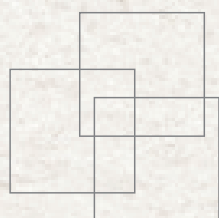




International
Labour
Office

JOBS AND SKILLS FOR YOUTH:

REVIEW OF POLICIES FOR
YOUTH EMPLOYMENT
OF NEPAL



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EXECUTIVE SUMMARY

Nepal is currently facing significant political instability as the failure to adopt a Constitution has hindered progress in a range of policy areas. Weak industrial

relations and other simmering social and economic tensions provide the backdrop to a serious youth employment crisis. Unemployment rates are surprisingly high given that in low-income countries many people have little choice but to engage in economic activities in the absence of social protection. A young person is six times more likely to be unemployed than an adult in Nepal (19 per cent and 3 per cent respectively). For young people who are working, informality is the norm. Over 90 per cent of young workers are in the informal economy. Young people facing bleak employment prospects are leaving the country in large numbers as temporary outmigration surges. Nepal is becoming one of the largest sending countries in Asia.

Some groups are particularly at risk of poor youth employment outcomes: among them are caste groups such as Dalit communities, some ethnic communities, rural youth, those from disadvantaged regions, and poorer women. Child labour and bonded labour are also still prevalent, placing these groups in some of the most vulnerable segments of the labour market.

With these worrying trends Nepal has an urgent need to develop effective policy responses to the grave problems facing young people. This policy review is part of the support provided by the International Labour Organization (ILO) to Nepal; by analysing the policy environment surrounding youth employment, identifying gaps and proposing recommendations the intention is to assist Nepal to confront the challenges of poor youth transitions to the labour market.

Among the findings of the report are:

The sectoral composition of growth shows inherent weaknesses in relation to employment creation

Structural shifts are unfolding in Nepal as the share of agriculture in gross domestic product (GDP) declines. However, agriculture remains the primary source of employment for the adult population and, to a lesser extent, the youth population. This signifies widespread low productivity in agriculture. Industry is performing weakly and has been on the decline in the recent period. The services sector, however, has been expanding significantly, mainly as a result of the very large scale of remittances flowing into the country. Growth therefore is primarily based on external factors – inflows of remittances that are boosting services and monsoon-fed agriculture. In order to facilitate greater employment creation, Nepal will need to invest more in industrial policies, particularly manufacturing, energy and infrastructure development to turn around its current weak position.

Such a strategy does not, however, negate the importance of supporting rural development, as Nepal remains primarily a rural country. The low levels of productivity in agriculture can be boosted by intensification of and support for farm and off-farm activities, which can generate the types of quality jobs in rural areas that can alleviate poverty rates. Revitalising rural areas through local development strategies may be an important means of enabling young people to remain in their communities with stable incomes. Nepal already has experience with local development strategies and could consider expanding existing programmes into more regions with high levels of poverty and out-migration. Ensuring specific targeting of young people in terms of entrepreneurship support, microfinance access, training opportunities and market information could significantly improve the youth employment outcomes in these areas.

Nepal also has considerable experience in labour intensive public works programmes and could again consider the development of a national scale rural employment guarantee scheme to support the rural economy.

Prioritization of policies through tripartite review may be warranted

While there is an existing youth policy, it acts more as a guidance document than an implementable policy with attached resources. It is also very broad based, covering a full range of issues, not just those related to the labour market.

Nepal has a range of other policies that affect youth employment, many in draft form as they await the resolution of the problems surrounding the lack of adoption of a Constitution. Many of these policies are very comprehensive, some to the extent that they may require review to develop priorities in the context of limited resources for implementation. Some of the policies give explicit attention to youth employment outcomes but still lack the development of targets. In other cases the focus on youth is more implicit. Tripartite review with a youth lens would enable stakeholders to develop targets for youth outcomes and identify priorities for resource allocation. Where resources are scarce these priorities could be supported by the donor community and the United Nations (UN) country team.

Nepal lacks a national platform for social dialogue on youth employment

While a dialogue mechanism is envisaged under the draft Employment Policy, until the policy is adopted little progress is likely to be seen on youth employment. Immediate action on setting up a national dialogue platform on youth employment, despite the current political turmoil, would generate a number of positive impacts, including indications of the importance of youth employment concerns. It would also provide a vehicle for tripartite partners to review existing policies as described above, and would support the democratization of the youth population by encouraging their organization and participation.

While the Ministry of Youth and Sports has the mandate on youth issues, its resources and capacity are more limited. Technical capacity on employment issues resides with the Ministry of Labour and Employment. Nepal could therefore consider a partnership between these ministries in coordinating national efforts on youth employment.

Nepal has made major strides in improving educational access

Young people of the current generation far exceed their parents in terms of educational attainment. This generation is the most highly educated in Nepal's history. The report shows evidence that there are clear returns to education in terms of better wages and better quality work, even in spite of problems of unemployment for the most highly educated. Some groups, however, have not benefited as much and are prone to social and economic exclusion. Among them are Dalit communities, whose poverty levels are higher than other citizens, some ethnic minorities and rural communities in general. Continuing to expand access to education will help avoid early labour market entry for these and other groups, enhance the human capital they bring to the labour market and help them avoid a lifetime pathway of poverty and informality. Reintegration programmes for child labourers are particularly important in this context, affecting some 2.1 million children.

Higher education and vocational training have a supply-side bias

While access has improved significantly, there are still problems with the quality of education. With high rates of graduate unemployment, measures will need to be put in place to ensure higher education and vocational training are more responsive to labour market demand. Stronger linkages with the private sector and the development of tripartite councils to oversee curriculum content can be useful avenues to enhance the relevance of education.

Moreover, despite evidence of the demand for skilled technical workers, vocational training is undervalued by young people in Nepal, with higher education being perceived as more prestigious. Developing financial and other incentives for young people to take courses in the skills demanded by the labour market will be important, as will greater investment in vocational training in general, in areas such as infrastructure, technology, equipment and training of instructors.

Public employment services are weak and not functioning effectively

Both the recently conducted School-to-Work Transition Survey (SWTS) and the Labour Demand Enterprise Survey (LDES) revealed the weak capacity of public employment services. Neither young people nor employers availed themselves of these institutions, preferring other methods of job search and recruitment. Yet effective labour market information systems are vital for the proper functioning of the labour market, enabling supply to meet demand. Given

scarce resources, Nepal could consider attracting donor attention to the need for capacity building of these key services.

Furthermore, forecasting of mid- and long-term labour demand is also warranted. The LDES provided insight into demand in the immediate term, and there is ample scope to expand these efforts with sound analysis of future demand, which can support a range of sectoral policies.

The informal economy is being given increasing policy attention

Nepal has clearly recognized the detrimental impacts of poor-quality work in the informal economy and the high costs this entails for individuals, enterprises and the economy in general. A raft of proposed policies, including the draft National Employment Policy, incorporates the issue. While the scale and diversity of informality in Nepal may appear daunting, a sub-sectoral approach may be the most fruitful in facilitating transitions to formality. Tripartite engagement will be essential to develop concrete strategies on the issue. These are discussed in more detail in the recommendations section.

High levels of migration reflect the poor employment prospects in the local labour market.

The risks of exploitation and hazardous work in migration are high; however, with few alternatives in the local economy, young people often have little choice but to seek work abroad. There has been increased policy and legislative attention to migration in the recent period, including the adoption of the 2012 Foreign Employment Act. However, the sheer scale of out-migration has meant that compliance and enforcement have not been able to keep pace. There are also a range of other supportive measures that Nepal could consider to manage migration within a rights-based framework. Among them are the provision of better pre-departure training, simplification of migration procedures and reduction of costs, expanded monitoring of private recruitment agencies, and reintegration programmes for returnees, including packages that enable the productive investment of remittances. Nepal could also consider removing restrictions on women's migration, which has the perverse effect of increasing undocumented migration and heightening vulnerabilities. Importantly, Nepal also has a responsibility to generate employment in its own labour market so as to make migration a genuine choice rather than a necessity.

INTRODUCTION

As part of its intensive work to support Member States to confront the challenges of youth unemployment, underemployment and other poor transitions to the world of work, ILO has been developing country reviews of relevant youth policies. The purpose of collecting and analysing information on past and current policies and the institutional framework that governs labour markets is to gain a clearer understanding of national youth employment issues and draw conclusions for policy making. These reviews are not intended to establish a causality link between policy intervention and specific youth employment outcomes since this would require a rigorous impact evaluation. Rather the purpose is to provide an analytical assessment of whether the national policies that are being pursued are delivering the desired youth employment outcomes¹. Reviews are therefore based on three broad ranges of questions:

1. Which are the most salient features of the youth labour market in the country under review? How have they changed over time? How does the transition from school to work unfold at country level? Have the time and ease of transition improved/worsened over time?
2. Which economic and social policy mix has been/is being pursued by the country under review? How has it affected/does it affect youth employment outcomes and the transition from school to work?
3. To what extent do the labour market governance system and institutional setting affect youth employment outcomes?

A youth employment policy review requires a comprehensive analysis of the national youth labour market. In the case of Nepal, a low-income country seeking to graduate to “developing country” status by 2022, the challenges are immense. Nepal has a very large youth population which, in the current economic environment, is unable to be adequately absorbed into the labour market. As a consequence, poor youth employment outcomes are considerable: high rates of unemployment, high rates of informality, and high rates of out-migration. Furthermore, in the context of the current political uncertainties, the most significant being the failure to adopt a Constitution, there is an urgent need to avoid further disenchantment of the youth, which contributed greatly to the protracted conflict prior to the achievement of peace in 2006.

Chapter 1 will examine the macroeconomic framework and relevant issues such as poverty trends. Chapter 2 will examine Nepal’s demographic and education trends as well as key indicators of the youth labour market. Chapter 3 will take some of the salient elements from the previous chapter to derive some understanding of the difficulties or ease of transition to the labour market for Nepal’s youth. This will be based primarily on the recent SWTS and the LDES, which provided rich

¹ ILO: Guidelines on reviews of policies for youth employment. (Draft, version 2, unpublished)

information on the labour market situations of young people. Chapter 4 will examine relevant policies for youth in Nepal, from the macroeconomic framework to the education and vocational training policy arena, before moving on to labour market policies. Chapter 5 will draw conclusions and provide policy recommendations on how Nepal could pursue better employment outcomes for its youth.

1

OVERVIEW OF THE ECONOMIC AND SOCIAL CONTEXT

1.1 Macroeconomic framework

Despite the decade-long conflict and the protracted peace process after 2006, Nepal has been able to maintain reasonable macroeconomic stability. The economic reform and development agenda of the country during this period however, has been overshadowed by its preoccupation with the post-conflict political transition. This has prevented the realization of the country's potential for stronger economic growth, which is estimated at 6–7 per cent given its natural resource endowments, strategic geographic location and young population. Economic growth has slowed to an average of 3.5 per cent per annum since the conflict began in 1996, compared to about 5 per cent in the previous years.

Save fiscal year 2005/06 where 5.8 per cent economic growth was achieved, the growth rate in other years hovered around 4 per cent. In the fiscal year 2006/07, the growth rate stagnated at 2.8 per cent. As such, the country could only achieve the average economic growth rate of 4 per cent in the last 10 years.

Though in broad terms there have been positive trends, including decreased poverty rates (see section 1.3 below), nonetheless the slow pace of economic growth has inevitably had adverse effects on the overall socioeconomic context of the nation, which has direct bearing on the youth employment situation in the country.

1.1.1 Structure of Gross Domestic Product (GDP)

Gradual change in the economic structure of Nepal is clearly visible. There is a decreasing trend for the contribution of agriculture to GDP but also, more worryingly, for the industrial sector. In contrast, that of the services sector has increased due to large inflows of remittances. Observation shows the contribution of primary, secondary, and tertiary sectors stood at 35.3 per cent, 14.4 per cent, and 50.3 per cent, respectively (Nepal Ministry of Finance, Economic Survey 2012/13). A look at the composition of GDP by International Standard Industrial Classification (ISIC) division (Table 1.1) shows that the share of agriculture has hovered around 35 per cent of total GDP (at current prices) during the last decade with a minimum of 31.7 per cent in 2007/08 and maximum of 36.9 per cent in 2010/11, as shown below. The share of manufacturing in total GDP has come down from 8 per cent in 2003/04 to 6.2 per cent in 2012/13.

