



## Rebuilding Nepal: Creating Good Jobs Amid Reconstruction and Migration

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By Gregory Randolph and Prachi Agarwal

April 2017





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**Cover Photo:** "Nepal earthquake - one year on"  
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# Introduction

Two years ago, Nepal was struck by a devastating earthquake. It displaced nearly 2.8 million people and shocked the country's economy, with an estimated US\$ 7 billion<sup>1</sup> in damage and losses in a country whose gross domestic product (GDP) stood at only US\$ 19 billion.<sup>2</sup> In a nation whose economy depends on private consumption – which formed a staggering 85.7 percent of Nepal's GDP in the fiscal year before the disaster<sup>3</sup> – the economic consequences of such a catastrophe are particularly grave. But the earthquake and Nepal's struggle for relief and recovery also brought to light other chronic issues with the way that social and economic development have – and have not – unfolded in the country. These issues raise important questions about how to build a future for Nepal – a future that respects the rights and dignity of its people and offers productive, fair, and sustainable economic opportunities.

Among these chronic issues, one of the most evident is the economy's inability to provide high-quality jobs – compelling Nepali workers to look outside the country's borders in search of better paying, though often precarious, work. Nepal's people and economy are highly dependent on

labor migration and the associated repatriated income for managing unemployment, alleviating poverty, and sustaining its GDP growth.<sup>4,5</sup> As of 2014, Nepal ranked third in the world in terms of the ratio of migrant worker remittances to GDP, surpassed only by Tajikistan and the Kyrgyz Republic.<sup>6</sup> Even more alarming is the meteoric pace of growth in Nepal's dependence on foreign income; the contribution of remittances to the

economy is now equivalent to 32.1 percent of GDP, up from 10.9 percent in 2004.<sup>7,8</sup>

The human face of this macroeconomic landscape emerged not long after the earthquake, in stories of Nepali workers employed

abroad who were unable to travel home to help their families rebuild because of strict and exploitative contracts.<sup>9,10</sup> The irony that workers laboring abroad to provide for their families were unable to assist them in a time of emergency brought into harsh focus the realities of Nepal's labor market. The earthquake has indeed renewed calls for a different kind of development in Nepal, one focused on creating more and better employment within the country.

The dependence on income earned abroad not only has social costs; it is not a sustainable

***The earthquake has renewed calls for a different kind of development in Nepal, one focused on creating more and better employment within the country.***

strategy for economic development. As much as 80 percent of income sent to Nepal in the form of remittances is used for household consumption and repayment of debt. In other words, these earnings may be contributing to household income in the short run, but the state's lack of proactive investment in job-creating sectors leaves the country's workers stuck in a repetitive cycle of working abroad to spend at home – or, as migrants in Indonesia have termed it, *pulang pergi*, or “coming home to leave again.”<sup>11</sup> This cycle of migration has, in fact, become intergenerational. It has even led, this report argues, to a kind of policy inertia, where the short-run benefits of remittance income disincentivize the adoption of long-term policy solutions to rectify the country's chronic lack of economic opportunity. It is in part because of this self-reinforcing cycle that the dependence on remittance income has soared so dramatically.

Moreover, with the vast majority of Nepali migrant workers employed in countries that depend heavily on finite resources like oil and gas,

the labor markets of destination economies may hold few opportunities for foreign workers in the future – casting further doubt on the sustainability of Nepal's current strategy of sending its workers abroad. It also leaves them vulnerable to shocks from volatility in commodity prices.

***[The cycle of migration] has led to a kind of policy inertia, where the short-run benefits of remittance income disincentivize the adoption of long-term policy solutions to rectify the country's chronic lack of economic opportunity.***

This report argues that Nepal must adopt a new approach to economic development – one focused on sustainability, inclusion, and the creation of good jobs.<sup>1</sup>

Unlike previous research on economic development strategies in the country, this report seeks to explore

the nexus of Nepal's ongoing efforts in earthquake reconstruction, its snowballing pattern of large-scale out-migration, and the various forms of economic potential that lie hidden beneath its social, economic, and political issues. In this way, the report views reconstruction and migration as challenges, but also opportunities to inspire a shift in the way Nepal rebuilds its economy and looks to the future. By leveraging the country's economic potential, granting more agency to

<sup>1</sup> The pillars of decent work advocate for full employment, rights on the job, social protection, and social dialogue. This paper also uses the term *just jobs*, which includes the component of economic mobility.

workers – including returning migrants – to play a role in inclusive development, and broadening its vision of the reconstruction effort, Nepal's government can harness this moment as a turning point.

In particular, this broader vision for reconstruction would entail a more comprehensive plan – going beyond the mere replacement of damaged and destroyed physical structures – to build institutions that are conducive to more and better job creation. This involves looking for and leveraging the synergies between physical, social, and economic forms of infrastructure – for instance, in the way that roads, schools, health facilities, and training centers are designed, equipped, and located. The infrastructure investment made in the context of reconstruction must pave the way for developing job-rich sectors, such as tourism, hospitality and agro-processing. It also means using the massive reconstruction effort as an opportunity to create good jobs in the construction sector and ancillary industries on a large scale and ensure that workers can access them.

The first section of the report gives an overview of Nepal's key economic challenge, which the authors term "structural change without transformation." The second section outlines key migration trends in the country, exploring the

economic implications of its dependence on migrant worker income. The third section explores the devastating impact of the earthquake on an already fragile economy. In section four, the report will pull together these threads in a discussion of the economic potential of the country and how to improve current policy initiatives to realize that potential. The last section outlines policy recommendations to harness reconstruction efforts, the skills and resources of migrant workers and their families, and other economic assets in Nepal, toward worker empowerment and the creation of good jobs in the country. Adopting these recommendations can help move Nepal toward a model of inclusive, job-rich growth where migration is a choice rather than a compulsion.

In a special case study, the report will look at Sindhupalchok, a rural district that borders the capital city of Kathmandu and was among the areas most impacted by the earthquake. Sindhupalchok also reported the highest number of female migrants in the years 2013 and 2014, and second highest in 2015, thereby representing an intersection of the different trends this report examines. Sindhupalchok is a microcosm of the wider challenges facing Nepal, as well as a case for demonstrating how this report's recommendations could be enacted in a specific geography.

## Research Approach and Methodology

The research in this report relies on a combination of primary and secondary data collected and analyzed between September 2016 and March 2017. In explicating key trends related to economic growth, employment, migration, and earthquake reconstruction, the authors relied on secondary data – both quantitative and qualitative – published primarily by the Nepali government, but also by multilateral institutions, civil society organizations, and independent researchers.

To complement these secondary data and add greater texture and insight to the report's analysis, JustJobs Network researchers conducted approximately 30 qualitative interviews in Nepal with a range of relevant stakeholders. These respondents included key government officials, leaders of civil society organizations and migrant worker advocacy groups, trade union officials, private sector representatives, earthquake survivors, and returned migrants. Among the government institutions that consented to interviews were the Ministries of Labor and Employment, Commerce, Agricultural Development, and Industry, as well as the National Planning Commission, Department of Foreign Employment, and National Reconstruction Authority. These interviews focused on Nepal's labor market challenges, causes and impacts of out-migration, earthquake recovery and

reconstruction efforts, geographic and sectoral economic potential, and issues around policy implementation.

In Nepal, trade unions have taken a particular interest in guiding the earthquake reconstruction process toward policies and investments that create decent work opportunities. Therefore, the research process involved consultations with trade unions – specifically, the three largest trade union confederations: All Nepal Federation of Trade Unions (ANTUF), General Federation of Nepalese Trade Unions (GEFONT), and Nepal Trade Union Congress (NTUC).

The report uses interviews with stakeholders to shed light on the aims and incentives that drive different groups – contributing to a sharper understanding of what proposals would be acceptable to a broad coalition of actors who can collectively effect change at a policy level. Despite the benefits of this approach to primary data collection, it does have certain constraints. Principally, the in-depth interviews conducted for this project cannot claim to be representative of all members of a particular stakeholder group; the interviewed returned migrants, for example, were not a representative sample of all returning migrants. Empirical claims about the number or share of a particular group, therefore, originate in secondary data sources.

# Nepal's Economic Challenge: Structural Change Without Transformation?

In the experience of most countries that have successfully boosted household incomes, improved employment outcomes, and achieved higher levels of human development, the process of structural transformation – reallocation of economic activity and employment across sectors – is crucial. As agriculture grows more advanced and mechanized and less labor-intensive, and as opportunities open up in other segments of the economy, workers move gradually from farm-based work to jobs in services and industry. Quality of work and quality of life tend to improve, partly because employment in industry and services generally involves higher compensation than non-mechanized, low-productivity farm work. It is also more likely to be formal – meaning jobs are generally better protected by national labor laws, there is greater scope for monitoring wages and working conditions, and workers have greater ability to organize themselves.

These benefits of structural transformation are by no means automatic; most countries in both the Global North and Global South that have witnessed, or are witnessing, this sort of transformation in their labor markets still face major challenges in ensuring that every

worker can access a good job. Still, there is no historical precedent for the large-scale creation of productive, high-quality employment opportunities without the simultaneous shift of workers from insecure agricultural work to jobs in other sectors – even while some highly skilled agricultural jobs remain. The question is: How can a country ensure that structural changes in the economy are accompanied by a transformation in the labor market that promotes access to more and better jobs?

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In the case of Nepal, if one observes particular macroeconomic indicators of the country, structural changes are apparent. Between 2001-02 and 2015-16, the contribution

of agriculture, value added, to GDP declined from 37.6 percent to 33 percent. In the same time interval, while the value-added contribution of industry to GDP declined slightly from 17.8 percent to 15.4 percent, that of services rose to 51.6 percent from 44.6 percent.<sup>12</sup> Moreover, the average annual GDP growth rate over this period was 4 percent, including the year before the earthquake when it was reported at 6 percent. Even after the quake, growth only slowed to 2.7 percent in the year 2014-15.<sup>13</sup>

However, a closer examination reveals that – while the economy is witnessing growth and restructuring – the effects of these changes are not fundamentally transforming the labor market. Despite growth in non-agricultural sectors, the share of Nepal’s workforce employed in agriculture was 67 percent as of 2013, a marginal change from 75.4 percent in 1995, nearly 20 years earlier.<sup>14,15</sup> In other words, the gains from GDP growth are not reaching the vast majority of Nepal’s workers, who still have few employment opportunities beyond traditional farming. This might be termed structural change without transformation.

As important as food and commodity cultivation are, agricultural work remains unproductive compared to employment in other sectors of the economy, due to a lack of effective measures to advance farming methods and promote the use of high-quality inputs. While labor productivity of the secondary<sup>ii</sup> and tertiary<sup>iii</sup> sectors is 168.1

*“The government here doesn’t do anything for us. I have to work more than 10 hours a day. I don’t want to drive a cab, but I have no other way to feed my family. Now at least I am able to pay my rent. There are no jobs for us,” said a young taxi driver in Kathmandu.*

percent and 191.1 percent of average productivity across the economy, the figure for agricultural labor productivity stands at only 58.1 percent. With most workers limited to employment in a low-value-added<sup>iv</sup> agriculture sector, many youth complain about the lack of high-quality employment opportunities for Nepali workers,<sup>17</sup> leading many to feel the need to migrate.

Moreover, primary interviews suggest that out-migration and low productivity in agriculture are locked in a self-reinforcing cycle.<sup>18,19</sup> Over 50 percent of the total migrant population is between the ages of 15 and 29 years.<sup>20</sup> Young people, the most productive workers, leave the sector in favor of employment abroad, a further blow to a sector already facing the challenge of low productivity.<sup>21</sup>

A few different factors are driving this structural change without transformation. One is the fact that the manufacturing sector – which in

<sup>ii</sup> Secondary sector encompasses manufacturing, construction and electricity, and gas and water.

<sup>iii</sup> Tertiary sector encompasses the services industry: wholesale and retail trade, hotel and restaurant, transport, storage and communication, financial intermediation, real estate and business services, public administration and defense, education, health and social work, and other community, social, and personal services.

<sup>iv</sup> Value-added is the enhancement given to a product or service that increases its economic value. It is measured in terms of incremental input, labor, and capital invested.

developing economies tends to be more labor-intensive and offers opportunities to workers transitioning out of agriculture – has seen a steady decline in Nepal, despite the government’s stated objective of boosting the sector. Many factors explain this trend: poor infrastructure, slow progress in adopting new methods and technology, the lack of an appropriately skilled workforce, major energy shortages, and political instability leading to delays in policy implementation.<sup>v,22</sup> Between 2001 and 2015, manufacturing’s value-added as a share of GDP declined from 9.3 percent to 6.3 percent. By contrast, the figure in Bangladesh stands at 17.6 percent and in the Philippines at 20.1 percent.<sup>23</sup> This lack of new jobs in manufacturing partly explains why most Nepali workers have not made a transition out of farm-based work.

