of training programs, including on-the-job training
- h. Interplay between public and private labor markets

DIRECTIONS FOR POLICY

The findings point to three directions for orienting public policies and programs.

First, raise rural labor productivity, urban labor demand, and urban worker-job matching efficiency. Documented youth labor market trends and patterns suggest large adjustments have taken place in rural labor markets due to labor supply shifts and depressed labor demand in urban markets, particularly for more-educated workers. In rural labor markets, rising wage earnings appear to mainly reflect falling labor supply rather than rising labor productivity.

Strategies are needed to:

- a. raise labor productivity in agriculture and rural agribusiness;
- b. improve the employment search and matching process for workers; and
- c. spur labor demand by employers—for example, by addressing any policy distortions that depress output of and employment in firms.

Second, support the labor market integration of rural youth migrating to urban parts of Nepal and of youth labor migrants returning from India and other countries. Although rural-urban labor migration is important, little government support is available to help prospective labor migrants from rural areas find appropriate employment in the Kathmandu Valley region or other urban areas. At present, most rural labor migrants find employment through informal personal networks or chance breaks.

The government also provides little support to help labor migrants returning from other countries integrate into Nepal's labor market so as to generate not only significant private labor returns for returning migrants but also positive labor market spillovers (that is, employment creation or earnings gain for other individuals). Evidence suggests that returning youth labor migrants are more likely than youth nonmigrants to engage in agriculture. Thus, the former may be an important target group for the government's intent to modernize agriculture. Strategies are needed to help both rural-urban and returning labor migrants integrate into the labor market in a way that is more effective and efficient.

Third, improve the orientation and efficacy of labor skill training. Strategies are needed to widen and enhance the potential labor market gains from skill training, and to strengthen the quality and relevance of training delivered by private and public providers.

Evidence suggests strong demand exists for skill upgrading. Workers who are already employed—specifically, women in all sectors and men in agriculture—express a higher desire for training. Past training recipients express a higher desire for further training in the same fields. Relatively poorer households and households in regions outside of Kathmandu Valley also express a higher desire for training. In line with this evidence, strategies are needed to better match training supply to demand. ■

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