Table 1.1. Composition of GDP by ISIC Division (at current prices)

in Percentage

Industries	Fiscal Year									
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12R	2012/13 P
Agriculture and forestry	35.4	34.7	33.1	32.1	31.2	32.5	35.0	36.5	35.4	34.3
Fishing	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Mining and Quarrying	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.6	0.6
Manufacturing	8.0	7.9	7.6	7.5	7.3	7.0	6.3	6.2	6.3	6.2
Electricity gas and water	2.3	2.3	2.1	2.1	2.0	1.6	1.4	1.9	1.2	1.3
Construction	6.4	6.5	6.5	6.5	6.9	6.8	6.9	6.9	6.8	6.9
Wholesale and retail trade	15.3	14.1	14.3	13.3	13.5	13.2	14.4	13.8	13.7	14.4
Hotels and restaurants	1.7	1.6	1.5	1.4	1.5	1.5	1.6	1.6	1.7	1.8
Transport, storage and communications	8.9	9.1	9.7	10.0	9.9	9.9	8.5	8.2	8.6	9.2
Financial intermediation	2.7	3.1	3.5	4.1	4.3	4.2	4.1	3.9	4.5	4.2
Real estate, renting and business activities	7.7	8.7	9.5	10.2	9.4	8.7	8.4	8.2	8.3	8.5
Public Administration and defense	1.5	1.7	1.7	1.8	1.8	2.0	1.9	1.9	2.0	1.9
Education	5.1	5.6	5.6	5.9	6.3	6.7	5.5	5.2	5.5	5.4
Health and social work	1.1	1.2	1.2	1.2	1.4	1.5	1.4	1.3	1.4	1.4
Other community, social and personal service activities	2.7	2.7	2.7	3.1	3.4	3.6	3.7	3.6	3.7	3.6

P = Preliminary, R = Revised

Source: Central Bureau of Statistics

Though the contribution of the secondary sector to GDP has been gradually falling, the contribution of this sector in fiscal year 2012/13 to GDP has increased marginally, reaching 14.35 per cent due to the lower growth rate of the agriculture sector.

Despite the gradual rise in the contribution of the tertiary sector to GDP, the contribution of this sector has been relatively lower than that of fiscal years 2008/09 and 2009/10. The share of this sector in GDP in the fiscal years 2009/10 and 2011/12 stood below 50 per cent, while this share has gone up to 50.33 per cent in the current fiscal year. The tertiary sector shared 45.06 per cent of GDP in fiscal year 2000/01 at prevailing prices, and grew to 49.39 per cent in FY 2011/12.

This sector comprises business, hotels and restaurants, transport, communications, financial intermediation, real estate transaction, public administration and defence, education, health, and other community social and personal services. The increased output of almost all subsectors has been the reason for the rise in the contribution of the tertiary sector to GDP. The average

contribution of this sector to GDP has remained at 49.84 per cent.

Within the tertiary sector, the share of income from tourism has been surprisingly low given Nepal's abundant natural and cultural resources and the importance placed on upon it. Since 2003, the share of income from tourism in the GDP has fluctuated between 2 and 3 per cent; the sector employs 120,000 people or less than 1 per cent of total employed persons (Nepal Ministry of Finance, 2013).

The major macroeconomic indicators showing GDP, its sectoral contribution and per capita GDP are shown in Table 1.2 below.

Table 1.1. Composition of GDP by ISIC Division (at current prices)

Fiscal Year	2003/04	2004/05	2005/06	2006/07	2004/08	2005/09	2003/10	2004/11	2005/12	2005/13
Per Capita GDP, US \$	293	328	350	410	491	497	610	718	706	717
Per Capita GNI , US \$	292	329	352	414	496	502	614	722	713	721
Per Capita GNDI , US \$	339	383	420	487	606	628	759	883	907	926
Real GDP (At Basic Price)* Rs. in billion	448.7	463.2	480.4	493.7	522.3	542.7	565.8	587.5	613.9	635.8
Agriculture Rs. bn	173.7	179.8	185.4	187.2	198.1	204.0	208.1	217.4	228.3	231.3
Industry, Rs bn	77.6	79.9	81.2	84.4	85.8	85.3	88.7	92.6	95.4	96.8
Service, Rs. bn	213.5	220.6	233.0	243.5	261.4	277.1	293.3	303.3	317.0	336.1
Real GDP (At Producer's Price) Rs. in bn	481.0	497.7	514.5	532.0	564.5	590.1	618.5	639.7	670.7	695.2
Nominal GDP (At Producer's Price) Rs. in bn	536.8	589.4	654.1	727.8	815.7	988.3	1 192.8	1 375.0	1 536.0	1 701.2
Gross National Income (in current price) Rs. in bn	535.1	591.1	659.0	735.3	823.6	1000	1 201.9	1 382.5	1 550.8	1 709.0
Per Capita GDP (in current price) Rs.	21 689	23 292	25 279	28 905	31 946	38 172	45 435	51 896	57 202	62 510
Per Capita GNI (in current price) Rs.	21 620	23 357	25 471	29 200	32 257	38 626	45 782	52 181	57 753	62 797
Per Capita GNDI (in current price) Rs.	25 051	27 218	30 346	34 323	39 417	48 262	56 549	63 800	73 497	80 685

Source: Economic Survey 2012/13, GON, Ministry of Finance

While the agricultural sector is beset by problems such as lack of infrastructure, agricultural technology, and agricultural extension services, the industrial sector is facing problems due to the energy crisis and poor industrial relations. Similarly, productivity in the services sector has remained low due to lack of knowledge, skills, competitiveness and weak technology utilization capacity. The country has thus not been able to achieve its targeted economic growth due to low investment and low productivity.

Remittances constitute a high proportion of GDP. Between 2003 and 2012, its share of GDP nearly doubled from 11 per cent to 21 per cent. Up to 56 per cent of households receive remittances on a regular basis. While remittances have been an important source of household income it is nonetheless an unreliable source of national income since it is vulnerable to external factors in receiving countries. It is also a strong indication that employment opportunities are severely lacking and that there are serious pressures on the domestic labour market. According to official data, a total of 2,226,152 labour permits were issued over the six-year period, a staggering 137 per cent increase between 2008–2009 and 2013–2014, representing around 8 per cent of the population². These figures, however, do not take into account the estimated very large numbers of undocumented workers who also leave, as well as those who cross the open border into neighbouring India.

1.2 General labour market trends

Data for this section is taken from the Annual Household Survey 2012/13 – the first of its kind conducted by the Central Bureau of Statistics (CBS) in Nepal – as well as from the 2008 Nepal Labour Force Survey (LFS), which gives the most reliable previous estimates of the working age population. The data from the recently conducted SWTS will be used in Chapter 2 on the youth labour market.

The Annual Household Survey 2012/13 provides findings on the consumption patterns of Nepalese households along with the economically active population/labour force participation rates. The Survey shows a labour force participation rate of 81 per cent. This is a slight decrease from the participation rate identified in the 2008 LFS of 83.4 per cent. The LFS also showed very high employment rates of 85.5 per cent for men and 78.5 per cent for women. Unemployment rates have remained low – according to the LFS – at 2.0 per cent for males and 2.2 per cent for females (Serrière, 2014). Slightly higher rates are shown according to the Annual Household Survey in 2012/13: 3.2 per cent for males and 3.3 per cent for females (See Table 1.3 below). As the data from the SWTS will show in Chapter 2, the rates of youth unemployment are significantly higher.

One striking feature of the Nepali labour market is the decline in the numbers of men, particularly in rural areas. According to 2008 LFS, at the national level there were around 123 women for 100 men. This is more pronounced in rural areas where there were 4,731,000 men compared to 5,640,000 women, and fewer employed men (4,664,000 men compared to 5,580,000 women) (Serrière, 2014). Strong emigration flows have thus impacted the structures of the working age population in Nepal.

² Government of Nepal, Ministry of Labour, Department of Foreign Employment 2014 data

1.2.1 Status in employment

According to the 2008 LFS, among the 11.8 million employed, almost 2 million were paid employees, while 9.8 million (that is, 83.1 per cent) were self-employed. Wage and salaried employment applied only to a minority of employed (16.9 per cent). In absolute numbers, more men received wages than women (1,471,000 men compared to 521,000 women) (Serrière, 2014).

1.2.2 Informality

Informality is also high in the Nepal labour market. To capture informality in the 2008 LFS, the following categories were included (agriculture was excluded): own-account workers with or without employees, workers in unregistered companies with less than 10 employees, contributing family workers, and all those not receiving annual leave and/or social security. According to these criteria, informal employment within non-agricultural activities accounted for 60.7 per cent (66 per cent men and 77.5 per cent women). If agriculture were taken into account (which consists mainly of subsistence farming), the share of informal employment would climb to 96.2 per cent (98.6 per cent for men and 93.5 per cent for women) (Serrière, 2014).

1.2.3 Migration

Migration is a significant feature of the Nepalese labour market. It takes many forms, including seasonal migration and foreign migration as well as immigration from India. Reliable data is difficult to obtain. Registered migration increases on average about 20 per cent per year, with more than 8 per cent of the population abroad according to official data. As noted in section 1.1 above, the numbers of unregistered migrants are likely to be significantly higher.

Remittances are a major source of income for the economy; however, this is overshadowed by the fact that most of the workers leaving for foreign employment are engaged in low-skill occupations and a significant portion of them are undocumented workers, making them susceptible to various forms of exploitation at home and also while abroad.

1.2.4 Child labour and bonded labour

Child labour is another important dimension of the labour market. Data from the 2008 LFS shows very high rates of child labour. Eleven per cent of boys and 15 per cent of girls aged 5–9 years were already in the labour market. That rate increases to 47.2 and 58.7 per cent for boys and girls, respectively, aged 10–14. The activities performed by children include fetching water and collecting firewood, and take an average of 18 hours per week. These children are thus considered to be working rather than contributing to the household (Serrière, 2014). Up to 2.1 million of the total child population of 6.2 million are currently

engaged in economic activities (DWCP, 2013). These high rates of child labour have a profound effect on youth employment outcomes since young people who have an early entry into the labour market are unlikely to ever escape poverty and informality without measures to support their reintegration into education or into better work opportunities for older youth.

Bonded and forced labour practices are also still highly prevalent in Nepal, with more than 100,000 bonded labourer households involved in agriculture, and approximately 12,000 girls trafficked annually from Nepal (DWCP, 2013).

1.2.5 Gender inequalities

Gender disparities are also evident in the labour market. Although the differences in terms of unemployment rates and informality are negligible, it is in the types of work that women do that their disadvantage becomes apparent. The majority of workers in agriculture are women, often in low productivity, low income, and often subsistence work. Women are also less likely to be wage earners than men and more likely to be in own-account work, one of the more vulnerable categories of employment. Women are also concentrated in occupations such as domestic work, which is one of the most poorly protected sectors of work. They are estimated to make up to 68 per cent of Nepal's overseas migrant domestic workers (UN Women 2013)³, often with their ethnicity, class, caste and lack of migration status adding further layers of vulnerability.

1.2.6 Caste inequalities

Although caste discrimination has been illegal since 1962, its influence is still pervasive in the labour market and in society. Those at the bottom of the caste system, such as Dalit communities, are most likely to suffer social and economic exclusion, have higher rates of poverty than the rest of the population and have less access to education and decent work opportunities.

1.2.7 Labour underutilization

Another important feature of the Nepali labour market is the high level of labour underutilization. According to the 2012/13 Annual Household Survey of conducted by CBS, Nepal has a labour underutilization rate of 27.8 per cent (see Table 1.3 below). Included in this is time-related underemployment (13.4 per cent), mismatch of skills with current employment (4.2 per cent), and inadequate earnings from employment (6.9 per cent).

³ Other estimates, including official Government estimates, place the share of women migrant workers as low as 3 per cent. The discrepancy may arise from the high numbers of irregular workers, including those in domestic work.

Table 1.3. Percentage Distribution of Labour Underutilization (15 Years and above) (Area, Literacy and Gender Employment Status of 15 years and above)

	Labour Underutilization Rate (%) ⁴					Employed Others
	Unemployment rate	Time Related Underemployment	Skill Mismatched	Inadequate Earnings ⁵	Labour Under utilization Rate	
Gender						
Male	3.2	13.9	4.9	11.0	32.9	67.1
Female	3.4	13.0	3.6	3.3	23.4	76.6
Area						
Urban	8.0	9.5	5.9	17.1	40.5	59.5
Rural	2.5	14.1	3.9	5.1	25.6	74.5
Literacy						
Literate	4.1	13.5	7.0	9.7	34.3	65.7
Illiterate	2.1	13.3	0	2.7	18.1	81.9
Nepal	3.3	13.4	4.2	6.9	27.8	72.2

Source: Annual Household Survey 2012/13, CBS, Nepal

1.3 Poverty

Nepal has dedicated much policy attention to reducing poverty. The Tenth Five-Year Plan (FYP) (2002–2007) is considered to be very significant in terms of recognizing the country's development challenges, underlying causes of the civil conflict, and a focused vision for reducing poverty. Considered the country's poverty reduction strategy, the FYP sought to focus and prioritize investments that contribute to poverty reduction. The period that followed the Tenth FYP was, however, marked by political uncertainties associated with the protracted peace process. The planning cycle has been reduced to three-year plans since the 2008 fiscal year. While these three-year interim plans (fiscal years 2008–2010 and 2011–2013) continued to focus on addressing poverty reduction and social exclusion, they lacked a clear longer-term strategic framework, and understandably so in view of the prevailing political uncertainties.