Meanwhile, public expenditure has remained extremely low – an average of 5 percent of GDP for almost five years since 2008-09. This ratio declined further after the earthquake in 2015, despite the major commitments by donors and foreign countries to the reconstruction effort.<sup>24</sup>

Halfway through the Nepali financial year starting July 2016, the government had spent only 22.5 percent of its annual budget.

Low levels of government expenditure are largely driven by the major instability in Nepal’s political system.<sup>25,26,27</sup> Since the end of the People’s War in Nepal in 2006, governing institutions have been subject to frequent political transitions.<sup>28,vi</sup> And as the government changes every eight to nine months, each successive short-term government barely outlines its priorities by the time it has to turn over power. With a new constitution and upcoming elections at the local, provincial, and national levels, the outlook on Nepal’s political transition is turning positive. It will be critical for Nepali policymakers to translate elections into stable, popular government, and to use the political capital of electoral mandates to step up public spending on medium- and long-term priorities.

The importance of capital expenditure by a government for long-term economic growth has been acknowledged by various scholars.<sup>29,30</sup>

<sup>v</sup> *Industrial Policy 2010 – “promises easy exit to the investors, recognizes subcontract manufacturing, promises tariff protection to local industries with high-value addition, incorporates intellectual property protection provisions, and emphasizes employment creation and poverty reduction. The objective is to ensure balanced industrial growth, backward linkages, protection and state-support to the industries.”*  
<sup>vi</sup> *“After the signing of the peace agreement in 2006, an interim coalition government was created to give the main political parties an equal say and to jointly design and adopt security, economic and human rights reforms, with universal consensus. However, since the elections in 2008, this power-sharing arrangement has silently turned into a government-swapping system; almost every eight to nine months, the party in power loses support of its coalition partners and the governance is transferred to the party with a majority. While this system has largely prevented a backslide into conflict, it has proved to be highly disruptive to good governance.*

Not only does low government expenditure inhibit growth of a manufacturing sector – which requires high-quality infrastructure to thrive – but also the development of human capital, which grows through investments in education, skill development, and health.

As Nepali workers have been migrating abroad in increasingly large numbers, skilled workers from other Asian countries such as India and China have been immigrating to Nepal for work in a diverse range of sectors – among them construction, garments, and information technology.<sup>31,32</sup> This trend reflects a shortage of appropriately skilled workers in Nepal. Nevertheless, data suggest that almost 60 percent of Nepali migrants are educated above primary level, and about a third have completed lower secondary or secondary education. While 33 percent of Nepalis are illiterate, only 4 percent of migrants are.<sup>33</sup> These facts reflect that migrants leaving the country tend to have basic education, but they do not possess the skills required for growing occupations – for instance, factory shop floor technicians or accountants. With greater investment from the government in a comprehensive skill development strategy

*“I would prefer hiring someone from India for an accounting job at my shoe factory. An accountant from Nepal may have the education but would not be professionally skilled, and if I invest in training him, he would fly abroad as soon as he feels capable enough to get a job outside,” said the owner of a shoe factory in Kathmandu.*

– alongside other reforms – Nepal’s economy would be able to help more Nepalis access jobs in high-value-added sectors.

Another reason for structural change without transformation is the fact that policymakers have not implemented any concrete strategies for channeling remittance capital into segments of the economy that have the potential to create good jobs. The problem of Nepal’s overdependence on remittances will be further explained in the next section, but it is important to note that transitioning from an economy driven by overseas employment to an inclusive, job-rich economy will require innovative policies to harness all kinds of public and private investment. Returning migrants can be empowered to help create jobs in their communities using their skills and resources. The report explores particular ways that the Nepali government can engage returning migrants in the quest to create more good jobs for Nepali workers. The main responsibility for enabling an inclusive economy lies with governing institutions, but migrant workers can be a part of the process.

# Charting the Evolution of Nepal's Migration-Dependent Economy

Cross-border labor migration has become a global phenomenon. Notwithstanding the attempts by states to tighten control over their borders, the demand for international migration continues to swell, especially for low-wage temporary migrant workers.<sup>34</sup> This is induced in large part by the structural inequalities that allow demand for cheap labor to flourish, the mobility of capital through increasing economic integration, and the increasing ease of long-distance travel.

Meanwhile, other, more localized factors explain why some countries and regions have seen a dramatic increase in their number of migrant workers over a short period of time. One factor is the degree to which governments choose to make migration more regularized, thereby also incentivizing it.<sup>vii,35</sup> Several countries in Asia, including Nepal but also Indonesia and the Philippines, have introduced policies to construct formal channels for migration.<sup>36</sup> In many cases, these measures are part of a broader implicit or explicit plan to leverage international migration as a strategy for tackling unemployment, alleviating poverty, and increasing revenue from foreign exchange.<sup>37</sup> It is important to note that, while these policies may make elements of the labor migration process safer for workers, they do not necessarily make the work less exploitative or

ensure fair treatment and compensation at the workplace; nor do they generally come combined with strategies to create good jobs at home so that migration becomes an active choice rather a decision driven by economic compulsion.

## Tracing Growth in Labor Migration from Nepal

In Nepal, migration has been viewed by many stakeholders as a solution to decades of poor economic performance and a weak labor market. Ever since migration from Nepal was formally recognized as an opportunity for employment in the late 19th century, the government of Nepal has adopted various programs to promote foreign employment. Initially, most Nepali workers outside the country worked as soldiers in the British army, and later the Indian army began employing Nepali soldiers as well. Agricultural foreign employment – farming in Bhutan, tea estates in India, rubber plantations in Malaysia, dairy farms in Myanmar – drew on the linkages, pathways, and histories of migration established through colonial and military recruitment.

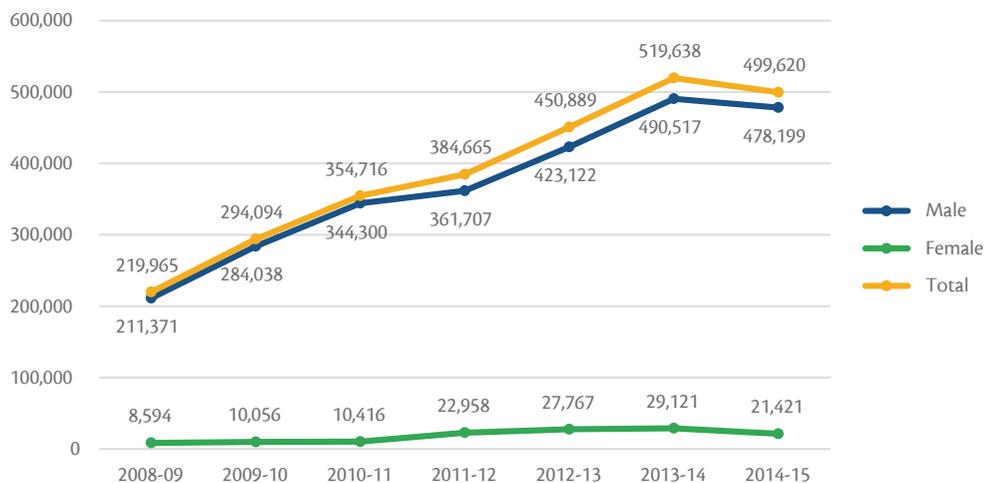
However, no previous wave of migration has developed and expanded as quickly as the one witnessed over the last decade. Between 2008-

<sup>vii</sup> Of the nearly 2 million Nepali citizens living outside the country in 2011, 85.5 percent had left in the previous 10 years, showing the degree to which out-migration has accelerated. Source: National Population and Housing Census 2011, Central Bureau of Statistics, Nepal – Medium Variant Population Projection

09 and 2014-15, the number of annual registered migrants from Nepal more than doubled – from fewer than 220,000 to nearly half a million (see Figure 1).<sup>38</sup> Much of this recent migration is in the form of temporary migration in low-wage sectors, where Nepali workers migrate on short-term visas tied to a particular employer, many having paid high recruitment fees.<sup>39,viii</sup>

As of 2014, Nepal ranked third in the world in ratio of remittances to GDP<sup>40</sup> – rising to 32.1 percent in 2016 from only 10.9 percent in 2004.<sup>41</sup> If one were to compare the remittance received by the economy to the sectors that contribute to GDP, it would outrank agriculture, whose contribution to GDP was 31.6 percent in 2016.<sup>42</sup>

Figure 1  
**Annual Number of Labor Permits Issued (2008-09 to 2014-15)**



Source: Ministry of Labor and Employment, Government of Nepal

<sup>viii</sup> In June 2015, the Nepali government introduced a free-visa, free-ticket scheme for migration to Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, and Malaysia. It requires employers to bear the costs of the visa and round-trip air ticket of the migrant worker. In cases when the employer refuses to pay the service charge, recruitment agencies can charge migrant workers up to NRs. 10,000 (~US\$ 100). Ancillary costs for insurance and the contribution to the National Migrant Workers' Welfare Fund, amounting to NRs. 7,000 (~US\$ 70), have to be borne by the worker.

Traveling abroad for work is now firmly entrenched in the social and economic fabric of Nepal. Out of the total absentee population of nearly 2 million in 2011, almost three-fourths had left home in search of employment.<sup>43</sup> Today, every second household in the country has at least one family member working in a foreign country.<sup>44</sup> Census data shows that between 2001 and 2011, the number of Nepalis living outside the country increased by more than 6 times, with 85.5 percent of Nepalis residing abroad having left in the those 10 years.<sup>45</sup> If the average annual growth rate in the share of Nepalis living outside Nepal is sustained, the absentee population would grow to 4.4 million people by 2020 and 7 million by 2025,<sup>46</sup> representing in those respective years 17.6 percent and 21.8 percent of the total number of Nepali-born citizens.<sup>47</sup>

The recent spike is partly a result of the legal framework – namely the Foreign Employment Policy (2012) – which acknowledges the role that

***Traveling abroad for work is now firmly entrenched in the social and economic fabric of Nepal.***

labor migration and remittances play in tackling unemployment and reducing poverty in the country and makes specific efforts to improve the safety of migrants.<sup>48</sup> The Department of Foreign Employment and the Foreign Employment Promotion Board have, since 2008, introduced various reforms to promote safer and more regularized migration processes. The experience of many countries, such as Ghana, Philippines, and Tunisia, shows that legal frameworks to improve formal channels of migration also induce greater numbers of people to migrate,<sup>49</sup> even though such policies do not necessarily address issues like migrants’ voting rights<sup>4</sup> and poor working conditions in destination countries.

Political turmoil following the end of Nepal’s decade-long conflict – particularly in the southern part of the country – has also stripped many young people of hope for their future in Nepal (see Box 1).<sup>50</sup> Many government officials cite the impacts of an “exhibition effect” – where consumption

<sup>43</sup> The policies are designed to: a) identify and promote employment opportunities in international markets; b) develop skilled human resources with competitive capacity to maximize benefits from foreign employment; c) make each step of foreign employment simple, transparent, reliable, organized, and safe; d) address concerns of female workers and ensure their rights in the overall migration cycle; e) ensure good governance of foreign employment management; and f) mobilize local, national, and international resources for foreign employment management and promote collaborative efforts through increasing sectoral partnerships; and g) mobilize remittance for human development and the growth of productive sectors to the extent possible.

<sup>44</sup> The Nepali population residing outside the country does not have voting rights at present. However, Nepali migrant workers, through their embassies, have now provided input on the preliminary draft of the new constitution asking for voting rights, among other safety-related rights. Given the projected absentee population from the country, this would be a significant development for the political and sovereign structure of Nepal.

lifestyles made possible by remittance income inspire the migration of others to fulfill middle-class aspirations.<sup>51,52</sup>

However, the primary reason for out-migration is the condition of Nepal's labor market, which offers few opportunities for quality employment for the vast majority of the country's workforce. This rationale for migration was underscored by nearly every stakeholder who was interviewed during primary data collection in Nepal. In a recent illustration of the lack of good jobs, lines with eight-hour waiting times formed when the government announced

***Lines with eight-hour waiting times formed when the government announced its intention to hire 70,000 security guards for a period of just 55 days during upcoming elections. The high level of demand for even temporary employment reflects the acute shortage of jobs.***

its intention to hire 70,000 security guards for a period of just 55 days during upcoming elections.<sup>53</sup> The high level of demand for even temporary employment reflects the acute shortage of jobs. As detailed in the previous section, the structural changes in Nepal's economy – with services outpacing agriculture in terms of contribution to GDP – have not translated into significant growth in the number and quality of productive jobs.