Poverty thus remains a major challenge to the country. Current estimates place the poverty rate at 23.8 per cent in 2012, which is below the target rate of 21 per cent for the end of the 2012/13 fiscal year (Nepal Economic Survey 2012–2013). The long-term trend, however, is more positive. According to the first Nepal Living Standards Survey 1995–1996, a milestone in the collection of data

⁴ The 2012/13 CBS Annual Household Survey estimated the labour underutilization rate of currently economically active persons, and defined it as the sum of the unemployment rate, time-related underemployment rate, skill mismatch and inadequate earnings.

⁵ The calculation of income-related inadequate employment (inadequate earnings), hourly earnings and monthly earnings are computed by adding corresponding receipts in cash and kind. The monthly earning threshold is then defined as half of the median of combined earnings (= hourly earnings + monthly earnings) of paid employees that worked 40–48 hours over 7 days. After that, the hourly earning threshold is calculated by dividing the monthly threshold by the average number of hours that paid employees worked (40–48 hours) over 7 days, and multiplying it by 52/12.

for the measurement of the living standards of the people and for determining the poverty level in the country, the poverty rate in Nepal was estimated to be as high as 42 per cent. The Government's economic reforms and development agenda on economic growth and poverty alleviation in recent decades has paid dividends and, as a result, the past two decades have seen significant poverty reduction. The poverty level was reduced from 42 per cent to 25.2 per cent between 1995-1996 and 2010-2011.

This is also related to an increase in GDP per capita, which rose from US \$207 in 2004 to US \$706 in 2012 (CBS). The poverty gap ratio also declined by almost 50 per cent, indicating that the degree of poverty amongst those who continue to remain poor, is decreasing. The level of inequality has also improved, and Nepal's expenditure-based Gini coefficient has decreased from 41 to 35 between 2003-2004 and 2010-2011. However, while the levels of overall inequalities have declined, horizontal inequalities remain significant — rural poverty is considerable higher (27 per cent) than urban poverty (15 per cent), and the level of poverty within the Dalit community is at 42 per cent compared to 23 per cent among non-Dalits (DWCP, 2013).

1.3.1 Gross National Disposable Income / Income Distribution

According to the 2012/13 Economic Survey, Nepal's disposal income has been increasing over the past few years. In the 2012-2013 fiscal year, disposable income was estimated to have grown by 11.3 per cent more than in the previous fiscal year, totalling Rs 2.196 trillion at current rates. The rise in National Disposable Income is attributed to an increase in remittance income. The Gross National Disposable Income had increased by 16.7 per cent in the 2011-2012 fiscal year as compared to the previous fiscal year. Based on the Gross National Disposable Income, the total consumption ratio stood at 70.2 per cent with a 29.8 per cent gross national savings ratio in 2012-2013.

Although income has risen overall, its distribution is still heavily skewed. According to the CBS 2012-2013 Annual Household Survey, the richest one-tenth of the population of Nepal spends nine times more money than the poorest 10 per cent. The per capita expenditure of a person in the richest one-tenth stands at Rs 136,663 per year, while that of a person in the poorest 10 per cent stands at about Rs 14,488.

Food consumption in developing countries is considerably more responsive to income growth than in developed countries. In Nepal, too, consumption expenditure on food items has been found to have the largest share. Table 1.4 below shows the consumption pattern of the Nepalese with very marked urban-rural disparities.

Table 1.4. Consumption Expenditure Per Family in Nepal (current rates)

Area	Total Family Expenditure (%0					
	Expenditure per family NRs.	Food expenditure	Educational expenditure	Non-food expenditure	Labour Under utilization Rate	Total
Urban	340 607	45.1	19.4	6.7	29.8	100.0
Rural	173 315	62.5	9.8	2.2	25.5	100.0
Nepal	204 853	59.2	11.6	3.0	26.2	100.0

Source: 2012–2013 Annual Household Survey, CBS, Nepal

2 THE YOUTH LABOUR MARKET

2.1 Demographic outlook

As of 2013, Nepal has a predominately young population of 27.8 million people. The average citizen is aged 21.6 years. The median age of men and women is 20.7 and 22.5 years, respectively. Only 4 per cent or less of the population is estimated to be over the age of 65 years, while about 57.9 per cent of the population lies in the 15–65 age bracket.

The National Youth Policy, 2010 of Nepal defines youth as persons within the age range of 15–40 years. The policy document thus notes that the 16–40 age group in Nepal accounts for 38.8 per cent of the total population. Taking this as cue, the Approach Paper to the Thirteenth Plan (AFTP) also estimates the population of young people in the country to be 40.3 per cent. Using the United Nations criteria for youth (aged 15–29 years), the National Population and Housing Census 2011 shows that young people constitute around 28 per cent of the total population of Nepal and, of these, over 40 per cent are in the younger age group (15–19) (Serrière, 2014). Out of this youth total, there is a striking underrepresentation of males: as a result of emigration, females constitute 54 per cent, while males make up 46 per cent.

Table 2.1. Youth population by five-year age group and sex

Five-year age group	Total		Male		Female	
	Number	Per cent	Number	Per cent	Number	Per cent
Nepal	26 494 504	100.00	12 849 041	100.00	13 645 463	100.00
15–19 Yrs.	2 931 980	11.07	1 443 191	11.23	1 488 789	10.91
20–24 Yrs.	2 358 071	8.90	1 043 981	8.13	1 314 090	9.63
25–29 Yrs.	2 079 354	7.85	917 243	7.14	1 162 111	8.52
Total 15–29 Yrs.	7 369 405	27.82	3 404 415	26.50	3 964 990	29.06

Source: National Population and Housing Census 2011, CBS, Kathmandu

The breakdown of the under 15–29 age group in urban and rural area shows that urban youths constitute 33 per cent (Table 2.2 below) of the total population, compared to approximately 27 per cent for rural youths.

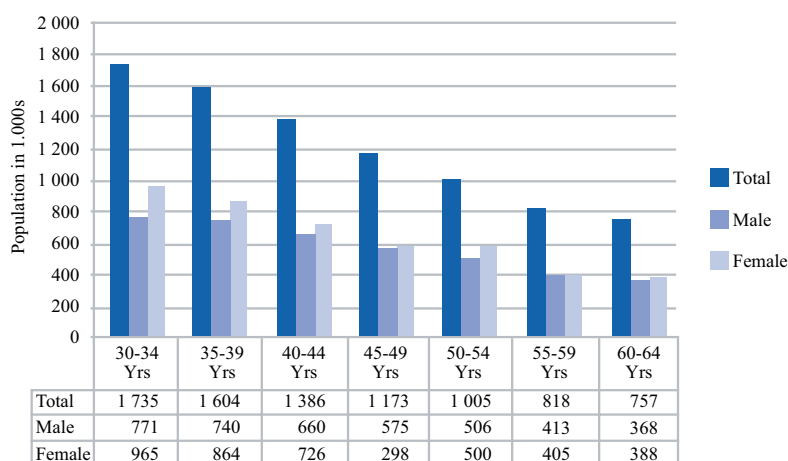
Table 2.2. Urban and rural youth population by five-year age group and sex

Five-year age group	Total		Male		Female	
	Number	Per cent	Number	Per cent	Number	Per cent
Urban						
All Ages	4 523 820	100.00	2 306 049	100.00	2 217 771	100.00
15–19 Yrs.	520 714	11.51	273 601	11.86	247 113	11.14
20–24 Yrs.	520 546	11.51	260 529	11.30	260 017	11.72
25–29 Yrs.	452 256	10.00	220 230	9.55	232 026	10.46
Total 15–29 Yrs.	1 493 516	33.02	754 360	32.71	739 156	33.32
Rural						
All Ages	21 970 684	100.00	10 542 992	100.00	11 427 692	100.00
15–19 Yrs.	2 411 266	10.97	1 169 590	11.09	1 241 676	10.87
20–24 Yrs.	1 837 525	8.36	783 452	7.43	1 054 073	9.22
25–29 Yrs.	1 627 098	7.41	697 013	6.61	930 085	8.14
Total 15–29 Yrs.	5 875 889	26.74	2 650 055	25.13	3 225 834	28.23

Source: National Population and Housing Census 2011, CBS, Kathmandu

The following table shows the 2011 adult population in Nepal, which is when the latest population census was conducted. According to the census, the total adult population in the age group above 29 and under 64 is 8.48 million (32 per cent of the total population), with 4.45 million females and 4.03 million males. The breakdown, by five-year age group and sex, is shown below.

Figure 2.1. Adult Population by Five-Year Age Group and Sex



Source: National Population and Housing Census 2011, CBS, Kathmandu

Nepal's large youth population offers great opportunities for enhancing the development of the country through the harnessing of young people's dynamism, creativity and energy. But this is possible only if policy supports can be put in place to facilitate their productive employment. Nepal does not have a demographic bonus with regard to its population structure; despite a large and youthful workingage population, the proportion of dependents is still high. According to the 2013 SWTS, children below the age of 15 make up 34.9 per cent of the total population. Looking ahead, in order for Nepal to capitalize on its human resource capacities, it will be critical for the country to put in place additional measures to ensure young people are able to increase their educational attainment and avoid early labour market entry.

2.2 Trends in education

2.2.1 Literacy Status and School Level Education of Youths

According to the National Population and Housing Census 2011, overall literacy among young people in Nepal has increased remarkably in recent decades. Among the 15–29 age group, the basic literacy level, or the number of youths who can read and write, has reached a total of almost 81 per cent (about 88 per cent for boys and 75 per cent for girls (Table 2.2 below). This is higher in urban areas, where 92 per cent of youths under 15–29 are literate. In rural areas, the literacy rate among youths of this age group is 78 per cent, suggesting that there are clear issues of more limited access to education in rural areas, as well as poor quality education.

Table 2.3. Youth Population aged 15–29 years and above by literacy status, sex and age

Five-year age group	Population aged 15 years & above	Population which			Literacy not stated
		Can read & write	Can read only	Can't read & write	
Nepal					
Total of 15-29 yrs	7 369 405	5 960 045	103 550	1 301 726	4 084
	100%	80.9%	1.4%	17.7%	0.1%
Male	3 404 415	2 989 487	40 848	372 684	1 396
	100%	87.8%	1.2%	10.9%	0.04%
Female	3 964 990	2 970 558	62 702	929 042	2 688
	100%	74.9%	1.6%	23.4%	0.1%
Urban	1 493 516	1 375 726	13 318	104 038	434
	100%	92.1%	0.9%	7.0%	0.03%
Rural	5 875 889	4 584 319	90 232	1 197 688	3 650
	100%	78.0%	1.5%	20.4%	0.1%

Source: National Population and Housing Census 2011, CBS, Kathmandu

Regarding the share of educational level/literacy levels in different sectors, agriculture has the largest share of non-literate workers (54 per cent), followed by mining and quarry work with 40 per cent, construction with 37 per cent, and manufacturing with 31 per cent.

Table 2.4. Economically active population aged 10 years and above, by literacy status in urban and rural areas

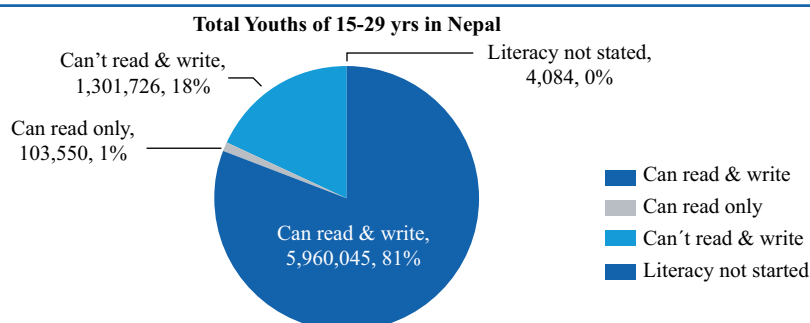
Literacy status/ level of education	Urban		Rural	
	Population	Share	Population	Share
Total	1 506 811	100%	8 422 751	100%
Illiterate	307 676	20.4%	3 975 220	47.2%
Literate	1 198 385	79.5%	4 440 148	52.7%
Under SLC	555 919	36.9%	3 038 168	36.1%
SLC & equiv.	192 816	12.8%	506 848	6.0%
Intermediate and equivalent.	171 332	11.4%	281 138	3.3%
Graduate & equivalent.	140 163	9.3%	122 667	1.5%
Post graduate, equiv. and above	73 263	4.9%	43 949	0.5%
Others	1 136	0.1%	4 997	0.1%
Non-formal education.	58 617	3.9%	413 522	4.9%
Level not stated	5 138	0.3%	28 859	0.3%
Literacy not stated	750	0.05%	7 383	0.1%

Source: National Population and Housing Census 2011, CBS, Kathmandu

The performance of the youth population is better in terms of literacy and basic education compared to the adult population. The CBS data clearly shows that the adult population lags behind in that regard. Out of the total population of adults in the given category, i.e. the 30–64 year old age group, the share of adults that can read and write sits at just 47 per cent compared to 80 per cent of the 15–29 year old age group. Gender disparities are also significant in the adult population in terms of literacy. The share of adult males is 64 per cent while female adults, with 32 per cent, have a considerably lower share. This is also a clear indication of the lower socioeconomic status of women and girls in Nepalese society. Though there is change, the gap between their status and that of the male population, especially in rural areas, is still large.