For almost a decade, Nepal has relied on remittances from temporary labor migration

to augment household incomes, alleviate poverty, and tackle unemployment. The flow of remittances has, of course, carried positive effects: for example, driving consumption in the services sector; contributing to the maintenance of consistent GDP growth; and boosting the amount of household income that can be spent on education and health care. These, among other similar short-run micro- and macroeconomic reasons, have promoted a sort of policy inertia within governing institutions, especially in light of a political landscape that disincentivizes long-term thinking when it comes to implementing strategies

for domestic job creation, even those related to channeling remittance income toward job-creating sectors. With a lack of incentives to fully promote comprehensive frameworks for just job creation in Nepal, the cycle of migration is reinforced further.<sup>54</sup>

The social costs of such high rates of out-migration are well documented, in both Nepal and other origin countries. Some of those costs relate to family and community. Long absences strain personal relationships, children face

the psychological effects of long separations from their parents, and migrant workers' ability to shape community or national-level policy decisions through civic participation is weakened.<sup>55,56</sup> Other costs are related to the exploitation of migrant workers in destination countries. Engaged in what are called "3-D" jobs – dirty, dangerous, and difficult – migrant workers confront poor working conditions.<sup>57,58</sup> They are often subjected to wage theft, physical abuse, confiscation of passports, and forced labor. In addition to abuse at the workplace, they face social and psychological challenges such as social exclusion and xenophobia.<sup>59,60</sup>

## Countries of Destination: An Unsustainable Strategy

Even aside from these social costs, an examination of Nepali migrants' destination countries complicates any claim that Nepal's dependence on labor migration is economically sustainable. Excluding India,<sup>xi</sup> since 2008 more than 90 percent of registered Nepali migrant workers have been going to Malaysia and the oil-exporting Gulf

Cooperation Council (GCC) countries. In 2014-15, 97.4 percent of registered Nepali migrant workers went to these countries (see Figure 2).<sup>61</sup>

The high concentration of Nepali workers in just a few countries increases the risk to and exposure of Nepal's remittance-dependent economy. An economic shock or political crisis in any one of the top three or four destinations would have serious ramifications for Nepal, especially as its economy grows progressively more dependent on labor migration. Other demographic or policy changes in these destination countries could similarly have major effects on Nepal's economic destiny.<sup>xii,62</sup>

This fact becomes especially apparent when examining the particular countries that host the vast majority of Nepali migrant workers. Many oil-dependent economies, grappling with the combination of low oil prices and dwindling reserves, face economic shocks. This is prompting a shift in policy toward increasing labor force participation of the native population and

***The high concentration of Nepali workers in just a few countries increases the risk to and exposure of Nepal's remittance-dependent economy.***

<sup>xi</sup> Nepal shares an open border with India, ever since the signing of the Indo-Nepal Treaty of Peace and Friendship in 1950, making it difficult to gather evidence on the exact number of Nepalis migrating to India for work. The Census of 2011 noted that 37.6 percent of Nepali migrants in 2011 were in India, but it is difficult to compare this figure with that from other destination countries, given that India and Nepal share a long and highly porous border, where cross-border movements – including for marriage – are extremely common.

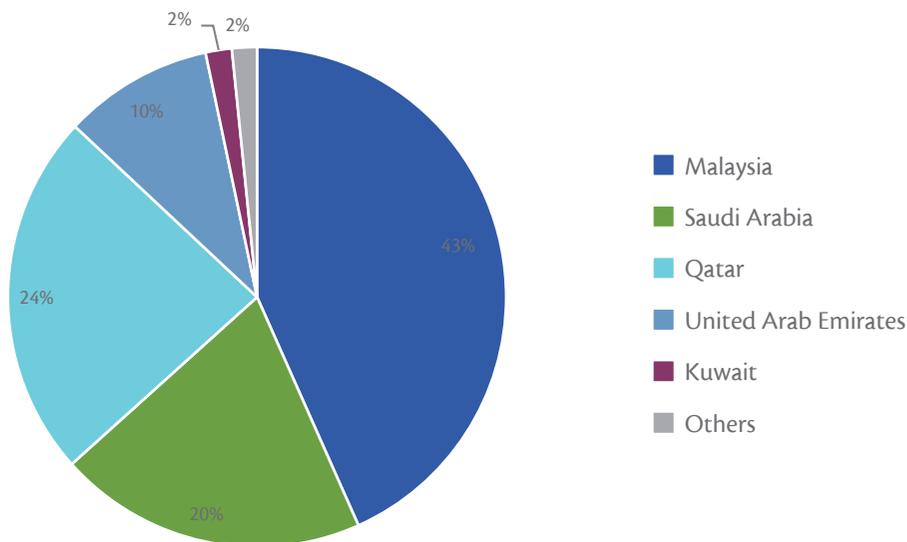
<sup>xii</sup> The probable evidence of this vulnerability can be seen in the 16 percent drop in the number of Nepali migrants in the first quarter of fiscal year 2016-17. A deeper study of this trend in the time to come is needed to substantiate this.

reducing dependence on foreign workers.<sup>63</sup> While in the short- to medium-term, the demand for labor in these countries may persist, the eventual reversal of this trend in the long run appears inevitable.

For example, the United Arab Emirates plans to increase the proportion of highly skilled workers in its workforce to 40 percent by the year 2021 and decrease the number of low-skilled foreign workers in the construction sector by engaging

workers from within the country.<sup>64</sup> Even in the more diverse economy of Malaysia, strong political winds are moving in favor of reducing the country's dependence on foreign workers, resulting in an announcement in March 2016 that all recruitment of foreign workers would be halted.<sup>65</sup> This is compounded by the decreased value of Malaysian currency, which has already forced many migrant workers to consider returning home.<sup>66</sup>

Figure 2  
**Destination Countries of Migrant Workers, via Recruitment Agencies, Total (2014-15)**



Source: Ministry of Labour and Employment, Government of Nepal

Moreover, increasing education levels among local youth in these destination countries, alongside the push to reduce the dependence on foreign workers, suggests that even if these countries continue to look to Nepal and other South Asian countries to fill low-paying, low-value-added jobs, those migrant workers will have extremely limited opportunities for upward mobility. The demand for highly compensated jobs will be met by the native workforce. Nepalis are likely to remain stuck in the jobs they currently perform, which are largely characterized by low levels of pay and high levels of exploitation (see Table 1).<sup>67</sup> As of now, 74 percent of the Nepali migrant workers are engaged in these jobs.<sup>68</sup>

Women’s migration from Nepal, while much smaller in scale than men’s, is similar in terms of destination countries and nature of work. Malaysia and the United Arab Emirates are the most common countries of destination, and domestic work is the job most often performed. While women comprise less than 10 percent of all migrants from Nepal, the number is rising. Between 2008 and 2015, the total number of female migrants more than doubled from 8,594 to 21,421 – higher than the rate of growth in male migrants.<sup>69</sup>

Table 1

**Contractors, employers and jobs posted by country**

Country of Destination	Sectors Offering Employment to Migrant Workers
Kuwait	Construction
Malaysia	Tourism, trading (wholesale/retail), education, agriculture, domestic work
Qatar	Construction, hospitality and tourism
Saudi Arabia	Trading (wholesale/retail), hospitality, construction, manufacturing, domestic work
UAE	Construction, hospitality and tourism

**Source:** Analysis of Labor Market and Migration Trends in Nepal, ILO, 2015

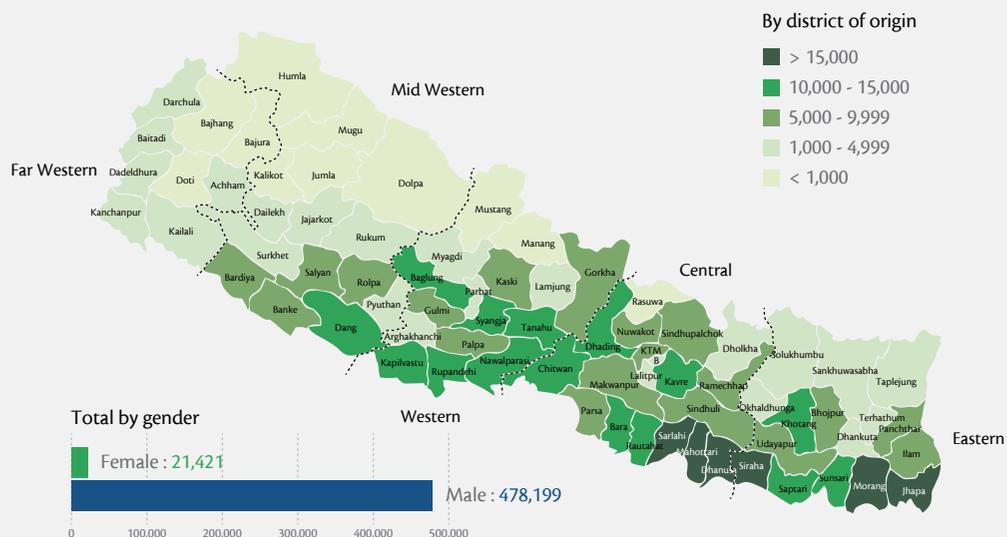
## Box 1. Examining the Terai – One of Nepal’s Primary Regions of Origin

While migrant workers from Nepal come from all over the country’s diverse geography, particular regions send the most workers abroad. In the current patterns of migration, the Terai – Nepal’s fertile southern plain – sends the highest number of migrants out of Nepal as compared to other parts of the country. The districts of Dhanusa, Jhapa, Morang, Siraha, and Mahottari topped the list in 2014-15 (see Figure 3).<sup>70</sup> This section details some of the key characteristics of the Terai. While it is not a monolithic region, some important trends emerge.

One of the most notable trends is that Nepal’s main origin districts have some of the lowest per capita incomes in the country (see Figure 4).<sup>71</sup> For example, the district of Dhanusa, which borders India and contains the urban center of Janakpur, sent the most migrant workers out of the country in 2014-15. Its average annual per capita income is US\$ 938, which is 80.9 percent of the national figure.<sup>72</sup>

Other districts in the Terai fare slightly better. Jhapa, the origin district with the second-highest

Figure 3  
**Total Number of Migrants from Nepal, 2015, by District**



Source: Ministry of Labour and Employment, Government of Nepal

number of migrant workers in 2014-15, has an average per capita income of 105.6 percent of the national average.<sup>73</sup>

Generally, top districts of origin tend to be in parts of Nepal that are more densely populated, as opposed to remote rural high-mountain districts. Many of the hilly regions that see large numbers of out-migration are connected by highways to urban areas. This may be due to the fact that migration requires some social capital

and networks; a worker in a sparsely populated, high-altitude region would find it difficult to locate the information, or the recruitment agent, necessary to migrate.

Ironically, the greatest industrial and manufacturing capacity lies in the regions of the country that witness the highest levels of out-migration (see Figure 5).<sup>74</sup> One might expect the Terai to be a home for productive employment, given its industrial capacity, but instead it is home

Figure 4  
**Per Capita Income (in terms of US\$ PPP, 2011), by District**



Source: Nepal Human Development Report, 2014

to 50.6 percent of Nepal's migrant workers in 2014-15.<sup>75</sup>

This speaks to two important trends: (1) Nepal's manufacturing sector has been in decline, from 9.3 percent of value-added in GDP in 2001 to only 6.3 percent in 2015<sup>76</sup>; and (2) factory managers in Nepal complain that the availability of trained workers in the country is low,<sup>77</sup> and often prefer to source employees from India – which is only a few

kilometers from many industrial establishments. In other words, the Terai's expanding youth workforce<sup>xiii</sup> has limited opportunities for employment and training.

This problem of lack of employment and training opportunities shows up clearly in other data. For example, the Terai region hosts Nepal's highest concentration of youth not in employment, education or training (NEET) (see Figure 6).<sup>78</sup> It

Figure 5  
**Distribution of Number of Manufacturing Establishments, 2011, by District**



Source: Census of Manufacturing Establishments, 2011

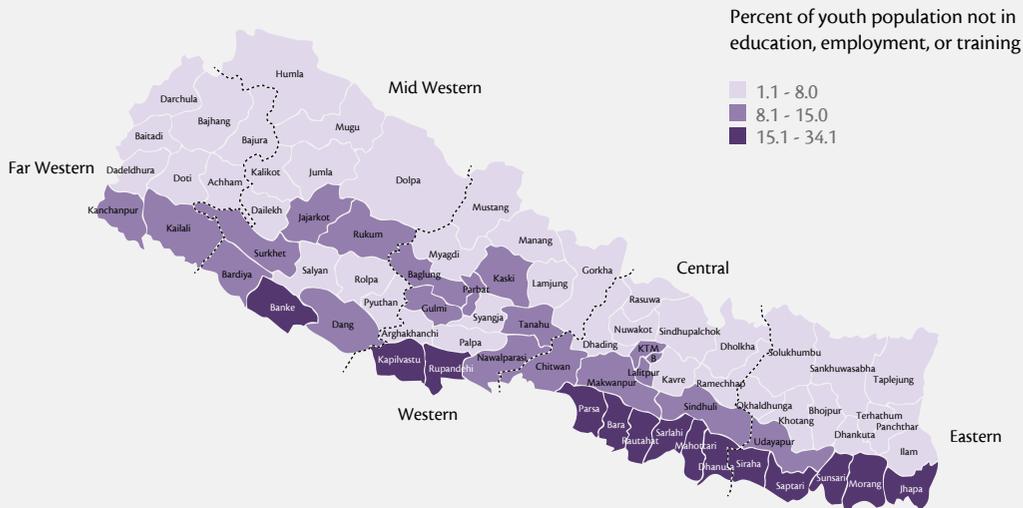
<sup>xiii</sup> Youth population of Terai was 48.7 percent of the total youth population in the country in 2011.

also suffers from relatively low levels of labor productivity (see Figure 7).<sup>79</sup>

There are likely other non-economic factors at play in shaping Terai workers' decisions to migrate. For one, much of the turmoil associated with Nepal's political transition and drafting of a new constitution has been manifest in the Terai. The "Madhesi" community – which shares many cultural and ethnic characteristics with

north India – has felt systematically excluded in the process of defining the terms of Nepal's nascent democracy. These sentiments have taken the form of protests and violence – even resulting in an informal blockade of the country's southern border.<sup>80</sup> In addition to the economic impacts of this turbulence, leaders of migrant worker advocacy groups pointed to feelings of exclusion and hopelessness as being drivers of out-migration.<sup>81,82</sup>

Figure 6  
**NEET Population of Nepal, 2011, by District, % of youth population**



Source: Sub-National Estimates of Human Capital Indicators, African Population Studies, 2016



This unique combination of forces has caused a dramatic increase in the number of migrant workers originating from the Terai over the last several years.