The figure below shows the breakdown of the literacy status of the youth population in Nepal.

Figure 2.2. Literacy status of youth population in Nepal



Compare Figure 2.2 with Table 2.5, which shows the literacy status of adults aged 30–64 years in Nepal.

Table 2.5. Adult population aged 30–64 years by literacy status

Area, Sex and Age	Adult Population older than 29 years and up to 64 years	Population which			Literacy not stated
		Can read & write	Can read only	Cannot read & write	
Nepal (Both sex)	8 479 270	4 023 673	168 003	4 277 593	10 001
	100%	47.5%	4.2%	50.4%	0.2%
Male	4 033 375	2 591 484	69 217	1 369 284	3 390
	100%	64.3%	2.7%	33.9%	0.2%
Female	4 445 895	1 432 189	98 786	2 908 309	6 611
	100%	32.2%	6.9%	65.4%	0.2%

Table 2.5. Adult population aged 30–64 years by literacy status (continued)

Area, Sex and Age	Adult Population older than 29 years and up to 64 years	Population which			Literacy not stated
		Can read & write	Can read only	Cannot read & write	
Urban	1 561 239	1 129 145	25 641	405 248	1 205
	100%	72.3%	2.3%	26.0%	0.3%
Rural	6 918 031	2 894 528	142 362	3 872 345	8 796
	100%	41.8%	2.1%	56.0%	0.1%

Source: National Population and Housing Census 2011, CBS, Kathmandu

The CBS Population Census 2011 clearly indicates that youths aged 15–19 are the important players in literacy status, with almost 40 per cent of the total youth population aged 15–29, followed by the 20–24 age group with 32 per cent, and the 25–29 age group with 28 per cent.

The data from the SWTS also confirms that educational attainment and access has been improving significantly in Nepal. In comparing the education levels of young respondents with those of their parents, it appears that even at low levels of educational attainment (for example, primary school), at least 80 per cent of the surveyed youth have reached a higher level than their fathers. This also applies to those who have attained secondary and university level. The past generation of women had even lower levels of education as 90 per cent or more of all respondents, regardless of their level of educational attainment, have surpassed the level of educational attainment of their mothers (Serrière, 2014).

The SWTS data also revealed that education is highly regarded. Just over 13 per cent of youth in the sample obtained a university degree, a relatively high number given Nepal's low-income country status. Furthermore, according to the 2011 census, this trend is accelerating, as the numbers of students in higher education more than doubled between 2008 and 2011.

The survey also revealed the lack of popularity of vocational training compared to university or postgraduate education. This should be of particular concern to policymakers since the results of the LDES among employers shows a strong demand for skilled workers in technical occupations.

Despite the favourable trends showing that more young people in Nepal are attending school than any previous generation, there is still a sizeable proportion of young people with very little access to education. Some 7.9 per cent of youth have no education, and 13.3 per cent have only completed primary education or lower, indicating that there are significant gaps in access to overcome. Those in rural areas and Dalit communities are among those with the least access to education.

While there is no evidence that education increases the likelihood of obtaining a job, (indeed evidence shows that those with lower levels of education are more likely to be employed), there is significant evidence that those with higher education obtain better-quality jobs⁶. For example, evidence shows that investing in education leads to higher wage potential. The average monthly wage increases incrementally with each added level of education. Among employees who took the SWTS survey, it was found that a university graduate can earn up to 1.5 times the wage of a young worker with primary education. A young employer with higher technical training can earn nearly twice the wage of a worker with secondary vocational training, and among own-account workers, the wage advantage of higher education is even stronger (Serrière 2014).

2.3 The youth labour market

This section will make use of the recent SWTS, which was published in 2014 and provides the most up-to-date and in-depth labour market characteristics of young people.

2.3.1 Youth activity status

The SWTS shows that there are clear difference between young women and young men regarding activity status. Young women have lower employment rates and labour force participation rates than young men. The employment rate for young women is 33.4 per cent compared to 42.8 per cent for men, and 43 per cent of young women participate in the labour market compared to 51.7 per cent of young men. Similarly, 22.2 per cent of young women are unemployed compared to 17.1 per cent for young men. See Table 2.6 below.

⁶ This is notwithstanding the problem of graduate unemployment which is discussed in section 2.3.2.5

Table 2.6. Key labour market indicators for youth, by sex

	Total	Male	Female
Labour force participation rate (%)	47.7	51.7	43.0
Employment to population ratio (%)	38.5	42.8	33.4
Unemployment rate (strict) (%)	19.2	17.1	22.2
Inactivity rate	52.3	48.3	57.0

Source: STWT 2013

The report also provides information on the activity of youth by education level and with the exception of current students. Those who never attended school, or who left before graduating are more likely to be inactive (inactivity rates are 19.1 per cent and 23 per cent respectively) than those who completed their education (11.6 per cent). Completing education therefore appears to be an important factor for staying in the labour force (Serrière, 2014).

2.3.2 Youth employment

2.3.2.1 Status and sector of employment

The SWTS survey shows that young people have different employment patterns than the rest of the population. As noted previously, young people are more educated than the adult population, a fact that has already begun to have an impact on the labour market. Fewer young people are found in agriculture than adults (45 per cent compared to 73.9 per cent), though agriculture remains the primary employer of young people. Some 41 per cent of young people work in the services industry compared to 19 per cent of adults, and while over 14 per cent of young people work in industry, only 6.8 per cent of the rest of the population do (ILO 2014).

Table 2.7 below details the employment status of young people and displays evidence of the vulnerabilities of certain groups. Teenagers are concentrated in low-quality jobs. Over 60 per cent are contributing family workers while over 32 per cent are employees. Gender differences are also stark with more than 54 per cent of young women engaged as contributing family workers (compared to 31 per cent of young men). Urban workers also tend to have an advantage over rural workers since they are more likely to be employees than contributing family workers.

Table 2.7. Youth employment status by sex, age group and area of residence (%)

Employment status	Total	Sex		Age group			Area of residence	
		Male	Female	15-19	20-24	25-29	Rural	Urban
Employee	40.6	47.6	29.9	32.3	45.8	41.3	38.5	52.1
Employer	6.8	9.0	3.3	1.3	4.9	11.2	6.4	8.6
Own-account worker	10.5	10.9	9.9	5.3	8.1	15.2	10.5	10.8
Member of producer cooperative	0.1	0.0	0.3	0.0	0.0	0.2	0.1	0.0
Contributing family worker	40.6	31.4	54.7	60.8	40.3	29.7	43.2	26.6
Other	1.4	1.1	1.8	0.2	0.9	2.4	1.3	1.9
total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Share of self employed	58.0	51.3	68.2	67.4	53.3	56.3	60.2	46.0
Total employment (number)	2 820 429	1 706 055	1 118 109	677 649	919 218	1 227 527	2 384 235	439 929

Source: SWTS 2013 Nepal

Approximately one third of women (29.9 per cent) and less than half of young men (47.6 per cent) are wage and salaried workers. However, this does not necessarily imply that these young people are in formal work. With over 90 per cent of young workers in informal work, it is likely that these wage and salaried workers are part of a subcategory of informal employment that comprises “informal jobs in the formal sector”. These tend to be insecure jobs without a range of entitlements and protections. The SWTS data found strong evidence, for example, of large numbers of oral contracts, particularly among rural youth (over 70 per cent). Similarly, less than half of youth received entitlements beyond the basic wage.

A large proportion of young people are self-employed according to SWTS data. Employers, own-account workers and contributing family workers together make up the 58.9 per cent of youth who are self-employed. The dynamics behind this show high levels of vulnerability among young people. Self-employment is mainly driven by contributing family workers (unpaid). As much as 54.7 per cent of young women and 31.4 per cent of young men help out in a family establishment without pay.

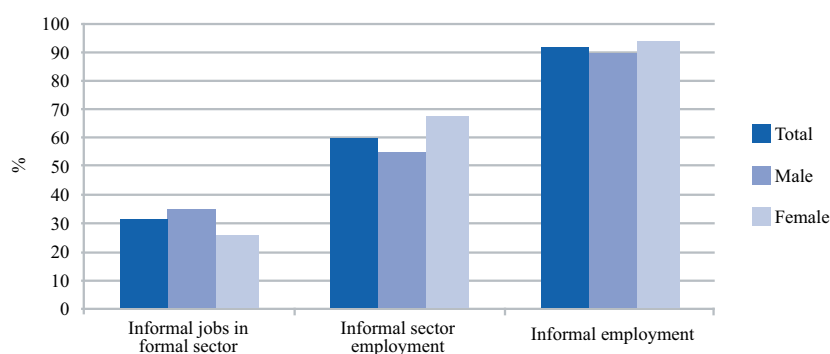
As noted in section 1.2 above, a large number of Nepalese seek employment overseas because of poor employment prospects in the local labour market. There are large variations in the estimates as discussed earlier, particularly concerning the numbers of women migrants. According to the Department of Foreign Employment statistics, of the total 2.4 million Nepalese workers who have migrated for temporary work between the fiscal years of 1993-1994 to 2011-2012, 97.77 per cent were male, while females accounted for a mere 2.32 per cent. Most of the migrants from Nepal reportedly are have the School Leaving Certificate (SLC) or are school drop-outs. Some 80 per cent are from rural areas. The majority of outgoing Nepalese (around 75 per cent) are unskilled, 23 per cent semi-skilled, and

only 2 per cent are skilled. The regional breakdown of outgoing migrants shows 48 per cent are from Terai (plain), 45 per cent are from Hills, and 7 per cent are from Himali/the high-mountain regions, another indication of regional disparities with regard to local employment opportunities.

2.3.2.2 Young workers in the informal economy

According to the SWTS, 92.2 per cent of young workers in Nepal are engaged in informal employment⁷. Informal employment is made up of two subcategories: workers in the informal (unregistered) sector and paid employees holding informal jobs in the formal sector. The latter earn a salary but do not receive the other benefits, such as social security contributions or paid annual or sick leave, which would normally be associated with a job in the formal sector. More Nepalese youth can be found in informal employment within the informal sector (60.5 per cent) than in an informal job in the formal sector (31.8 per cent) as shown by figure 2.3 below (Serrière, 2014).

Figure 2.3. Informal employment of youth by sex (% of youth employment)



Source: SWTS Nepal, 2013

There is only a small difference between the informal employment rates of young women and men in Nepal: young women have a slightly higher rate of 94.4 per cent compared to 90.8 per cent for young men (Serrière, 2014).

2.3.2.3 Wages and conditions of work for young people

Data from the SWTS report shows interesting findings regarding the wages of young people. It also reveals gender disparities as well as disparities

⁷ Informal employment is measured according to guidelines recommended by the 17th International Conference of Labour Statisticians (ICLS). It includes these subcategories of workers: (a) paid employees in “informal jobs”, that is, jobs without social security entitlement, paid annual leave or paid sick leave; (b) paid employees in an unregistered enterprise with size classification of below five employees; (c) own-account workers in an unregistered enterprise with size classification below five employees; (d) employers in an unregistered enterprise with size classification below five employees; and (e) contributing family workers.

by employment category. Own-account workers earn on average 1.5 times more than employees (that is, NPR 17,564 and NPR 11,763, respectively). Young self-employed men systematically earn more than wage and salaried men (employees): as high as 3.9 times for skilled agricultural positions, down to equal pay for craft workers. Women have more variation in earnings, both for own-account workers and employees, although own-account worker earnings are on average 1.3 times higher than those of employees. Female self-employed professionals make the most, with earnings 4.3 times superior to those of employees. The lowest earning occupation is plant and machine operators, where female own-account workers earn just one-third of what is earned by female employees (Serrière, 2014).

With regard to working conditions, the survey had less information, though it did shed light on the benefits young people have not been able to access, including healthcare coverage, holiday pay and social security among others.