From a policy perspective, the Terai requires significantly more attention from the central government, not only because it is where more than half of Nepal's population lives,<sup>84</sup> but also because the issues that have conspired to make it the country's top sending region for migrant workers also make it the least likely to realize the benefits of Nepal's "demographic dividend"

– the economic boost that comes from having a large youth population in the workforce. Political turmoil aside, the high incidence of child marriage, low rates of secondary school attendance,<sup>85</sup> and high NEET rates mean that the young people in the Terai are the least equipped to access jobs, especially higher quality jobs.

Policy frameworks must seek to capitalize on the region's assets – its existing manufacturing capacity, fertile land, and proximity for trade with India – to create an inclusive economy that offers hope to the region's youth.

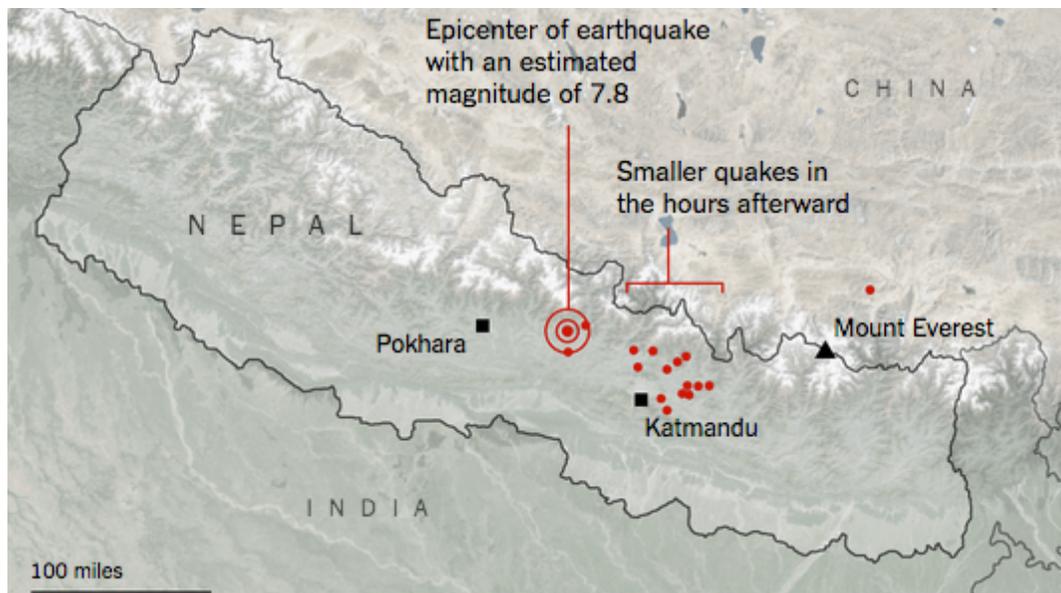
# The 2015 Earthquake: Disaster Devastates an Already Fragile Economy

Nepal's social and economic challenges are significant, and they were made worse and more apparent when the major earthquake hit. On April 25, 2015, when the country was already grappling with a sharp increase in the number of youth leaving for employment abroad and the turbulence of a protracted political transition, a 7.8-magnitude earthquake shook the country. The disaster, with its epicenter less than 50 miles from Kathmandu, claimed nearly 9,000 lives and injured almost 22,000 people (see Figure 8). The

earthquake and its aftershocks left the country, which already rested on socially and economically fragile foundations, grappling with yet another major challenge.

The economic impact of the earthquake was particularly grave because of how close its epicenter was to the country's economic epicenter, Kathmandu, which is responsible for almost a quarter of Nepal's GDP.<sup>86</sup> The 14 districts in and around the Kathmandu valley were the

Figure 8  
Earthquake of April 2015, Nepal



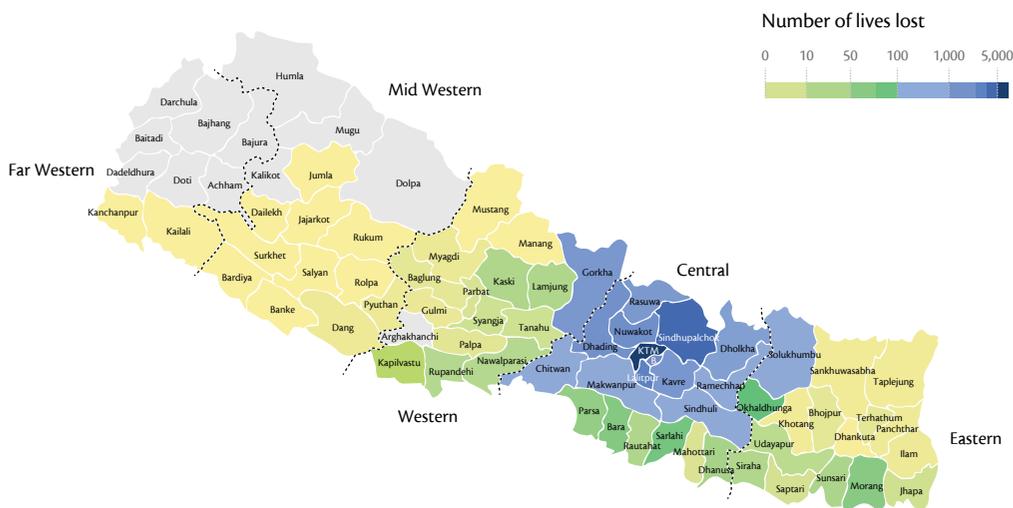
Credits: The New York Times – Satellite Image

worst affected by the earthquake (see Figure 9),<sup>87</sup> witnessing the highest loss of life and property.

Economic losses from the earthquake totaled approximately US\$ 7 billion<sup>88</sup> – more than one-third of the country’s GDP in 2014, which then stood at US\$ 19 billion.<sup>89</sup> The Post Disaster Needs Assessment (PDNA) team of Nepal predicted an economic slowdown given that the estimated value of fixed-capital damage was about the same as all fixed capital created in the prior fiscal

year, and production losses were 10 percent of the added-value of all goods and services produced in the country annually.<sup>90</sup> The damage to housing, healthcare, education, and cultural heritage accounted for 58 percent of losses; and 25 percent of the economic loss was from the agriculture, irrigation, commerce, industry, tourism, and finance sectors.<sup>91</sup> Regionally, of the 14 critically damaged districts, some districts with very high rates of poverty saw per capita property damage equivalent to more than 10 times their

Figure 9  
**Number of Lives Lost in 2015 Earthquake, by District**



Source: UNRCO / Government of Nepal

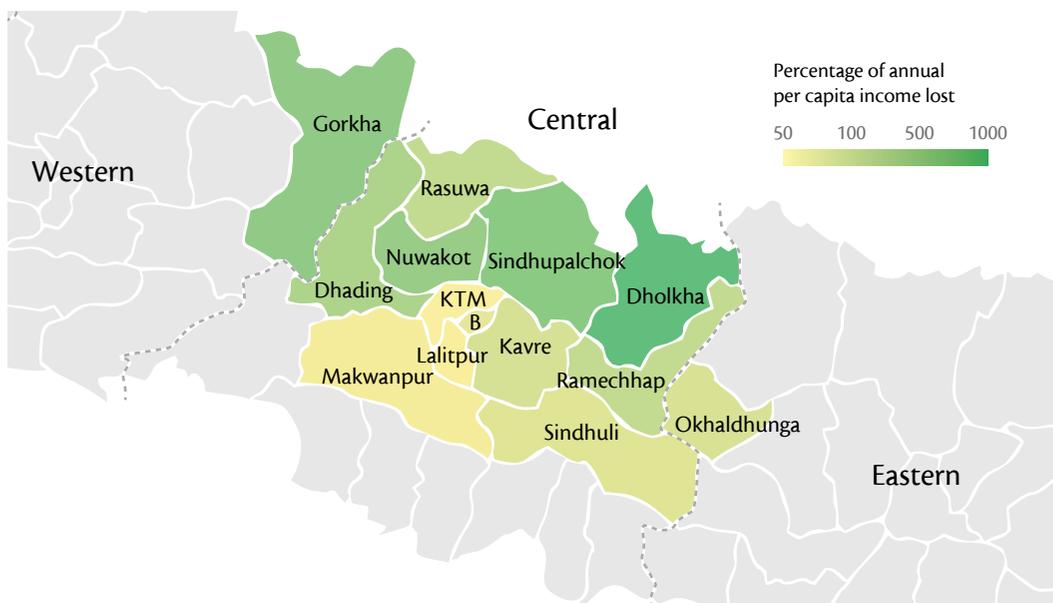
average annual per capita incomes (see Figure 10).<sup>92,xiv</sup>

While the majority of districts that send the most migrants did not see the greatest destruction from the earthquake, the economic damage was acutely felt in all parts of the nation. Among the most affected districts was Sindhupalchok,

which also witnessed the second-highest level of female out-migration in 2014-15. A later section of this report examines Sindhupalchok more closely and describes how the report’s policy recommendations could be implemented in a microcosm of Nepal’s social, economic, and earthquake recovery challenges.

Figure 10

**Economic Loss in 2015 Earthquake as a Share of Annual Per Capita Income, by District**



Source: Post Disaster Needs Assessment Report, Government of Nepal

<sup>xiv</sup> The per capita disaster effects of these districts were reported by the PDNA. These values were converted to purchasing power parity (PPP) US\$ using the PPP conversion factor, GDP at 2011 prices. The map shows the disaster effects as a percentage of per capita income in PPP US\$ in 2011.

## Earthquake Relief and Recovery

The harrowing impact of the earthquake prompted governments and institutions from all over the world to support relief and recovery, pledging US\$ 4.1 billion.<sup>xv</sup> The National Reconstruction Authority (NRA) of the country has stated that out of this amount, US\$ 670 million was allocated to the regular programs donors were already operating in Nepal – leaving US\$ 3.43 billion for other earthquake relief.<sup>93</sup> With the total cost of recovery estimated at US\$ 9.18 billion, the NRA reports a resource gap of 70 percent to accomplish complete reconstruction. Additionally, a major portion of the funds is tied to specific regions or programs, as mandated by donors, leaving the NRA with limited flexibility. While some donations come as budgetary support, which the Ministry of Finance can use at its discretion, others are transferred directly to donors' implementing agencies. The restrictions placed on reconstruction funds by international donors are intended to ensure that resources reach affected communities without leaving room for corruption or misuse. However, they have an

***With the total cost of recovery estimated at US\$ 9.18 billion, the NRA reports a resource gap of 70 percent to accomplish complete reconstruction.***

unintended consequence: They limit the ability of the NRA or the Nepali government to imagine a more comprehensive, holistic recovery process, one in which reconstruction efforts create lasting economic opportunities for Nepali workers.

The public's perception – and indeed the perception of many in government – is that the reconstruction effort is proceeding very slowly. While various institutions argue that the funds allocated have not been spent, the NRA claims that with the given amount of financial and human resources, the reconstruction progress has been considerable, even if not completely satisfactory.<sup>94</sup> The government has not published official figures on the total amount spent on reconstruction.

The Housing Grant Program of the NRA is the central initiative of reconstruction aimed at helping affected families rebuild their homes. The program was designed to provide housing reconstruction grants of NRs 300,000 (approximately US\$ 3,000) to families who lost their homes in the disaster. The grants were to

<sup>xv</sup> Associations such as the trade unions also aided in recovery measures and used their network and connections to gather resources for immediate relief in highly-affected districts. Their efforts have now translated into a broader decent work program, in which they are implementing awareness and training programs and advocating the decent work framework in the construction sector.

be disbursed in three installments of NRs 50,000, NRs 150,000 and NRs 100,000, in three phases of construction. To ensure that households were using the money to rebuild their homes, the NRA introduced a compliance mechanism in which families would have to show progress at each stage to receive the next installment.

Thus far, 90 percent of the houses identified under the program have received the first installment.<sup>95</sup> However, primary investigations reveal that, according to affected families, the pledged

amount is too little to construct a house. The NRA does not dispute this, but it considers the disbursements a form of partial financial support, on top of which the affected families must add their own capital to complete reconstruction.

The result of the mismatch in government policy and people's expectations is that only a small minority of the 90 percent of earthquake survivors who have received the first installment have begun construction on their homes. Because of the NRA's compliance system, most affected



An earthquake-damaged government office building in Singhdurbar, Kathmandu on February 3, 2017.  
**Photo Credit:** Prachi Agarwal for JustJobs Network

people do not qualify for their second installment; and their first NRs. 50,000 has been generally used as income support for basic necessities. Stakeholder interviews also revealed that families were reluctant to start rebuilding without enough capital to see the construction through.

The tension between the government's vision for the Housing Grant Program and realities on the ground recently came to a head, when state authorities demolished makeshift camps in Kathmandu built by families made homeless by the quake, claiming that people had become complacent and seeking to compel them to begin reconstruction of their homes.<sup>96</sup>

As far as public infrastructure is concerned, out of the 21,169 destroyed and 27,452 partially damaged classrooms, about 12,000 temporary classrooms have been built and reconstruction of 8,856 classrooms and approximately 600 schools is underway. Of 1,080 damaged health facilities, 444 are in the process of being reconstructed and 200 have been made operational using

prefabricated structures. The earthquake damaged about 700 heritage sites, of which 114 are under reconstruction at present.<sup>97</sup>

An agency that has witnessed three leadership changes since its inception, the NRA faces several challenges that have contributed to the slow pace of reconstruction. One of the largest is that, for the funds it has the most discretion over, the agency does not have a clear framework for utilization. The NRA, along with the Ministry of Finance, finds itself at a loss to design a comprehensive operating and disbursement procedure for the reconstruction fund, limiting the progress of rebuilding.<sup>98</sup>

The earthquake not only slowed economic activity, but the obstacles to rebuilding houses and infrastructure for education and health, and the organizational constraints of the NRA, have restricted the government's capacity to harness reconstruction as a way to generate more and better jobs and set the nation's economy on an inclusive growth trajectory.

## Locating Nepal's Economic Potential

Nepal's heavy dependence on labor migration poses significant challenges to the long-term health of its society and economy. Before the earthquake, steady GDP growth masked a grim reality: the growing importance of remittance income, even as top destination countries weighed major reforms to reduce reliance on Nepali and other foreign workers. Meanwhile, Nepali workers abroad remained stuck in low-paid, exploitative work, and their hard-earned dollars mainly fueled a consumption economy at home – as structural change failed to give way to true labor market transformation.

In the immediate aftermath of the earthquake, labor migration dipped slightly,<sup>99</sup> as both workers and the government agencies tasked with processing migrant applications experienced a major disruption in their work.<sup>xvi</sup> It is also conceivable that workers who would have migrated may have stayed behind to help their families. But over the long run, the detrimental economic effects of the earthquake are more likely to exacerbate existing trends, with youth seeing few options in the Nepali labor market and choosing to take their chances with precarious work offered abroad. Beyond the clear social costs,

this path would be a dangerous gamble with the country's economic future. All indications point to the fact that Nepal must become less dependent on sending its workers abroad if it seeks to develop an inclusive, sustainable, and job-rich model of economic development.

With more strategic, long-term planning, and innovation in policymaking, Nepal's government can harness its experience with migration and the reconstruction effort to build a different paradigm of economic growth and development. The challenges of large-scale out-migration and the April 2015 earthquake can be transformed into opportunities. Migrant workers returning to Nepal bring with them significant social and financial capital, and providing returnees with the right support would enable them to leverage those financial and non-financial assets, while also creating quality employment for the next generation. This requires the Nepali government to assume a much greater role than it has so far in channeling the skills and resources of migrants toward job-creating sectors and investments.

Earthquake reconstruction, meanwhile, presents another set of prospects. While the recovery

<sup>xvi</sup> Another possible reason for reduction in the number of migrants in the year of the earthquake, according to some respondents, was a new regulation introduced by the Nepali government requiring that migrant workers be given free visas and free tickets when migrating to Malaysia and the Gulf – compelling employers to cover those costs while migrants were to pay processing and training fees. Some hypothesize that this new regulation affected the business of recruitment agents involved in sending Nepalis abroad, reducing their incentive to search for new migrant workers, while also reducing demand for Nepali workers from employers abroad. It will be difficult to assess these claims before a multi-year trend can be established.

effort has primarily focused on replacement of destroyed physical infrastructure, the government has the opportunity to refashion its vision for reconstruction to also address the chronic lack of opportunity and good jobs. Reconstruction poses a unique occasion to improve the quality and quantity of jobs in the construction sector, which in many developing countries provides opportunities for workers transitioning out of agricultural jobs. Ensuring the health and safety of construction workers, affirming their right to bargain collectively, and boosting their wages are all within the power of the government as it continues to lead a massive reconstruction effort. The NRA could also use reconstruction projects as a carrot to entice building materials manufacturers to strengthen their compliance with labor standards.

In terms of improving access and availability of work in construction, qualitative interviews revealed that the government has stepped up efforts to train workers in construction-related trades. “We are establishing training institutes to train workers in masonry, plumbing and electrical systems...People must use these workers in building their houses,” said a government official

***“We are establishing training institutes to train workers in masonry, plumbing and electrical systems...People must use these workers in building their houses,” said a government official during an in-person interview.***

during an in-person interview.<sup>100</sup> However, the government lacks a clear strategy for connecting graduates of training programs to high-quality employment in the reconstruction effort. A more comprehensive vision for reconstruction would also involve developing an effective labor market information system to connect construction workers – especially those trained in newly established programs – with job opportunities. Moreover, the government could open up many more opportunities in construction by creating systems for these workers to be employed in remote areas of the country, where households have difficulty finding skilled labor to rebuild their damaged and destroyed property.

More broadly, reconstruction could leverage the linkages between physical, social, and economic development. For example, the rebuilding of schools presents an opportunity to improve access to education for girls and young women by ensuring safe transit options and gender-sensitive facilities. Reconstruction of training and vocational institutions is an opportunity to upgrade the soft infrastructure of Nepal’s skill development system by integrating new

technologies and teaching methods into classrooms. The rebuilding of roads and highways presents a chance to assess how transport infrastructure could help small producers to access markets and plug into local, regional, and national value chains.

These possibilities have not gone entirely unnoticed by Nepal's government, as the primary research for this report revealed and the government's and donors' "Build Back Better"<sup>xvii</sup> program suggests.<sup>101</sup> But there is currently a deficit of actionable ideas and collective will within government ministries to achieve such a goal. At the time of planning and implementing programs for reconstruction, the government envisioned "rebuild[ing] a more resilient and inclusive country that provides better opportunities for all."<sup>102</sup> This vision, however, could be broadened to see reconstruction as an opportunity to create jobs that ensure sustainability, economic mobility, rights at work, and good working conditions. This goal is supported by Nepal's largest trade union confederations as well. The International Trade Union Confederation – Nepal Affiliate Council (ITUC – NAC) has undertaken a three-year project,

along with the trade unions in Nepal, to enhance the living and working standards of workers in reconstruction.<sup>xviii</sup> In this regard, the policy recommendations section puts forward some actionable ideas.

Nepal is at an important juncture in its history, not only socially and economically, but also in terms of its protracted political transition. How it emerges from this time of uncertainty will depend on whether it can leverage both reconstruction and migration in ways that promote the creation of high-quality employment. To turn these challenges into opportunities, the country requires an enabling policy framework aimed at creating more and better jobs. In this section, the report examines what existing policies might dovetail with the vision presented above, and then identifies assets in Nepal that can be further developed to sustain a "just jobs" ecosystem.

## Assessing Nepal's Plan to Boost Agriculture, Industry, and High-Value Products

The current strategy of Nepal's government – as understood by this report's authors through

<sup>xvii</sup> *The Post Disaster Needs Assessment for Nepal was prepared with the Sendai Framework for Disaster Risk Reduction as the guiding framework, to enhance disaster preparedness for effective response and to "build back better" in recovery, rehabilitation and reconstruction. This framework was adopted by the UN in 2015 to set common standards for disaster risk reduction and resilience.*

<sup>xviii</sup> *With the International Trade Union Confederation – Nepal Affiliate Council (ITUC – NAC) as implementation partners, the trade unions in Nepal commenced a three-year project in 2016 with an objective to contribute to improved living and working standards of Nepali workers by ensuring workers' participation and promoting decent work agendas. The aim is to ensure trade union and workers' representation and participation in different decision-making mechanisms to promote decent work during the reconstruction process.*

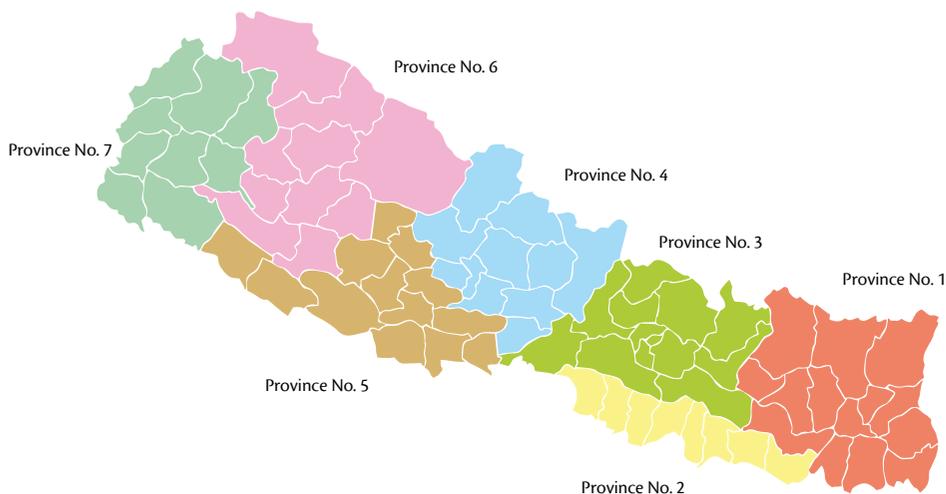
numerous interviews across different ministries and agencies – relies on promoting specific products and developing more comprehensive, streamlined, and sophisticated supply chains around them for both domestic consumption and export. In some cases, the strategy centers on producing simple products that Nepal otherwise imports – for instance, products made from wheat, rice, vegetables, and fruits – in order to tap into the domestic market.<sup>103</sup> In other cases, the strategy revolves around leveraging a competitive

advantage in “niche” products – particularly those that bear close association with Nepal’s successful tourism industry – for export. These would include traditional medicines, herbal products, and high-value textiles such as wool pashminas.

This plan partly involves redrawing the country’s administrative boundaries to create new federal provinces. Since 1981, the government has classified the country into five north-south regions – the Eastern Region, Central Region,

Figure 11

### Nepal’s Proposed Federal Provinces



**Photo Credit:** Provinces of Nepal 2015, Aotearoa, WikiMedia

Mid-Western Region, Western Region and Far Western Region. These divisions, although aimed at enabling equitable development across the country, proved to be impractical, largely because each region contained an extremely diverse set of people and topographies – stretching from the hot, fertile plains that border India to the highest mountain peaks in the world. The government now plans to develop new administrative units that would group the country's districts into seven new provinces; these lines appear to have been drawn with greater attention to the unique characteristics of the country's different physical, economic, and cultural geographies (see Figure 11). This federal transformation also aligns with different sectoral policies of the country. For its most recent project, called the Prime Minister's Agriculture Mechanization Program, the Ministry of Agriculture identified a particular agricultural good for each province to focus on, and "Super Zone" districts within each of the provinces that would function as a kind of headquarters for that product – a hub for input production, training of workers, storage, transport, and marketing. A major priority across provinces will be to improve agricultural productivity. The Ministry of Industry also plans to establish an industrial estate within each of the new provinces.

Another of the Nepali government's strategies is to develop the significant hydropower potential of the country. The employment generation

capacity of hydropower is a debated issue for many reasons, one of which is the reported 13 percent decline in jobs after employment transitioned from construction and installation to maintenance and operations, which requires fewer workers.<sup>104,105</sup> Nevertheless, hydropower investments could play a crucial role in sustaining a more successful manufacturing sector and creating jobs in textiles, leather, cement, mining, and forest products – all stated priority sectors of the government. Infrastructure – correlated with earthquake reconstruction – is also expected to be one of the sectors driving growth in the Nepali economy, but so far, actual capital expenditure has far been below the budgeted level.<sup>106</sup> By increasing planned capital expenditure and investing in infrastructure assets such as highways, roads, irrigation, and power-supply systems, the government will be able to create direct employment in the construction sector. Moreover, it will also overcome one of Nepal's biggest weaknesses in inviting foreign investment – i.e., poor infrastructure<sup>107</sup> – thereby creating greater scope for the creation of formal economy jobs.