In general, the high rates of informality discussed above give a strong indication of the poor working conditions for young people. With a weak regulatory system, hazardous working environments are commonplace. One study estimated that each year approximately 20,000 workers suffer work-related accidents, which leads to about 200 lives lost in Nepal (Pun, 2011).

2.3.3 Youth unemployment

Youth unemployment rates are high in Nepal. According to the SWTS data, the unemployment rate for young people is 19.2 per cent. When disaggregated by gender, women are shown to be more disadvantaged, with a rate of 22.2 per cent in comparison to 17.1 per cent for young men (Serrière, 2014). This is a surprisingly high rate of unemployment given the levels of informality in the Nepali labour market, and a striking difference from the low unemployment rates of the adult population. This data refers to strict unemployment, which is defined as a situation where a person (a) did not work in the reference period; (b) was available to take up work and had received a job offer in the week prior to the reference period; (c) actively sought work within the last 30 days (ILO, 2013b).

A broader definition of unemployment, also known as the “relaxed unemployment rate”, relaxes the criteria on seeking work. According to the Thirteenth International Conference of Labour Statisticians (ICLS), this is applicable in situations where the conventional means of seeking work are of limited relevance; where the labour market is largely unorganized or of limited scope; where labour absorption is, at that time, inadequate; or where the labour force is largely self-employed⁸.

The relaxed rate of unemployment is especially applicable in the Nepali context. Table 2.6 below from the SWTS shows that the relaxed rate of

⁸ For more details see <http://laborsta.ilo.org/applv8/data/c3e.html>

unemployment is much higher at 28.9 per cent (25.1 per cent for young men and 34.1 per cent for women), showing a substantial gender difference of 9 per cent.

Table 2.8. Strict and relaxed youth unemployment rates in Nepal

Youth Unemployment Rate	Male	Female	Total
Strict	17.1	22.2	419.2
Relaxed	25.1	34.1	28.9
Inactivity rate	48.3	57.0	52.3

Source: STWT 2013

2.3.3.1 Graduate unemployment

Like most developing countries, Nepal has a high level of graduate unemployment. The SWTS revealed a 26.1 per cent unemployment rate for university graduates, compared to 8.2 per cent for those with no schooling. Urban/rural disparities are evident in that young university graduates in rural areas have a much harder time finding a job than their peers in urban areas. Unemployment rates for these groups of young people are 30.4 per cent in rural areas, contrasting with 12.9 per cent in urban areas. It has been shown that male graduates have a higher rate of unemployment than female graduates, while rates of unemployment are higher for females than males among youth with lower levels of education. See Table 2.9 below.

Table 2.9. Youth unemployment by level of completed education, sex and area of residence (%)

Level of completed education	Total	Male	Female	Rural	Urban
No schooling	8.2	5.8	11.1	8.2	9
Primary	10.8	9.2	13.9	9.3	29.4
Secondary vocational	0	0	0	0	0
Secondary	10.7	7.8	14.6	9.8	14.8
Higher vocational	4.6	0	10	3.4	10.7
University	26.1	27.4	22.6	30.4	12.9
Postgraduate	9.1	3.4	21.3	0	15.9
Total	11.4	9.8	13.9	10.6	16.6

Source: SWTS Nepal 2013

Graduate unemployment is often attributed to the supply-side problems of skills mismatch and poor quality education. However, this only provides a partial picture. Poorly functioning labour market information systems that are unable to match supply with demand are often also at fault. Moreover, the demand-side problem of a lack of structural transformation in largely agricultural economies means that there is very little demand for highly educated workers. In the case of

Nepal, while there have been structural shifts away from agriculture, it has been towards the growth of the services sector with mainly poor-quality jobs, bypassing the weak industrial sector — which has the greatest potential for absorbing highly educated workers.

The SWTS survey also highlighted the importance of both supply- and demand-side problems that contribute to the lack of jobs for educated young people. Respondents gave virtually equal weight to both supply- and demand-side problems when asked about their perceptions on the biggest obstacle to finding a job. Nearly one third (32.9 per cent) cited lack of education and training, while 32.1 per cent said the lack of existing jobs was the main obstacle. The third main obstacle cited was lack of work experience (19.7 per cent). Among the other reasons cited were gender discrimination (below 1 per cent) and other forms of discrimination (3.6 per cent) (Serrière, 2014).

2.3.3.2 Long-term unemployment

The duration of unemployment plays an important role in determining the degree of “scarring” from unemployment. Some of the damaging effects include repeated episodes of unemployment, lowered employability as a result of employers’ perceptions, and a greater likelihood of a long-term trajectory of lowpay and insecure jobs.

The SWTS has been able to provide some in-depth portraits of those experiencing or vulnerable to long-term unemployment. Close to 27 per cent of all unemployed youth in Nepal are likely to have been unemployed for at least one year. As Table 2.8 below shows, those unemployed for one to two years are more likely to be female aged 25–29, and are likely to live in rural areas. Those unemployed for more than two years are likely to be men aged 25–29 living in rural areas.

Table 2.10. Length of job search of unemployed youth by sex, age group and area of residence (%).

Duration	Sex		Age group			Area of residence		Number	Total
	Male	Female	15–19	20–24	25–29	Rural	Urban	Number	%
Less than 1 week	60.5	39.5	66.2	33.8	0.0	55.0	45.0	17 121	2.6
1 week to 1 month	56.9	43.1	42.3	43.6	14.1	84.1	15.9	176 774	26.3
More than 1 month to 3 months	48.6	51.4	34.7	51.7	13.5	73.0	27.0	144 070	21.5
More than 3 months to 6 months	36.9	63.1	51.0	32.3	16.7	63.3	36.8	72 089	10.7
More than 6 months to 1 year	56.0	44.0	25.4	51.5	23.0	76.0	24.0	80 946	12.1
More than 1 year to 2 years	36.0	64.0	27.9	31.5	40.6	72.0	8.0	57 864	8.6
More than 2 years	64.0	36.0	13.1	26.5	60.4	75.1	25.0	122 077	18.2
Total	52.5	47.6	33.6	40.7	25.7	75.1	24.9	670 944	100.0

Source: SWTS Nepal 2013

Importantly, the survey found that the majority of unemployed youth relied on informal networks to search for jobs. Of particular concern was the lack of effectiveness of labour market information processes. While over 34 per cent of youth answered newspaper advertisements, only 9.1 per cent of youth found a job this way. Similarly, 16.3 per cent of youth registered at an unemployment centre, but only 1 per cent found a job this way (Serrière, 2014).

2.3.4 Youth inactivity and discouragement

According to the SWTS, youth inactivity rates are around 48.3 per cent for young men and 57.0 per cent for young women (See Table 2.6 above). One of the main reasons for inactivity is enrolment in education or training. That accounts for 94.2 per cent of the 15–19 age group, 71.9 per cent of the 20–24 age group and 47.8 per cent of the 25–29 age group. The next major cause of inactivity is family responsibilities, which increase with age, with the largest proportion (36.4 per cent) among the 25–29 age group (Serrière, 2014).

There is currently very little data available that can shed light on the levels of discouragement experienced by young people in Nepal, though the relaxed rate of unemployment discussed in section 2.3.3.5 above does give indications of the scale of the problem.

3 TRANSITION FROM SCHOOL TO WORK

3.1 School-to-Work Transition Survey (SWTS)

School-to-work transition surveys were developed to collect in-depth information on the difficult pathways young people encounter on their journey to the labour market. The surveys are anchored in the concept of decent work. That is, they start from the premise that a young person has not “transited” until they have settled into a job that meets very basic criteria of “decency”. Such criteria include permanency that can provide the worker with a sense of security, or a job that the worker feels personally satisfied with. This therefore brings a new quality element to the traditional definition of labour market transition.

The instrument has been designed to provide policymakers with indepth insight into the individual characteristics that can lead young people to labour market disadvantage. It is therefore an essential part of policy to design interventions to prevent risk factors as well as to develop remedial measures to ensure a smooth transition to the labour market. It is particularly useful in countries such as Nepal where labour market information systems are weak. It can shed light on information not usually captured by household-based surveys, including youth work conditions, wages and earnings, engagement in the informal economy and obstacles to entrepreneurship for young people.

Importantly, the survey has an employer-oriented component that can capture the demand-side aspects of transition. Employer perspectives are essential in order to assess both the demand and obstacles to demand for young workers. The importance of this type of information can be understated since in many cases there is a danger that policy interventions on youth employment may have a supplyside bias. In the case of Nepal, the demand-side survey, the LDES, is discussed in section 3.2.

Nepal undertook the SWTS and LDES surveys in 2013 to collect and analyse information on the various challenges that face young Nepalese as they make the transition to working life. The surveys were undertaken by the Centre for Economic Development and Administration (CEDA) with technical and financial support from ILO. The survey used the upper age limit of 29 in order to capture the experiences of young people as they leave higher education. Thus the survey provides a wealth of information on the full range of youth from 15–29 years.

The survey covered 22 districts in Nepal with a nationally representative sample of 3,020 households comprising 3,584 young people (46.8 per cent women and 53.2 per cent men). At the time of the survey there were 7.3 million young people aged 15–29 in Nepal, or around 27 per cent of the population. With 35 per cent of young people below age 15, these figures add up to a very large proportion of young people in the country. Young people are by no means a homogenous group, particularly in Nepal where there are over 125 ethnic groups speaking 123 languages and living in the Hill, Mountain and Terai areas. However, with the right policy support to embrace both the diversity and commonalities of the country's youthful population, Nepal's young people have the potential to become a formidable asset in the country's development trajectory. The SWTS and LDES surveys aim to support the goal of developing effective policy responses for better transitions for Nepal's youth.

3.1.1 Main Findings

The findings of the survey shed light on a number of issues. Among them are that the youth population is large and continues to grow, and that it faces a serious deficit in jobs. Positive trends include increasing levels of educational attainment. Also, while unemployment may be high among the highly educated, results show that investment in education brings positive returns in terms of wages and access to better jobs (as discussed in Chapter 2). The results also show that many young people are still concentrated in low-productivity activities in agriculture (though the trend is declining compared to their parents) and that the dominant employment status is self-employment.

However, it is in the analysis of youth transitions that the survey provides the richest information on the serious difficulties on the path to work. This is of particular concern in Nepal where the previous protracted civil conflict engaged a large number of disenchanted youth.

3.1.2 Youth transitions

The concepts of transition are discussed in Box 1 below, while the application of the concepts from the survey are discussed afterwards.

Box 1 The stages of transition: concepts and definitions

Labour market transition is defined as the passage of a young person from the end of schooling (or entry to first economic activity) to the first stable or satisfactory job. Stable employment is defined in terms of the employment contract (written or oral) and the contract duration (greater than 12 months). Introducing the issue of a contract automatically excludes the employment status of self-employed, where the employment relationship is

Box 1 The stages of transition: concepts and definitions (continued)

not defined by a contract. The opposite of stable employment is temporary employment, or wage and salaried employment of limited duration. Satisfactory employment is a subjective concept, based on the self-assessment of the jobholder. It implies that respondent considers their job to be a good “fit” with the desired employment path at that moment in time. The contrary is termed non-satisfactory employment, implying a sense of dissatisfaction with the job.

Based on this definition of labour market transition, the stages of transition are classified as follows:

Transited – A young person who has “transited” is one who is currently employed in:

- a stable job, whether satisfactory or non-satisfactory; or
- a satisfactory but temporary job; or
- satisfactory self-employment.

In transition – A young person still “in transition” is one who is currently:

- unemployed (relaxed definition); or
- employed in a temporary and non-satisfactory job; or
- in non-satisfactory self-employment; or
- inactive and not in education or training, with an aim to look for work later.

Transition not yet started – A young person whose “transition has not yet started” is one who is currently:

- still in school and inactive (inactive student); or
- inactive and not in education or training (inactive non-student), with no intention of looking for work.

Two elements of this classification are noteworthy. First, the stages of transition span across the boundaries of economic activity as defined in the standard labour force framework.¹¹ The “transited” category includes a subset of youth classified as employed; the remaining employed fall within the category of “in transition”, which includes those who fall under the strict definition of unemployed and portions of the inactive (namely, those without work, available for work but not actively seeking work,¹² and inactive nonstudents who have stated an intention to join the labour force at a later stage). The “transition not yet started” category is the residual of the inactive population.

Second, the stages of transition are not intended to be a normative framework. Because of the inclusion of youth in satisfactory self-employment and satisfactory temporary employment, one cannot say that all young people in the transited category have transited to a “good” job. In fact, a majority of young people in self-employment – the own-account workers and contributing family workers – are more likely to be irregularly employed or employed in the informal economy. However, they have expressed a degree of satisfaction with their job and are therefore classified as “transited youth”.

¹⁰ This section is adapted from ILO (2013b).

¹¹ The international guidelines for measuring statistics on the economically active population, set out by the 13th International Conference of Labour Statisticians (ICLS) in 1982, provide the framework for measuring who is counted as employed and unemployed according to the economic production boundaries set out by the System of National Accounts.

Applying the concepts of transition from the survey to Nepal reveals that the country has a high number of young people who have not started their transition or are still in transition. Table 3.1 shows that 40.9 per cent of young people have yet to start their transition, 38.9 per cent are still in transition, while only 19.9 per cent have transited to stable and/or satisfactory employment. This reflects the

demographic structure of the youth population, and the prevalence of the 15–19 age group. Compare that with Cambodia, another Asian country in a similar stage of development, where more than two-thirds of youth (68.6 per cent) have completed their transition. The difference in the shares of transitioned youth in the two countries reflects the higher number of Cambodian youth who express general satisfaction with their job. Nepal is the only country of the 27 in which the SWTS was run in 2012 or 2013 where more working youth expressed dissatisfaction than satisfaction with their job. Those working but dissatisfied with their job (unless they have a stable contract) are classified in the category of “in transition” (Serrière, 2014).

Male youth have a much higher chance of completing the transition than female youth (25.3 and 13.4 per cent, respectively) while young women have a higher representation among those who remain in transition. The same percentage of urban and rural youth have completed the transition, but the much higher number of youth in school in urban areas is reflected in the higher share of youth in the transition-not-yet-started category in urban regions (Serrière 2014).

Table 3.1. Stages of transition of youth by sex, age group and area of residence (%)

Stage	Sex		Age group			Area of residence		Total
	Male	Female	15-19	20-24	25-29	Rural	Urban	
Transited	25.3	13.4	7.3	21.5	39.4	19.9	19.9	19.9
In transition	33.4	45.4	29.6	44.7	47.9	40.5	32.5	38.9
Transition not yet started	41.0	40.9	62.9	33.4	12.2	39.3	47.4	40.9

Source: SWTS-Nepal, 2013.

Of the three transitional stages, youth who must still start their transition constitute the biggest group; their total number works out to approximately 3 million. The number of young people in transition, those who have successfully transitioned, and the major characteristics of all three categories are discussed in the following matrix.

Figure 3.1. Transition statuses of youth in Nepal

<p>Youths who have not yet started the transition *</p> <p>Of the three transition stages, youth who have yet to start their transition constitute the biggest group, comprising almost 3 million young people. It reflects the high share of teenagers among the youth population. In addition, over 33 per cent of the 20–24 age group and slightly over 12 per cent of those aged 25–29 have not yet started their transition either. By sex, about 41 per cent of both young males and females have not yet started their transition, as well as 47.4 per cent of urban youth and 39.3 per cent of rural youth.</p>
<p>Youths in transition **</p> <p>The total number of youths still in transition is estimated to be 2.8 million. For both men and women, non-satisfactory self-employment is the main reason for being in transition (46.7 and 40.8 per cent, respectively). The second main reason is unemployment, for 42.9 per cent of men and 38.2 per cent of women. Unemployment is an urban (58.2 per cent) rather than a rural (36.7 per cent) phenomenon. Looking across the age groups, certain trends can be observed, notably that unemployment decreases with age; unsatisfactory temporary employment increases with age (but remains relatively marginal at 3.1 per cent for those aged 15–19, 4.7 per cent for the 20–24 age group, and 5.9 per cent for 25–29 year-olds); unsatisfactory self-employment is stronger in older youth and teenagers than in the 20–24 age group; and, finally, the inactivity level increases with age.</p>

Figure 3.1. Transition statuses of youth in Nepal (continued)

Youths with successful transition	
<p>About 1.5 million youth have completed their transition. About two thirds (73.0 per cent of young men and 63.3 per cent of young women) have completed their transition into employment as employees. Those in satisfactory self-employment (comprising employers, own-account workers and contributing family workers) constitute 26.0 per cent of men and 34.6 per cent of women. By age group, those more likely to be in paid employment are youth aged 15–24. The older group is more greatly represented within the self-employed category. Rural and urban youth share comparable percentages, i.e. around 70 per cent are employees and almost 30 per cent are self-employed.</p>	
<p>* Young people who have not started their transition are either still in school or inactive and not in school, with no intention of looking for work. They are therefore not part of the labour force.</p>	
<p>** A youth in transition is a young person who is either unemployed (as per the relaxed definition), engaged in self-employment or in a paid temporary job that they describe as unsatisfactory, or is an inactive non-student expressing the hope or desire to work in the future.</p>	

Source: Adapted from Serrière 2014

3.1.3 Characteristics of Successful Transition

According to the Survey, about 1.5 million youth have completed their transition (Table 3.2 below). About two thirds (73.0 per cent of young men and 63.3 per cent of young women) have completed their transition into employment as employees. Those in satisfactory self-employment (comprising employers, own-account workers and contributing family workers) constitute 26.0 per cent of men and 34.6 per cent of women. By age group, those more likely to be in paid employment are youth aged 15–24. The older group is more greatly represented within the self-employed category. Rural and urban youth share comparable percentages, i.e. around 70 per cent are employees and almost 30 per cent are self-employed. (Serrière 2014)

Table 3.2. Distribution of transited youth by status of employment and sex, age group and area of residence (%)

Status	Sex		Age group			Area of residence		Total (Nos.)
	Male	Female	15-19	20-24	25-29	Rural	Urban	
Employee	73.0	63.3	80.5	77.1	61.9	69.8	70.8	1 018 038
Employer	10.6	6.2	1.9	7.6	12.6	8.9	10.4	133 922
Own-account worker	10.0	9.7	3.8	7.8	13.4	9.3	12.3	144 533
Contributing family worker	5.4	18.7	13.8	6.5	10.3	10.5	6.1	139 425
Other	1.0	1.9	0.0	1.0	1.9	1.5	0.4	18 476
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	1 454 394

Source: SWTS-Nepal, 2013.

An examination of transited youth by occupation revealed that young men achieved similar percentages of transition in elementary occupations (21.6 per cent) as in professional occupations (18.6 per cent). Young women who have completed their transitions are mainly in professional occupations (30.4 per cent) and skilled agricultural work (20.1 per cent) (Serrière 2014).

As for the age groups, 36.6 per cent of the youngest (15–19 year-olds) have completed their transition into elementary occupations. That makes sense as

they have not had the chance to attain high education levels. They also end up as craft workers in 19.9 per cent of cases, followed by skilled agriculture, fishery and forestry workers with 18.3 per cent. The 20–24 year-olds follow the same trend as young males, i.e. their transition ends mainly in professional occupations (23.9 per cent) and elementary occupations (19.9 per cent). Services and sales workers land in third place, with 16 per cent, instead of agriculture workers. Those in the 25–29 age group transition mainly into professional occupations (25.9 per cent) and into services and sales work (17.1 per cent) (Serrière 2014).

By area of residence, the two main transition destinations for urban youth are professional occupations (29.1 per cent), and services and sales work (24.1 per cent). For rural youth, the two main transition destinations are elementary occupations (23.1 per cent) and professional occupations (20.6 per cent) (Serrière 2014).

Regarding the impact of education, the survey data indicated that the level of education does matter in terms of labour market transition, although its influence is not as clear as it might be. A majority of young people with a tertiary (nonvocational) education completed their transition to stable employment (63.8 per cent), although a substantial share of young people with less than primary education also completed the transition to stable employment (62.1 per cent). Those with the least likely chance of transiting to stable employment are those with secondary education and post-secondary vocational training (Serrière 2014).

3.2 Labour Demand Enterprise Survey (LDES) report

Assessing labour demand for young people and the perspectives of employers is an essential means of ensuring that labour supply is able to meet the requirements of the labour market. The LDES survey was undertaken at the same time as the SWTS in 2013, covering 412 enterprises across 14 sectors. Some 290 of the enterprises represent the formal sector from 12 districts, while the remaining 122 enterprises were from the 22 districts covered by the SWTS. The majority of respondents were male (354) while the remaining 58 were female. The majority of enterprises were in manufacturing (72 per cent), followed by accommodation and food services (7.8 per cent), wholesale and retail trade (6.1 per cent) and agriculture, forestry and fishing (2.2 per cent).

The survey revealed that informal networks were one of the most used methods for recruiting workers. Only around 10 per cent of employers relied on advertisements and private employment agencies. Of concern to policymakers is that enterprises showed virtually no interest in using public employment agencies and vocational training centres to recruit workers.

With regard to their preference for the age of recruits, over 59 per cent of respondents preferred hiring adults over age 29, with only 21.1 per cent preferring

youth aged 15-29, with the remaining 19.9 per cent responding that age was not a factor in the recruitment process. The data suggests some labour segmentation on the basis of age, with employers preferring older workers for managerial positions but preferring younger workers for manual and production positions since they are less costly to hire. In terms of gender preference, some 41.4 per cent of employers expressed no preference, but where there was a preference cited, it was in favour of males. Where preference is explicitly stated, gender disadvantage for young women is stark. Some 53.3 per cent of employers prefer to hire males for managerial/professional positions, and 55.9 per cent for elementary and production positions. Only 5.3 per cent and 8.0 per cent of employers expressed a preference for females in managerial/ professional positions and elementary/production positions, respectively (Serrière, 2014).

Employers also stated that the two most important characteristics they look for in candidates are education/training and work experience (46.1 per cent and 38.4 per cent respectively).

Employers were asked to identify which occupations they perceived as opening up in the next two to three years. Their responses are contained in Table 3.3, and show a very weak demand for highly skilled workers, yet another indication that graduates face poor employment prospects in the immediate future. See Table 3.3 below.

Table 3.3. Vacancies likely to increase in the following two to three years by occupation

Occupation	%
Precision workers in metal and related materials	13.1
Manufacturing labourers	11.5
Housekeepers and cleaning supervisors	6.2
Childcare workers	4.6
Textiles, garment and related trades workers	3.8
Sewers, embroiderers and related workers	3.1
Heavy truck and lorry drivers	3.1
Cleaners and office helpers	3.1
Cabinet makers and related workers	3.1
Building frame and related workers	2.3
Hand packers	2.3
Manufacturing managers	1.5
Process control technicians	1.5
Hairdressers	1.5
Cashiers and ticket clerks	1.5
Bricklayers	1.5
Shoemakers and related workers	1.5
Sewing machine operators	1.5

Note: Occupations with less than 1.0 per cent are not shown

Source: LDES Nepal 2013

4

POLICIES AND INSTITUTIONS FOR YOUTH EMPLOYMENT

4.1 Macroeconomic policies

Macroeconomic and sectoral policies have a key role to play in supporting positive youth employment outcomes. Economic growth is essential but on its own is not enough to generate employment and in particular quality employment. Under different conditions, similar rates of growth can have very different effects on the employment of young people. The patterns and pace of economic growth determine the extent to which demand is generated for the skills of young people. Growth that is inclusive (allows youth, the poor and other marginalized groups to participate in and share the benefits of growth), and job-rich (based on policy supports for quality employment creation) is much more likely to benefit young people than capital-intensive growth, growth based on extractive industries or growth based on exogenous factors such as remittances. The policy mix surrounding growth must therefore place employment as a major goal rather than as a residual element of growth. ILO's Global Employment Agenda, developed in tripartite discussion, provides guidance on the types of policy supports that can generate high rates of employment, including promoting entrepreneurship, opening access to skills and finance, and removing discrimination, among other areas. It is premised on the notion that placing productive employment at the heart of economic and social policies is the key to generating jobs that can reduce poverty and improve livelihoods. Within this framework it is necessary to have specific measures for young people, since youth employment is highly sensitive to business cycles.

Various ILO policy documents have emphasized the importance of demand-side policies for good youth employment outcomes. For example, the ILO 2005 Resolution concerning youth employment focused on the importance of high, sustained and employment-intensive growth. It recognized the need to align monetary, fiscal, trade and social security policies to the goals of creating decent work, and of ensuring that the regulatory environment for investment, enterprises and labour creates an investment climate that fosters investment and economic growth. Similarly, the 2012 ILO Resolution, entitled "The youth employment crisis: A call for action", reaffirmed this in the face of the ongoing challenges facing youth, stating that "[f]ull employment should be a key objective of macroeconomic policies" and that "[p]ro-employment macroeconomic policies that support stronger aggregate demand and improve access to finance are essential."

In the case of Nepal, growth has averaged a modest 4 per cent in recent years, but reached an estimated 5.2 per cent in the financial year 2014. While this may seem relatively strong, the sectoral composition of growth reveals Nepal's economic vulnerability and high reliance on exogenous factors such as monsoonfed agricultural production and remittance-induced services sector growth. The challenge remains to shift the patterns of growth to more employment-centred and inclusive growth and towards sectors that are capable of absorbing greater amounts of labour.