### **Building on Current Policy Frameworks to Realize the Potential for Just Job Creation**

From a job creation perspective, the key to the success of these plans – but so far not a clearly

articulated intention of the government – will be to link the agricultural strategy of “Super Zones” with the strategy around industrial estates and new energy infrastructure. For example, in the new Province No. 2, fish is likely to be the chosen priority agricultural product. The new industrial estate established in the same province ought to be equipped with the right hard and soft infrastructure to support development of a successful fish processing industry – including adequate supply of water, hygienic peeling sheds, and specialized cargo movement facilities. This type of integration will significantly expand the job creation potential of the country – particularly in the formal economy, where employment outcomes tend to be better and there exists

greater scope for collective bargaining and labor law enforcement.

Strategies for promoting the integration of agriculture and industry should also take into account existing industrial capacity (see Table 2).<sup>108</sup> Coordinating the creation of new industrial estates based on current industrial capacity will not only help revive existing manufacturers; it will also help new enterprises by ensuring easier access to input materials. Coordinated production will improve competitiveness in the market and enhance the quality of products. It will also provide scope for establishing and leveraging forward and backward industrial linkages and building and enriching market access and

Table 2

### Existing Industrial Units in New Provinces

Provinces	Existing Industrial Units
1	Food processing, textiles, leather and apparel, fabricated metal, furniture, paper & paper-products, chemicals
2	Food processing, rubber and plastic, non-metallic minerals, tobacco
3	Food processing, wood and wood-products, non-metallic minerals, textiles, printing of recorded media, fabricated metal
4	Fabricated metal, furniture, food processing
5	Food processing, wood and wood-products, pharmaceuticals, non-metallic minerals, rubber and plastic
6	Wood and wood-products, non-metallic minerals
7	Food processing, non-metallic minerals, wood and wood-products

Source: Census of Manufacturing Establishments, 2011

outreach for finished products. For example, Province 1 has existing paper and paper-product manufacturers. The industrial estate in this province could focus on developing infrastructure that supports the paper industry by creating road linkages for transportation of wood, establishing pulp mills, and improving water supply systems. This would invite more paper and other ancillary product manufacturers into the region.

Moreover, the development of local economic development strategies must activate the knowledge and ideas of trade unions, producer groups, businesses and investors. These stakeholders have the potential to form a “coalition of the willing”<sup>109</sup> in ensuring that a comprehensive ecosystem of good jobs emerges at the local level. With imminent elections for mayors and deputy mayors, newly elected authorities can play an important role in facilitating this type of dialogue and building effective coalitions.

Nepal’s reinvention of its economic strategy also serves as an opportunity to ensure that these sectors and accompanying jobs are developed in compliance with international labor standards and core International Labor Organization

conventions. It is important that government at all levels commit to the creation of jobs that reflect the principles of the decent work agenda – freedom, equality, security, dignity, and social protection for workers and their families – as well as fair wages and prospects for economic mobility. This requires stepping up enforcement

***It is important that government at all levels commit to creation of jobs that reflect the principles of the decent work agenda while also offering workers fair remuneration and scope for economic mobility.***

of laws on minimum wage and working conditions. But it also entails innovative policymaking around boosting the ability of workers to demand better jobs and the capacity of employers to offer them – measures like skill development, formalization incentives for businesses,

and support for a healthy industrial relations system, for example. In export-oriented sectors, fair supply chains will be of additional economic benefit to Nepal in an era when social awareness among consumers is rising and corporations are increasingly worried about the reputational risks of poor working conditions.

Indeed, one of the crucial elements that seems to be absent from the government’s plans – particularly if they are to yield productive jobs – is better harmonization between sectoral strategies and skill development policies. Thus far, the skills that the government has focused on

in its various training programs are largely aimed at providing self-employment opportunities. Occupations in electronic equipment repair, handicrafts and embroidery, and beauty services are emphasized in the implementation of policies.<sup>110</sup> One exception is government training programs for construction-related trades, but even in this case, there is minimal evidence of an effective labor market information system to link these graduates with high-quality

opportunities in the construction sector or to deploy them in the reconstruction effort. In this sector and in other contexts, a stronger effort to utilize the skills of returning migrants could be beneficial; a comprehensive mapping of the skills that returning migrants possess, and an attempt to certify them to work in similar trades in Nepal, could be advantageous in construction, agriculture, hospitality, and tourism.<sup>xix</sup>



A child in Sindhupalchok district uses a small solar panel to power a light bulb.

**Photo Credit:** Prachi Agarwal for JustJobs Network

<sup>xix</sup> *The Support to Learning and Lifelong Skills (SKILLS) program by United Nations Development Program, in collaboration with Ministry of Education and the Council of Technical Education and Vocational Training, is looking at identifying the skills gaps and reforming the TVET Policy 2012.*

There are both social and economic imperatives behind aligning priority sectors with vocational education policies. In economic terms, the priority sectors identified by the government – for example, tourism and agro-processing – may struggle to expand if they lack the skilled workforce needed to grow. In social terms, skills training affords workers more opportunities to take advantage of an expanding economy, move into less precarious work, and exercise their rights in the workplace.

## Identifying Nepal's Underlying Assets

In the quest for more and better jobs, two of Nepal's particular opportunities have formed the backbone of this report: one, the country's prospects for redefining reconstruction as a broader effort to create an inclusive economy; and two, its scope for leveraging the financial and social capital of migrant workers – particularly in a future where the trend of return migration is likely to become more prominent.

In building an ecosystem for good jobs and realizing some of the policy ambitions outlined above, Nepal has other assets to draw on. One is its geographic diversity. The topography, climatic conditions, and geographic location of the Terai enable the cultivation of tropical and sub-tropical crops like rice, tobacco, sugarcane, and mustard;

provide scope for processing industries that can add value to raw agricultural goods; and create opportunities for export due to proximity with India. The hilly region allows for production of a wide range of vegetables and fruits, in addition to hosting industrial activity around the urban Kathmandu Valley and tourism in and around Pokhara. The mountains provide opportunities for animal husbandry, mainly sheep and yak, and cultivation of organic and medicinal herbs. Economic synergies among geographic zones can be effectively utilized to establish stronger value chains linking communities with different kinds of potential. For example, raw wool can be sourced from the mountains, processed and sown into textiles in the hills, and packaged and exported in the plains. Additionally, such synergies will also provide scope for advancement of agricultural methods and better management of input and output materials, allowing for enhancement of productivity and quality of employment in the sector.

Planned infrastructure investment could become another of Nepal's key assets. The government of Nepal plans to mobilize approximately US\$ 8 billion for investment toward road and rail infrastructure and overall management of the transport sector by the year 2021. The planned road infrastructure will not only address the connectivity requirements within the country, but also upgrade trade routes with China and India. The improvements to the East-West

highway and development of North-South trade routes are also in the works.<sup>111</sup> These infrastructure improvements, if implemented as planned, could have several major impacts. For one, stronger transport networks would enable greater connectivity within the newly proposed provinces, enabling the creation of local value chains. Second, better links between different parts of the country could support more sophisticated national value chains. And finally, if Nepal strengthens the infrastructure that links it to India and China, it could finally exploit the geographic advantage of being sandwiched between two of the world's largest and fastest growing consumer markets to sell niche products. These developments could promote employment and improve prospects for Nepali workers currently compelled to seek livelihood opportunities abroad.

Another of Nepal's assets is its high rate of female labor force participation. Other countries in the

region struggle to encourage women to join the workforce, hampering their economic growth potential. One study found, for example, that if India's women participated in the labor market at the same rate as men, by 2025 the country's GDP would be 60 percent higher than what it would be if female participation remained constant.<sup>112</sup> As of 2014, in Nepal, 79.9 percent of working-age women were part of the labor force, compared to 27 percent in India and 57.6 percent in Bangladesh.<sup>113</sup>

The large pool of its women workers could be a boon to the country's economy if policymakers were to facilitate their entrance into productive, high-quality jobs. As migration slowly becomes more attractive among women in the country, reflected in the rise in number of labor permits for foreign employment being issued to women,<sup>114</sup> the need for urgent action to tap the potential of this segment of the population becomes essential.

# Policy Recommendations: Building an Inclusive, Job-Rich Economy in Nepal

## *1. Use post-earthquake reconstruction as an opportunity to strengthen economic activity and create more and better employment across the economy, in sectors beyond construction.*

While some leaders in the Nepali government have recognized that reconstruction poses an opportunity to spur economic growth and create jobs, operationalizing this idea has been limited by a lack of imagination. Beyond stepping up efforts to train Nepali workers in construction-related trades, there is little evidence that the NRA or other government ministries recognize the broader opportunity that reconstruction presents to invest in communities, develop sustainable local growth strategies, and create decent work. They must go beyond the status quo to create jobs that are just – providing fair wages and economic mobility.

Harnessing the reconstruction process to shift Nepal's growth and development trajectory on to a more sustainable path requires a policy approach that recognizes and leverages the linkages between physical, social, and economic infrastructure. In other words, the replacement of physical structures in the built environment can be planned and designed in ways that maximize their social and economic utility, especially toward livelihood generation.

On one hand, the slow pace of reconstruction efforts has led to harsh criticism of Nepal's government. On the other hand, the large proportion of reconstruction funds yet to be spent represents an opportunity to change course and craft a broader vision. In doing so, the inclusion of Nepali workers' voices is essential, alongside those of other key stakeholders, such as the private sector and international donors.

Redefining the reconstruction strategy should include the following measures:

- **Utilize infrastructure investment to promote local and national value chains.** Rather than simply replacing existing infrastructure, the Nepali government should consider how investments in roads, schools, health clinics, and cultural sites might better support existing or potential value chains that could create more and better jobs not only in earthquake-affected communities, but also in other parts of the country.

The NRA and the Ministries of Agriculture, Industry and Commerce must coordinate efforts in geographies where earthquake recovery and programs to support agriculture and industry overlap, in order harness new infrastructure investments to facilitate trade networks. Infrastructure investments could focus on connecting "Super Zones"

and industrial estates between and across provinces, as articulated in the government's strategic plans. For example, road infrastructure in the district of Sindhupalchok could be extended to reach more ginger-producing communities in the rural hinterland, thereby connecting growers to a value chain that extends to the local processors in Kathmandu, and national processors and international exporters in the Terai.

If it succeeds in promoting local value chains, the reconstruction effort would also boost national value chains – forging synergies between employment creation in earthquake-affected communities and the creation of economic activity in other economically distressed parts of the country, such as migrants' origin communities. Agricultural commodities that grow in earthquake-affected communities, such as cardamom, ginger, and off-season vegetables, can be processed and packaged in the southern plains – where a majority of out-migrants originate – and where industrial capacity is the high and border linkages with India will make for easy exporting.

- **Repurpose business recovery centers as career centers and incubators for small and medium-sized enterprises.** Following the 2015 earthquake, the Ministry of Industry established “business recovery centers” to

offer space to enterprises whose industrial workspaces were damaged or destroyed.<sup>115</sup> These same spaces can now be repurposed in ways that facilitate job creation and labor market matching. The Ministry of Industry could collaborate with the Ministry of Labor and Employment to set up business incubators for small and medium-sized enterprises – coupling the physical space with access to finance and mentorship – or to establish career centers where workers can access information about available labor market opportunities and skill development programs. This idea is but one illustration of how investments made in physical infrastructure as part of the earthquake recovery can be combined with programs aimed at improving the quantity and quality of jobs in Nepal.

- **Negotiate with international donors for greater flexibility in the use of recovery funds.** Currently, the greatest challenge to using reconstruction funds in creative ways that promote inclusive economic development are the spending restrictions imposed by international donors – both organizations and governments.<sup>xx,116</sup> These constraints make it difficult for the Nepali government to channel resources toward a long-term vision for recovery and redevelopment. The NRA, alongside the National Planning Commission and the Prime Minister's office, ought to

work with international donors to map out a comprehensive plan for physical, economic, and social reconstruction – in the ways described above – and negotiate for flexibility in the use of funds, both in terms of time horizons and project allocations.

In return, the Nepali government ought to offer greater transparency and accountability in the reconstruction effort, committing to publish clear data on expenditure as well as impact of their undertakings. Moreover, donors can insist that greater flexibility come with greater commitment to promoting more and better employment generation. In this way, the earthquake recovery might pose a real opportunity for inducing a paradigm shift in Nepal's economy and labor market.

## **2. Institute a long-term plan for the creation of quality jobs in the construction sector.**

The government of Nepal recognizes the immense opportunity that reconstruction offers for job creation in Nepal's construction sector. However, the quality and sustainability of these jobs and the rights of workers must be ensured through a comprehensive strategy. The employment

generated in construction ought to play a central role in forging the creation of a more inclusive and equitable economy. Moreover, the potential value of large numbers of migrant workers who return with experience in construction-related trades must be considered in developing this strategy.

Dividing the reconstruction process into two main categories – individual housing and public infrastructure – the following ideas can guide an overarching strategy to create quality jobs in the construction sector through reconstruction. Active engagement with stakeholders – including trade unions, the industry association of contractors, and donors – will be essential to achieve these goals.

- **Improve labor market linkages between the construction workforce and reconstruction efforts.** The government's skill development strategy includes greater investment in training centers for workers in construction-related trades, such as masonry, plumbing, and electrical work, but there is no comprehensive system for connecting these newly trained workers with opportunities in reconstruction.

Moreover, primary interviews revealed that many graduates end up migrating abroad

<sup>xx</sup> For instance, one of the grants from the Asian Development Bank has divided the total amount into three parts: construction of 135km of strategic roads, rehabilitation of 450km of rural roads; construction of 700 schools in eight districts; and the rebuilding of 300 district level government offices in 10 districts. The allocation of the grant amount for different activities is already built into the agreement, leaving little scope for adjustment or imagination.

rather than working in Nepal. These problems could be addressed by setting up a mechanism for connecting earthquake-affected communities with skilled construction workers, such as a labor market portal or registration system for workers and households or local institutions seeking to rebuild. This labor market matching system would be maintained and updated by the central government in collaboration with local authorities and training institutes. The purpose and function of this system should be efficiently marketed in communities and be made easily accessible, either through an online or SMS-based system, or by approaching local government offices.

- **Facilitate recruitment of skilled construction workers by individual home owners to rebuild houses.** Earthquake-affected families are critical of the government's housing reconstruction grant policy because the amounts disbursed are too little to buy construction materials and hire workers. This has delayed the rebuilding of destroyed houses. One way to resolve this could be to introduce subsidies for employing workers to rebuild individual homes. Using the reconstruction fund, the government would contribute a part of the daily wages of these workers, with the remaining amount covered by the employing household. The

newly designed federal structure can be leveraged to provide village-level authorities with the capacity to implement such a program, utilizing the labor market matching system outlined above. Already identified beneficiaries of the housing reconstruction grant would be eligible. Local government can also be charged with inspecting worksites to ensure safe working conditions in compliance with national labor standards for those employed through the subsidy.

Other than matching households with the needed construction workers, such a wage subsidy would have other positive externalities. For one, assuming those working under the wage subsidy are assured a living wage, the policy would induce upward pressure on wages across the construction sector. This might encourage workers who today choose to migrate abroad upon receiving construction-related training to stay and work in Nepal. It would also help encourage the deployment of a trained workforce in reconstruction, ensuring safer building practices for more resilient homes. Finally, it will provide much needed additional financial support to households struggling to rebuild, with a built-in compliance mechanism since the subsidy is only available through employing construction workers.

- **Leverage reconstruction efforts to improve working conditions, safety, and security of workers in the building materials sector, and construction sites of public infrastructure projects.** The NRA continues to offer large contracts to construction companies for the rebuilding of physical infrastructure. Given the scale of the effort, these tendering processes represent an opportunity to improve working conditions and the safety and security of workers in the building materials and construction sectors. As of now, lack of written contracts, poor living conditions at construction sites, and weak safety standards make most construction work low quality. To advance decent work in the reconstruction efforts, the government should, in consultation with trade unions and worker rights groups, establish a standard that includes the prerequisites for ensuring decent working conditions.

Companies bidding for reconstruction contracts should be required to prove compliance with this standard as part of the due diligence process, with a zero tolerance policy toward companies that violate it. In addition to government inspections, working conditions can be further evaluated and monitored with the help of trade unions and

workers' rights associations to ensure that the workers are not exploited and their voices are heard.

The government could further collaborate with trade unions in improving wages and working conditions in the building materials sector, such as brick-making and other ancillary industries, by creating a list of building materials manufacturers where workers are able to fully exercise their rights. Construction companies who win government contracts could then be required to source from this list.<sup>xxi</sup>

- **Create career pathways for construction workers to ensure sustainable employment post-reconstruction.** While utilizing reconstruction as a strategy to create employment, the government must think through the long-term employment prospects for construction workers beyond the completion of projects. One solution would be to incentivize and promote hiring of full-time workers by contractors. The government should also invest in a continuous cycle of workforce development. Union apprenticeship programs, for example, have proven successful in other parts of the world.<sup>117,118</sup> Such a program allows a worker to work alongside experienced tradespeople and learn on the

<sup>xxi</sup> The authors promote compliance with core labor standards for all businesses in Nepal. This report's emphasis on reconstruction does not negate the responsibility of the government and business to ensure decent working conditions in work unrelated to reconstruction.

job. The Ministry of Education, along with the Council for Technical Education and Vocational Training in Nepal, can carve out an apprenticeship training program in different construction-related trades. This program would create economic mobility pathways for workers who join construction projects in low-skilled occupations to upgrade their skills and their earning potential, while having the protections of organized labor.

### *3. Craft economic development strategies centered on investing in human capital.*

Nepal's current strategies for promoting macroeconomic growth call for a stronger emphasis on creating employment and investing in Nepali workers. Right now, policymakers lack a coherent vision for linking growth strategies with complementary initiatives aimed at enhancing the productivity and capacities of the country's people. One result of this misalignment is poor coordination by the government entities responsible for supporting the growth of burgeoning sectors and the institutions tasked with skill development.

Policymakers are hoping that sectors like tourism, agro-processing, and hydropower will generate economic growth, but training programs are not geared toward supplying those

sectors with skilled workers. Instead, the skill development strategy largely reflects a focus on entrepreneurship and self-employment. For example, despite the government's emphasis on developing Nepal's hydropower capacity, there is no concerted effort to train workers to operate hydropower plants.

The outcome of the current "siloed" approach is unlikely to be positive for workers or the private sector. Programs aimed at providing workers with skills for starting their own businesses – such as beautician courses for rural women – may benefit a few, but will not contribute to building a more inclusive economy with tangible, broad-based opportunities for economic mobility.

The following steps represent an approach to growth and economic development that is centered on investments in human capital:

- **Prioritize sectoral skill development to support import substitution as well as production of niche Nepali products for export.** Nepal's opportunities to create more and better jobs generally fall into two categories: 1) goods and services that Nepal could be producing on its own but currently imports; and 2) niche products that Nepal enjoys a competitive advantage in making, both for domestic consumption and for export. The former category includes rice,

crude soybean oil, and betel nut.<sup>xxii,119</sup> The latter category includes sectors that might draw on traditional knowledge, such as cultural and religious tourism, as well as Nepal's unique geography, such as medicinal and aromatic plants and herbal medicines. While the Ministries of Agriculture and Industry have identified some of these opportunities – for example, yak wool for pashmina products – they have generally neglected the central importance of a robust skill development program to promote such sectors.

- **Ensure policy coordination among government ministries and donors in determining priority sectors and planning skill development initiatives.** Primary research revealed that different ministries often had different plans when it came to boosting particular sectors of the economy. For instance, the Ministry of Labor and Employment has identified the information and communications technology (ICT) sector as a potential employment generator in Nepal, and it is one of the ministry's focus sectors. However, ICT does not feature among the priority sectors for any other ministry. Meanwhile, the Ministry of Commerce has identified agro-processing as a major opportunity for promoting exports, but there

is no coordination with the Ministry of Labor and Employment for building relevant skills in the workforce. Going forward, coordination among ministries and between the government and international donors will be crucial to ensuring that more Nepali workers are receiving training that can improve their access to high-quality employment in growing, formal segments of the economy.

- **Enhance the participation of local authorities in developing and executing local economic development strategies.** Macroeconomic growth strategies, even when they are infused with a strong emphasis on human capital, are often top-down in their approach, neglecting the particular economic assets and opportunities in specific localities. This is especially important in a country like Nepal, with its rich cultural and geographic diversity. With local elections in the country imminent, there will soon be new scope to involve local actors in the process of designing and implementing economic development plans. Local leaders can adapt national strategies to both meet the particular needs of their communities, and harness the potential of local human capital and resources. Following the election, they will have the political capital to make spending decisions, not to mention

<sup>xxii</sup> For example, import of betel nut more than doubled in two years to NRs. 7.67 billion, and up until 2008, betel nut was one of the major export products.



Bhupendra Khatri, a returned migrant entrepreneur  
**Photo Credit:** Courtesy of Bhupendra Khatri

Bhupendra Khatri worked in a ship spare-part manufacturing facility in Korea and used to get a lot of questions about Nepal – its heritage and natural beauty – from his curious colleagues from other parts of the world, including Korea. Realizing how attracted people were to his own country, he decided to come back to Nepal and

use his knowledge of the Korean language to start his own tourism services firm, catering to Korean tourists. Based in Kathmandu, his firm provides tourism services, including facilitation of transportation and hotel stays in Nepal and tourist guides, for Korean-speaking tourists.

the political incentive to ensure funds are spent wisely and in ways that benefit workers and their families. Moreover, by empowering locally elected leaders with more financial resources, the central government can also help to insulate them from the political instability that has constrained expenditure on reconstruction as well as health, education, and skill development – all critical to the formation of human capital.

- **Define sectoral priorities and job creation strategies in light of the economic potential of returning migrants and their skills.**

Until now, the economic potential of return migrants has played little role in the Nepali government's formulation of its sectoral growth strategies. Given the scale of migration – with the annual number of migrant workers doubling from 2008 to 2015 – and in light of the distinct possibility that the number of returning migrants will rise as labor demand in top destination countries falls, policymakers in Nepal ought to review the skills and labor market experiences of returning migrants and integrate this information into strategies to promote economic growth and job creation. For example, many Nepali women who migrate abroad receive training and accumulate experience in child care and other forms of work in the care economy. Other migrants gain experience working in hotels and restaurants,

or learn foreign languages. These skills ought to be incorporated into broader strategies for sector-wise development and job creation.

#### *4. Develop innovative policy tools to harness the productive potential of migrant workers' talents and resources for quality employment creation in communities of origin.*

As this report has detailed, stepping up public expenditure is essential if Nepal is to create more and better jobs and ensure a more equitable and inclusive pattern of economic growth.

While the primary responsibility of investing in people through education, skill development, health care, and infrastructure lies with the government, every country must also seek to channel private capital toward broad-based social and economic welfare. In this sense, migrant workers should be empowered and incentivized to deploy their hard-earned remittances in ways that diversify Nepal's economy, create sustainable employment in origin communities, and ensure that migration is a choice and not a compulsion for future generations. Numerous institutions, including the Nepali government, World Bank, and UNDP have recognized the potential for investing remittance capital in the country. However, very few viable proposals exist for translating theory into reality. There is interest

among migrant workers themselves – evinced by the informal channels they are leveraging to invest in tourism, hospitality, advanced farming and irrigation systems, and micro-hydro power – but little in the way of state facilitation through effective policies. Moreover, the ability of returning migrants to use their skills and experiences in Nepal’s labor market must be enhanced – for the benefit of both the worker and the economy.

In offering avenues for the productive investment of remittances, Nepal’s government could explore several different policy instruments:

- **Pilot the use of community impact bonds.** While impact investors have experimented with the concept of a social impact bond,<sup>120</sup> and migrant countries of origin have tried to leverage migrant workers’ earnings through the creation of remittance bonds, or “diaspora bonds,”<sup>121,122</sup> no policy initiative has attempted to combine these concepts. With diaspora bonds in Nepal showing very limited success, the Nepali government ought to reframe its strategy, giving migrant workers an opportunity to contribute directly to the generation of high-quality employment opportunities in their origin communities through “community impact bonds.” Issuing

these bonds through nationalized non-banking financial institutions, which generally offer higher returns, the government should try to incentivize investment by migrant workers in formal financial instruments.<sup>xxiii</sup>

As the Ministry of Labor and Employment and the Central Bank of Nepal (Nepal Rashtra Bank) explore ways to revive the existing but defunct diaspora bond, they should consider this kind of instrument.<sup>123</sup> Providing tax incentives on income, an interest rate comparable to savings accounts in a bank, and improving the liquidity and trade-ability of the instrument could be some of the ways to encourage its uptake. The issuing authority should use the money from these bonds to provide affordable credit to existing industries in communities of origin as well as seed grants to promising small and medium-sized enterprises. Additionally, since the central bank is currently in the process of consolidating banks and financial institutions by divesting its shares in all these entities except one, it has imposed a temporary break in issuing banking licenses. Exploring the prospect of a financial instrument will be more effective than trying to set up a completely new institution, as some stakeholders have proposed.<sup>124</sup>

<sup>xxiii</sup> Non-banking financial institutions (NBFIs) enjoy greater regulatory leverage in terms of usage of capital than nationalized banks. In addition, amidst the current restructuring in the financial sector of Nepal, it will be a challenge to operate an innovative financial instrument through nationalized banks.