The major contributor to Nepal's GDP growth in 2014 was the services sector (comprising 51 per cent of GDP). That sector grew at an estimated 6.1 per cent, the highest in six years, thanks to remittance-induced consumption demand (Asian Development Bank, 2014). In the agricultural sector, which comprises almost 35 per cent of GDP and provides livelihoods to about 76 per cent of households, growth rebounded to an estimated 4.7 per cent, the highest in six years. The industrial sector, which comprises a mere 15 per cent of GDP, grew by an estimated 2.7 per cent, marginally up from its 2.5 growth rate in 2013, whereas construction, electricity, gas and water grew modestly despite a slow-down in manufacturing. Manufacturing grew by 1.9 per cent, the lowest rate in the last five years, due to the impact of lengthy power cuts, persistent supply-side constraints and the rise in the cost of production owing to the increased prices of imported raw materials.

Gross domestic savings declined to an estimated 8.9 per cent of GDP from 10.1 per cent in 2013 and 14 per cent in 2011. This indicates that a majority of Nepalese incomes are spent on consumption, which is mostly fulfilled by imported goods. Meanwhile a substantial increase in gross national savings from 40 per cent of GDP in 2013 to an estimated 46.4 per cent of GDP in 2014 reflects the recordhigh remittance inflows, which reached 28.2 per cent of GDP in 2014.

The outlook for GDP growth in 2015, however, is less optimistic despite the government's target of 6 per cent. The agricultural sector's vulnerability to bad weather conditions is likely to offset a potential recovery in the industry sector and the continuing strong performance of services. Similarly, inflation, which remained high at 9.1 per cent in 2014, is also likely to remain high in 2015 (ADB, 2014).

One area of concern is the poor performance of the industrial sector, and manufacturing in particular. Data released by CBS in 2014 from the National Census of Manufacturing Establishments shows that the manufacturing sector, which has potential for large employment growth, suffers from a range of constraints that contribute to its continued decline. Over the past several years, its share of GDP decreased to an estimated 5.6 per cent in 2014 from 8.2 per cent in 2002. The average growth rate has been a mere 3.2 per cent in the last five years (ADB, 2014). Some 40 per cent of total manufacturing firms in the Census reported they have been unable to fulfil market demand, primarily due to the underutilization of capital arising from load shedding, lack of raw materials, labour shortages, lack of

finance and lack of skilled labour. Furthermore, about 84 per cent of firms reported that the lack of electricity was having an impact on their operations.

Low labour productivity is also a major concern. For example, while agriculture's share of GDP is declining to around 35 per cent, it still absorbs above 75 per cent of the labour force, indicating its low productivity base. Productivity has been unable to keep pace with wage and salary increases in other sectors. At an annualized average rate, while labour productivity grew by 11.4 per cent between 2007 and 2012, salaries increased by 12.2 per cent. Improving labour productivity is therefore a major issue for Nepal. Though, as the Decent Work Country Programme (DWCP) notes – improving labour productivity is impossible without the further facilitation of structural shifts, that is, investment must be encouraged in agricultural productivity, micro- and small-sized enterprises must be supported, and stimulating investments must be made in industries that have high potential for growth and employment generation.

Nepal's industry sector clearly needs stronger supports to generate enough jobs for young people and to take advantage of the increased educational attainment and human capital that they bring to the labour market. It is likely that with the gradual improvements in the political environment and resurgence of investor confidence following the Government's commitment to unveil a "second generation" of reforms to stimulate private investments, that the industry sector will perform much better than in recent years. The 2011 Industrial policy, however, has yet to bear fruit since the sector remains weak. The policy is discussed further below.

A strong private sector is also essential for supporting better youth employment outcomes. In the case of Nepal, however, weak infrastructure is a binding constraint on private sector growth. A recent World Bank study suggests that Nepal faces a financing need for infrastructural development of between 8.24 per cent and 11.75 per cent of GDP per year until 2020. However, the financing gap remains wide: Nepal's existing infrastructural investment hovers around 5 per cent of GDP. There is therefore a clear need to scale up investments especially in transport and electricity sectors. Labour-intensive infrastructural development can have multiplier effects in local communities, generating employment, stimulating local demand and developing community assets. Nepal's extensive experience in labour-based methodologies offers opportunities for upscaling and coordinating infrastructural development, as discussed in section 4.5.4 below.

4.2 Sectoral policies

4.2.1 Industrial Policy 2011

In recognition of the importance of industrial development for the country's development trajectory, the new Industrial Policy 2011 was created to replace the Industrial Policy of 1992. Its primary objective is to attract domestic and foreign investments by improving the industrial environment, increasing industrial production and productivity, creating more employment opportunities, substituting imports through the promotion of export-based industries, and improving Nepal's balance of payment by minimizing the trade deficit.

The objective of the Industrial Policy 1992 was to accelerate industrial sector growth by transforming the agricultural economy into an industrial economy. It eliminated compulsory licensing for the establishment and operation of all except certain prescribed industries. It sought to create a conducive and competitive atmosphere for the establishment and operation of industries, and to enhance industrial productivity and employment opportunities. Other provisions included capacity development of labourers, the enhancement of managerial skills, encouragement of the use of new technology, increase in sectoral investment, provisions for the restoration of weak industries, trainings to promote entrepreneurship, and the development of a single window for administrative arrangements.

However, despite the deregulated and liberalized regime initiated in order to establish industrial enterprises, no significant progress was observed over the long term. It is against this backdrop that the new Policy was adopted with a view to making positive changes to the country's economic and social sectors through rapid industrial development and elimination of the weaknesses of the past.

Although the Industrial Policy 1993 mentioned the creation of employment opportunities through capacity development of labourers and employees, and entrepreneurship development, there was no mention of a youth employment agenda. The new policy envisaged the establishment of large-scale industries in the country, thereby increasing employment. And with the development of microenterprises, cottage and small industries, self-employment would be promoted. There are some provisions, albeit limited, for youth employment. These are discussed below.

Policy objective 7.4 (to create strong investment through having developed the productive human resources and managerial capacity required for industrial development, thereby establishing Nepal as an attractive place for investment in South Asia and the world) states that:

- In order to attract creative young talent to industrial enterprises with a view to creating opportunities for self-employment, capacity enhancement

activities for the development of industrial skills and entrepreneurship and sound industrial management shall be launched (Section 8.11).

Under special strategies relating to micro-enterprises, cottage and small industries (Section 11), there is a provision for youth and women's employment/engagement in micro-enterprises, cottage and small industries through the Business Incubation Centre:

- Special provisions shall be made to attract talented and creative youth and women to micro-enterprises, cottage and small industries through the Business Incubation Centre (Section 11.21).
- Provisions from the Angel Fund and the Venture Capital Fund shall be made to assist in the running of industries to entrepreneurs that have gone through the Business Incubation Centres; employment-generation programmes shall be launched through them (Section 11.22).

Section 17, entitled "Facilities and Concessions", mentions the number of workers to be employed in order to obtain the income tax exemption in various industries; however, the policy does not explicitly mention youth. It can be assumed that a number of workers in those industries are likely to be young people.

- If in a year, a small-scale industry directly employs more than 100 native workers regularly for a period greater than at least six months, a medium-scale industry employs more than 200 workers, and a large-scale industry employs more than 500 workers, that industry shall be entitled to an additional income tax exemption of 25 per cent during that year. Moreover, if an industry provides 50 per cent of such direct employment to native women, persons belonging to Dalit communities or persons with disability, there shall be a 40 per cent income tax exemption to be levied in that year (Section 17.8).

Given the continuing weak performance of the industry sector, in particular manufacturing, the adoption of the policy is timely, even though few results have been achieved. With regard to youth employment, while the policy has limited provisions on youth outcomes, they are nonetheless explicitly oriented to youth, rather than implicit within the policy. This in itself is a step in the right direction to ensuring mainstreaming of youth employment concerns within key economic policies of the country.

4.2.2 National Agricultural Policy, 2004

Agriculture, which employs more than two third of the country's labour force and contributes to more than one third of GDP, is the main source of food, income and employment for the majority of the population, especially for those living in rural areas. Hence, the agricultural sector is key to issues of economic growth,

poverty alleviation, better living standards for the Nepalese people and overall human development (Samriddhi, 2011).

The sector is, however, primarily comprised of subsistence agriculture with low productivity. There is a strong need, therefore, to intensify agriculture and invest more in farm and off-farm activities with a view to stimulating the rural economy. The adoption of the 20-year Agriculture Perspective Plan (APP) in 1997 reflects the emphasis the Government has given to the agricultural sector and its commercialization.

Youth are already engaged in agriculture, though to a lesser extent than the previous generation given continued structural shifts. Greater investment and commercialization of agriculture can be a large source of employment for young people. Many young returnees from overseas employment often engage in vegetable farming and livestock rearing. There is a strong need to widen access to a range of inputs into agriculture, including financing for young people, greater support for cooperative initiatives and micro- and small enterprise development in rural areas, which will make agriculture a more attractive option with higher incomes for young people. The 2004 agricultural policy does mention ways in which to encourage young people into farm and off-farm activities. In order to meet the objective of “Development of a Commercial and Competitive Farming System” the policy mentions that “arrangements shall be made to train educated but unemployed youths in the establishment and operation of agricultural enterprises so as to attract them to agricultural occupations” (Section 4.3.9).

Similarly, in order to meet the objective of increased production and productivity, there are policy provisions related to training and education, including the development of agricultural and forestry colleges to promote human resource development in agriculture. Section 4.3 also mentions provisions for possible employment creation through enterprise development. The policy also supports cooperative-based agricultural industries and enterprises (Section 4.3.14).

Implementation of the policy has seen strengthened capacity of agricultural and forestry universities, though it still accounts for only 0.3 per cent of students beyond intermediate levels. This could indicate that young peoples’ preferences are to work outside agriculture. It may also be an indication that the training is less based on market demand and not fully aligned with analysis of agricultural and forestry value chains and agro-based enterprises.

Both public and private sources still under-invest in agriculture despite the policy. The Ministry of Agricultural Development receives only three per cent of the national budget, which is not enough to support the aims of the policy and ensure food security for the population. The majority of the sector is comprised of small farmers, though in many cases they do not own the land they cultivate, thus also hampering their investments in technology and inputs, and keeping productivity low. Moreover, in the context of youth employment, there is insufficient attention paid to attracting young people into farming, resulting in many cases of the theft

of uncultivated land or the feminization of subsistence agriculture as young men migrate in search of work opportunities. Future policy development on agriculture, therefore, will need to pay greater attention to developing incentives and supports to attract youth into higher-productivity farm and off-farm activities.

4.3 National development frameworks

4.3.1 Decent Work Country Programme (DWCP)

Through its Decent Work Country Programme (DWCP) 2013-2017, Nepal has clearly recognized the importance of employment generation as a major contributor to economic and social progress and political stability. A first priority of the DWCP is the promotion of employment-centric and inclusive growth. There are a number of targeted areas within the scope of this priority, including areas of particular concern to youth: the informal economy and migration policies. Under the Plan, the Government intends to develop policy measures to support transitions out of informality. It will also target priority sectors, including agriculture, services, tourism, construction and manufacturing. Youth employment outcomes are explicitly outlined under this DWCP priority. The Ministry of Labour and Employment, with technical support from the ILO, intends to establish and strengthen Employment Information Centres that provide information and counselling, and will support the establishment of a Labour Market Information Analysis System (LMIAS). The Government will also seek to adopt and implement a National Action Plan on Youth Employment (DWCP, 2013).

4.3.2 Employment policies

There is evidence that employment is increasingly being recognized as a major priority for the Government. In 2006 the Government endorsed the Labour and Employment policy, which stressed the central role of productive employment in poverty reduction. It emphasized the need to distribute employment opportunities across labour-absorbing sectors to ensure broad-based growth, and focused on the role of investment in employment creation and the need for good labour relations to facilitate a positive investment climate. The policy highlights the need to eliminate bonded labour, and the critical need to establish congenial labour relations through the introduction of international labour standards at the workplace in both the formal and informal sectors. It seeks to eliminate labour market discrimination, reduce risks through developing a social security system that encompasses the informal economy, and to promote occupational health and safety measures. The policy includes several strategies to achieve these objectives, including employment-focused investment in economic sectors, youth-targeted employment, promotion of self-employment, building of an environment conducive to investment and employment, and the comprehensive policy on international employment.

Besides the Labour and Employment Policy, in 2012 the Government formulated an Immediate Action Plan on Economic Development and Prosperity 2012, which focuses on creating employment. Other such initiatives to generate employment within the country include employment-targeted programmes such as the Karnali Employment Programme, Youth Self-Employment Programme, Skills for Employment Project, National Action Plan for Youth Employment 2008–2015, promotion of cooperatives and others. Significant attention has also been paid to promoting and expanding labour market information (LMI) through employment information centres nationwide.