- **Provide matching investment capital for migrant-run producer companies.**

Past development initiatives have sought to promote the productive investment of remittances by encouraging returning migrants to set up their own micro-enterprises. From the perspective of job creation, the problem with this model is that micro-enterprises rarely employ anyone other than the business owner and his or her family. Moreover, self-employment tends to be more precarious than wage employment in the formal economy. In order to stimulate broad-based economic opportunity, the approach to enterprise development must stimulate the creation of small and medium-sized businesses and producer-owned companies, which employ more people, hold greater scope for operating in the formal economy, and have a greater multiplier effect on the local economy. The Nepali government could provide matching funds for returning migrants who pool their resources to set up enterprises of this kind, using nationalized banks to provide low-interest loans, with extended benefits for those businesses that are compliant with labor standards. Additionally, the Nepali government could collaborate with the private sector to establish start-up incubators aimed at mentoring the returned migrants as they set up their enterprises – such as those mentioned in the first recommendation. Even

though many migrant workers only earn enough to provide the basics for their families, interviews with returned migrants and migrant worker advocacy groups in Nepal revealed that some Nepalis working abroad have found informal ways to invest in small businesses. Government policies to support and channel these investments would be fruitful.<sup>125,126</sup>

- **Create skill certification programs for returned migrants.**

Many returned migrants throughout the world come home with significant experience and skills learned on the job, but then find that their abilities are not recognized in the labor markets of their home countries. Countries like India are experimenting with “recognition of prior learning” programs, which provide an expedited pathway for those who have learned a particular skill on the job or in the informal economy to receive a formal certification that is recognized by employers. To execute effective reintegration of returned migrants into the domestic workforce, Nepal could apply this idea to workers who come home with skills obtained, for example, in the construction or hospitality sectors. With mechanisms for certifying these skills, such as those suggested by the International Labor Organization’s workshop – “Skills Recognition for Migrant Workers”<sup>127</sup> – Nepali migrant workers are more likely to find formal work

close to home, and the Nepali economy would be more equipped to leverage these skills to expand growth and productivity in its domestic industries. Moreover, returned migrants with certified skills could be further

trained as teachers for vocational institutes – enabling them to pass on their skills to a new generation of Nepali workers. This may also be a way of utilizing the experiences of migrant workers in reconstruction.<sup>xxiv</sup>

<sup>xxiv</sup> In the context of the construction sector, a more direct relationship between migrant worker skills and employment in Nepal is considered impractical by many contractors. One reason is that the construction sectors in many destination countries are very different – in terms of techniques, materials and machinery – than in Nepal. This makes simple transferability of skills difficult. In light of this, it may be more practical to identify the overlaps in migrant construction worker skills and those taught in vocational institutes, and train them to be instructors in these institutes, or give returned migrant construction workers opportunities to start their own business as contractors, where they can employ the techniques and skills they have on their own terms.

## Box 2: Reconstructing Sindhupalchok: Grappling with Migration and Reconstruction

A narrative account from a JIN researcher<sup>xxv</sup>

Situated at a distance of approximately 67 kilometers from Kathmandu, Sindhupalchok was one of the worst affected districts in the earthquake of 2015. The damaged roads between Kathmandu and Chautara, the district headquarters, reveal these effects and illustrate the slow pace of reconstruction. A few kilometers from the border of Chautara, our vehicle was stopped by some children seeking a ride to school. It takes them over an hour each day to

walk to the makeshift shelter that serves as their schoolhouse; the original building was destroyed in the earthquake and, two years later, is yet to be reconstructed.

The impact of the earthquake in Sindhupalchok's communities was so severe that the district lost the equivalent of eight times its annual income. The Department of Agricultural Development of Sindhupalchok pointed to damage to irrigation



A temple built with resources pooled by residents of a village in Sindhupalchok

**Photo Credit:** Prachi Agarwal for JustJobs Network

<sup>xxv</sup> Names of interviewees have been changed to maintain the privacy of these individuals.

systems, standing crops, storage facilities, and livestock. Even among households that have enough capital to rebuild, a shortage of construction workers impedes progress. One interview respondent had returned the prior year from working in Kuwait and was still struggling to rebuild her home. She secured the help of her brother-in-law, a trained mason, but was unable to afford hiring other construction workers. The grant of NRs. 50,000 (~ US\$ 500) was too little to even

***“What to do with just 50,000? It is not enough for flattening the ground even. And we need to buy cement and other material. The cost of labor per day is NRs. 1,200, and they give us 50,000 and expect us to build a house.”***

begin rebuilding. As another respondent whose house was destroyed, Abhaya, told us: “What to do with just 50,000? It is not enough for flattening the ground even. And we need to buy cement and other material. The cost of labor per day is NRs. 1,200<sup>xxvi</sup>, and they give us 50,000 and expect us to build a house.”

Earthquake recovery is only one of the many challenges that residents of Sindhupalchok face. The district witnesses one of the highest rates of female



A returned migrant worker

**Photo Credit:** Prachi Agarwal for JustJobs Network

<sup>xxvi</sup> NRs 1,200 ~ US\$ 1.2

out-migration in the country. Youth move away in anticipation of high-paying jobs abroad, sending money back home at regular intervals (approximately NRs. 25,000 to 30,000, or US\$ 250 to 300, in two months) and visiting only once every four or five years. Young children are often left in the care of grandparents while their parents work abroad for up to eight or more years. We met a young girl whose mother had been working in Kuwait for six years as a domestic worker. She was living with her grandmother while her father managed the family farm in a nearby village.

The phenomenon of female migration distinguishes Sindhupalchok from many other districts that witness high levels of out-migration.

Only 4.2 percent of workers who migrated out of Nepal in 2015 were women, while 18.8 percent of those migrant workers who originate in Sindhupalchok are women.<sup>128</sup> The out-migration of women from the Tamang ethnic group, the predominant social group in Sindhupalchok, has historical roots. The pre-modern tradition of taking Tamang women to wealthy homes and palaces seeking courtesans still resurfaces in conversations in Sindhupalchok. One of the returned female migrants told us that many people in the community look down upon a woman who has gone abroad to work, commenting, “We know what kind of work the girls do there.”

*One of the returned female migrants told us that many people in the community look down upon a woman who has gone abroad to work, commenting, “We know what kind of work the girls do there.”*

In Sindhupalchok, families view the first five to 10 years of a child’s life as an ideal time for the mother to work abroad. It is when a child is ready to go to school that the mothers feel the need to come back to care for them. Despite the toll it takes on families and the stigma, working abroad does instill a sense of empowerment and confidence in women from Sindhupalchok. Women we interviewed talked with pride about their work and what they had learned.

Bhumika from Chhap village had returned from Kuwait after working there as a domestic worker for seven years, where she was responsible for childcare and household management. After returning, she implemented hygiene and nutrition practices she learned with her own children. However,

she sees limited opportunity for her daughter in Sindhupalchok; her goal is to educate her daughter such that she can obtain high-skilled work abroad.

The migrant counselling center of Sindhupalchok, located in the District Administration Office campus in Chautara, receives multiple applications every month from district residents seeking to move abroad. As the manager of the center told us: “If employment was generated locally, then people would have most definitely not gone abroad because they don’t want to work in a foreign country, leaving their children

and families behind. If there was a conducive environment for employment opportunities in Nepal, they would have opted to earn their bread and butter here.” She mentioned that while most women migrate for work in domestic care, others are being trained at government training centers for jobs like beauty and skin care, and tailoring.

From the villages neighboring Chautara, migration is facilitated by so-called manpower agencies that, in some cases, charge as much as NRs. 40,000 (US\$ 400) in fees. Interviews revealed that while the migrants were able to save some money while working abroad, most of their earnings were used up in repaying loans and other kinds of consumption, including rebuilding their homes after the earthquake. Sometimes

heavy loan burdens are actually the result of corrupt recruitment agents as opposed to official policy. After being charged large fees, migrant workers sometimes reach their destination only to learn that their visa and tickets were paid for twice – once by the employer and once by them.

The lack of productive employment opportunities in Sindhupalchok then leads to a return to poverty. Champa of Gairigaon, a village very close to Chautara, spent five years abroad in Dubai and Kuwait. Her house was the only one in the neighborhood that was rebuilt after the earthquake. “All the money that I saved was spent in rebuilding the house. Now I take care of the household and my husband works in the fields. We make do with what we produce.”



A returned migrant worker

**Photo Credit:** Prachi Agarwal for JustJobs Network

More than 90 percent of the economically active population of Sindhupalchok is engaged in agriculture, and formal economy employment is concentrated almost exclusively in government institutions, where opportunities are few and compensation is unattractive. Over half the district's population is food sufficient for only nine months of the year, and 5 percent for only three months. Moreover, the people of Sindhupalchok have limited or no access to markets, limiting the ability to use agricultural produce for anything other than household consumption. "There is no place close-by from where I can buy good seeds and manure for my land. The output of the land is very low. It would be good if someone could come and test the soil and tell us what crops will be good and how we should be farming for best output," said the elder son of Fulkumari, whose other son has worked in a Malaysian plastic factory for the past five years.

Despite these major challenges, local authorities identified opportunities for growth and job creation as well – the potential to expand production of agricultural goods like ginger, cardamom, maize, off-season vegetables, and trout, as well as construction and tourism-related services. Many of the policy recommendations presented in this report could be applied to Sindhupalchok to realize this potential and create a future of more sustainable, high-quality employment opportunities in the district. The following "action plan" demonstrates this approach, recommending solutions for local authorities to take up in collaboration with the central government, civil society, trade unions and the local private sector.

## Action Plan for Sindhupalchok

### **1. Use post-earthquake reconstruction as an opportunity to strengthen economic activity and create more and better employment across the economy, in sectors beyond construction.**

- Reconstruct irrigation systems, road networks, and storage systems to enable the production and movement of ginger, vegetables, and fish. Sindhupalchok is one of the top ginger-producing districts in the country,<sup>129</sup> and it has also been identified as a pocket for vegetable production in the Ministry of Agricultural Development's agro-mechanization project. Its geographic location is also strategic – sharing its borders with four districts, including Kathmandu, as well as China.
- Invest in building distribution and collection centers to enable farmers to purchase high-quality seeds and raw materials and sell their produce, and to enable workers and homeowners to procure raw material for reconstruction at reasonable prices.

### **2. Institute a long-term plan for the creation of quality jobs in the construction sector.**

- Coordinate with training centers and the central government to link the construction workforce with households in need of workers to rebuild their homes. This effort would be complemented and boosted by an NRA-funded wage subsidy, as suggested.
- In collaboration with trade unions, local government, and local contractors, establish processes for ensuring decent working

conditions for construction workers. As part of this collaboration, a local apprenticeship program could be established to train new workers on-the-job.

### **3. Craft economic development strategies centered on investing in human capital.**

- Establish training centers for educating farmers on advanced farming techniques, soil testing, and agro-processing. Determine workforce needs and request technical and financial assistance from the central ministries in developing training modules and sourcing instructors.

### **4. Develop innovative policy tools to harness the productive potential of migrant workers' talents and resources for quality employment creation in communities of origin.**

- Harness the social remittances brought by returning migrants in innovative ways. For

example, domestic workers learn various new techniques of cooking and child care and almost all migrant workers learn new languages. Leverage these skills to develop the tourism and hospitality sector in the district, working with the local private sector and trade unions.

- Facilitate the establishment of local producer-owned companies by connecting returned migrants with similar skills who want to share the risk of entrepreneurship with others and are interested in pooling their resources. Offer training and guidance in how to register and run a producer-owned company, and request investment in these enterprises from the central government.

## Conclusion

While the April 2015 earthquake in Nepal brought immense destruction, this report demonstrates that the disaster can also serve as a wake-up call – an opportunity for Nepal’s leaders to pivot from an unsustainable trajectory of increasing dependence on labor migration and embrace a more inclusive vision of economic development and domestic job creation. It can deploy reconstruction efforts in service of putting the nation on a more inclusive and sustainable, job-rich path of economic growth. That vision sees reconstruction not merely as the replacement of physical assets, but as the rebuilding of social, economic and physical foundations – placing the creation of quality jobs at the center of policymaking.

The report has proposed both broad principles and specific ideas to guide this effort. For example, it argues that the recovery must be used to create more and better jobs in the construction and building materials sectors – going on to propose a construction subsidy and a labor market matching portal for connecting graduates of training programs to quality employment on construction sites. It argues that harnessing linkages between social, economic and physical

infrastructure might mean repurposing business recovery centers as incubators for job-creating enterprises.

Worker voice and empowerment is a fundamental component that must guide these efforts. If Nepal is to transform its economy, move away from an unsustainable strategy of relying on remittance income, and create good jobs for its people, it must place human capital at the center of its policies. This includes Nepal’s large population of migrant workers who have skills and financial resources but no clear channels for utilizing them in Nepal. If migrant workers are empowered to use their social and financial capital, this will benefit them, their families and future generations.

Political will and innovative thinking are required to implement these ideas. Engagement from a broad range of change-makers – from local officials to cabinet ministers, grassroots civil society to trade union confederations, and small enterprises to the national chambers of commerce – can generate both. As Nepal marks the two-year anniversary of its devastating earthquake, it must harness its assets and this unique moment to build a new kind of economy.



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