4.3.3 Draft National Employment Policy

The draft national employment policy, which received endorsement from the tripartite partners in October 2014, recognizes the importance for Nepal to utilize its youthful labour force and avoid the marginalization and exclusion of young people as a result of poor employment outcomes. It establishes the requirement of matching supply and demand and notes the need for greater investment in vocational training to supply skilled workers. The policy makes explicit reference to youth and the need for training of young people along with marginalized communities.

Section 14 prioritizes the creation of employment opportunities for young people, including through strengthening labour market information systems, supporting entrepreneurship, including women's entrepreneurship measures, employment guarantee programmes for unemployed youth, opening access to finance for young people, as well as the development of Youth Employment Centres at the local level.

The concerns of young people are mainstreamed through the policy, and the policy is comprehensive. However, the policy has yet to be adopted and is one of a raft of policies and laws that are currently being delayed until a constitution can be adopted. Adequate resourcing upon adoption will be essential for effective implementation. Importantly, prioritization will also be necessary since there are a large range of measures detailed in the draft.

4.3.4 Youth Employment Programmes

As part of the nation-building process after the end of the civil war, youth development policies have gained momentum, particularly given the large numbers of youth engaged in the conflict. The Three-Year Interim Plan (2008–2011) included a Youth Development Policy and focused on improving Human Development Index scores, employment and skill trainings, education and entrepreneurship, and livelihood support programmes for those in conflict-affected areas (National Planning Commission of Nepal, 2007). Although the plan outlined programmes for business incubation, youth credit, and seed capital, frequent changes in the

government and political instability limited the implementation of the plan.

In compliance with the Interim Constitution of Nepal, 2007, which directed the State to pursue a special policy to mobilize youth for the development of the country, the Government set up the Ministry of Youth and Sports in 2009. This ministry launched a number of programmes for youth welfare, including the Local Youth Partnership Programme of 2009–2010. The Ministry of Finance also allocated a portion of the annual budget to youth development activities, such as the Youth Self-Employment Programme, the Grand Youth Sports Competition, and the Youth Mobilization Programme.

In 2010 Nepal adopted a National Youth Policy. Among the specific objectives regarding youth employment the policy seeks to:

- develop creativeness, entrepreneurship and innovative aptitude in youth, and bring out their inherent capacity;
- enhance youth access to the means of production, while ensuring their basic rights;
- support individual and social development, including the education, employment and career of youth in education and at the sensitive stage of establishing their identity in the society;

Box 2. Vision, Goal and Objectives of the National Youth Policy 2010

Long-term vision

The long-term vision of the National Youth Policy shall be to prepare capable, entrepreneurial, creative and competent youths with scientific and positive vision; and establish the youth of the country in leadership roles so that they can render a meaningful contribution to the economic, social, political and cultural spheres of the nation. The policy guarantees the basic rights of the youth and takes into consideration the sensitivity of the young through youth empowerment.

Objectives

The objectives of this youth policy are as follows:

1. To develop and expand the role and potential of the youth in nation building and national development;
2. To enhance the sense of accountability and responsibility, while making the youth dedicated and committed to the nation and nationality, people and federal democratic republic;
3. To develop the youth as the basic energy of development by developing creativeness, entrepreneurship and innovative aptitude on the youths, and bringing out their inherent capacity;
4. To prepare the youth who have high morale, are moral, well-cultured, creative and professionally competent, by properly developing their physical, mental, intellectual, moral and emotional characteristics, while developing a culture of respect for labour;
5. To establish the youth as the driving force of national development by developing leadership capacity. This will be done through gender-sensitivity-based and meaningful participation in policy formulation, decision-making and implementation at all levels in the economic, social, political and cultural fields of the nation, by enhancing youth access to means of production, and also ensuring their basic rights;

Box 2. Vision, Goal and Objectives of the National Youth Policy 2010 (continued)

6. To support individual and social development, education, employment and career of youth in education and at the sensitive stage of establishing their identity in the society;
7. To bring those youth that fall in the priority group and special priority group into the mainstream of development through positive discrimination.

The policy covers a range of areas, including the basic rights of livelihood, education, social security, employment and special attention to vulnerable groups. The policy is well designed and takes into account both supply-side and demand-side factors, identifying high growth sectors and the need for skills upgrading to support those sectors. There are also sections on developing the skills of young people who have been deprived of formal education – clear areas of concern identified in this report.

While the document is comprehensive, it remains a guidance document on youth employment rather than an operational policy with a specific budget. A further weakness is that the policy is the responsibility of the Ministry of Youth and Sport, which currently has limited technical capacity, financial resources and influence to deliver on the guidelines or to coordinate between different agencies and ministries involved. While institutional arrangements are proposed through the formation of a Youth Council, this has not taken place since the required act has not been passed.

4.3.5 Entrepreneurship and private sector development

Enterprise development is one of the most important sources of employment generation in developing countries. However in Nepal, like many other countries, most enterprises are in the informal economy with its concomitant problems of weak legal protection, limited access to productive resources and low productivity, poor working conditions, low income, limited access to social protection to manage risks and very low levels of organization and representation.

Many of the enterprises are micro- and small enterprises, often family-owned entities. Many are also survivalist options – chosen only because of the lack of other income opportunities or because of the seasonal nature of agriculture; as such, their growth potential is limited without adequate support.

An ILO review of the environment surrounding micro- and small enterprises was done in 2005. While this study is now 10 years old, many of the findings remain pertinent today. Among them are that female participation is high in micro-enterprises but not in small enterprises. Female-managed micro enterprises are more likely to be unregistered. Micro-enterprises are more likely to be found in

rural areas, while small enterprises are found in urban areas. Micro-enterprises were found to supplement other activities, particularly seasonal agriculture, illustrating how enterprise development is used to respond to economic hardship. Most micro and small enterprises (MSEs) were heavily reliant on informal finance, since other sources of finance were closed to them. The study also found that the smaller the enterprise, the worse the quality of employment as measured in terms of salaries, social protection and human resource development. Of note is that the Micro-Enterprise Development Programme (MEDEP), supported by UNDP, was found to create more profitable micro-enterprises in the areas where the programme has been active.

Many of these findings are still relevant today. The issue of access to finance, for example, is still a major issue for entrepreneurs. While there are some ad-hoc measures, including loans, provided by the Ministry of Finance to young people, overall the policy environment on microfinance is weak with only limited access to formal financial institutions for the majority of entrepreneurs. Limited access to other resources such as technology, land, market information, management and business skills are also obstacles to MSEs.

On the positive side, Nepal has clearly recognized that informality imposes huge costs on individuals, businesses and the economy as a whole, and it has been developing policy responses to support transitions to the formal economy. The draft National Employment Policy cited above, for example has specific sections on supporting enterprises to move out of informality. The Government's Three-Year Plan 2010–2013 also places a lot of emphasis on micro-enterprise development as a key economic development strategy. There is currently no overriding policy for MSEs though MEDEP has been successful in ensuring the 2007 Industrial policy was MSE-friendly. MEDEP also supported the development of a microfinance policy in 2007.

In itself, MEDEP has been highly successful in supporting microenterprises, particularly among disadvantaged groups and regions. Of the 70,000 micro-entrepreneurs it has created, 68 per cent are women, 20 per cent are Dalits, and 67 per cent are youth. Eighty per cent of its enterprises continue to do business. The average MEDEP micro-entrepreneur earns over twice what they would have before coming into contact with the programme. MEDEP has promoted business support service organizations in all programme districts, and helped establish micro-entrepreneur associations that serve their members in terms of advocacy, technology, access to finance and upgrading their entities. The Government of Nepal is replicating the MEDEP model through its own arm, Micro-enterprise Development for Poverty Alleviation (MEDPA), across all 75 districts (UNDP website).

In terms of the enabling environment for business, there have been some improvements in recent years for businesses. Nepal's overall ranking in Doing Business, run by the World Bank Group, moved up one place to an overall ranking

of 108 out of 189 countries in 2014. Among the indicators is registering property, in which Nepal has a relatively high ranking. It has low rankings, however, in trade across borders and enforcement of contracts. There have been improvements in dealing with construction permits during the 2013–2014 period (World Bank, 2014).

4.3.6 Migration policies

In the absence of adequate jobs in the local labour market, migration for temporary overseas employment absorbs many young Nepalese in the labour market. While it is an important source of revenue for households in terms of remittances (around 56 per cent of households receive remittance incomes) it is nonetheless an unreliable source of income since it is dependent on a range of external factors. Human and labour rights violations are also rife during recruitment and employment.

These problems are compounded by weak regulation of employment agencies, lack of timely information on job opportunities, restrictions on the regulated migration of women, and ineffective pre-departure and return processes and programmes. The Government is, however, attempting to better regulate overseas migration and has introduced various legislation, including the Foreign Employment Policy 2012, the Foreign Employment Act 2007, and the Directive for Domestic Workers 2011/12, which are all geared towards improving the rights and welfare of migrant workers.

The Government has also tried to systematize and formalize labour migration and ensure the rights of Nepali workers through bilateral and regional agreements with destination countries. The Government is also considering bringing out “relief-type” employment schemes in the next budget, and is planning to develop policies and programmes that would help utilize the skills, capital and work culture that migrant workers bring home.

4.4 Education and training policy

4.4.1 Technical Education and Vocational Training Skill Development Policy, 2007

The TEVT Skill Development Policy, 2007 seeks to address the needs of some of Nepal’s more vulnerable youth. Among them are those who leave school without completing the class ten, the considerable number of youth who have either not been to school or have not had an opportunity to obtain technical education or vocational training, and youth (as well as adults) who are conflict victims that have been deprived of the possibility to generate a normal productive livelihood. The policy seeks to enable these youth, who are or have been at risk, to integrate

with the education system and develop skills that will open up opportunities for them in the labour market. Among the groups targeted are women, Dalits, ethnic groups, Madhesi and deprived communities in all areas in Nepal. Different types of scholarships are available for those who cannot afford training.

The five main objectives of the TEVT Skill Development Policy, 2007 are as follows:

1. Expansion: To expand training opportunities and services.
2. Inclusion and access: To provide access to training to all needy citizens and to ensure all have the opportunity to receive training.
3. Integration: To integrate various training modules and training providers into one system.
4. Relevance: To link training contents and outcomes of the training with economic demands.
5. Funding: To ensure sustainable funding to create an environment where the technical education and vocational training market can take off.

The Council for Technical Education and Vocational Training, (CTEVT), an apex body of technical and vocational training, has been a key agency in the formulation of the country's TVET policy. Despite the intentions of the TVET policy to make vocational training accessible, inclusive and sustainable, there are concerns that the courses are not demand-driven enough, have not produced many employable graduates, and remain unattractive to young people in comparison with other forms of higher education. Concerns have been expressed about the standard and quality of training, trainers and curricula, which have been unable to respond to changing labour market demand.

The CTEVT has recently been boosted by technical support and capacity building by a number of international development partners. A new TVET policy framework has been prepared, which takes into account many of these concerns, and is awaiting Government approval. Key elements include a TEVT Funding Board, a National Vocational Qualifications Framework (NVQF), and an autonomous National Vocational Qualification Authority to promote coherence and integration in education and training across all levels.

4.5 Labour market policies and institutions

4.5.1 Minimum wages

Wage issues are among the most important agenda item in the industrial relations in the country. In order to avoid the disputes, the Labour Act 1992 provides for the fixing of minimum wages on the basis of recommendations made by the tripartite Minimum Wage Fixation Committee. The Committee also has the power to fix the annual increment in remuneration to the employee.

Informal sector workers are poorly covered by the minimum wage, but in the year 2000 the Government established minimum wages for agricultural workers. Tea estate workers also now have a minimum wage although the rate is lower than the one in the manufacturing sector.

The latest revision of the minimum wage was in June 2013, in which the minimum remuneration of employee was revised to Rs 8,000 per month, up from the previous rate of Rs 6,200 per month. The remuneration includes five thousand one hundred (Rs 5,100) as basic pay and the rest two thousand nine hundred (Rs 2,900) as a dearness allowance. Whereas the daily wages of labor is revised to Rs 318 from Rs 231. The minimum wage exceeds the poverty line of 125 rupees (US \$1.25) per day, but is still barely sufficient to meet subsistence needs (Danish Trade Union Council, 2014).

The Government has now done away with the fixing of wages on the basis of skill categories of the workers as practiced earlier.

Since many young people are concentrated in low wage sectors in Nepal, setting the minimum wage and ensuring compliance can be an important tool in strengthening the purchasing power of young workers and avoiding discriminatory pay practices. However, finding the right balance between the fair remuneration of young workers and stimulating demand for their employment is more difficult given the tense industrial relations in the country.

4.5.2 Employment-protection legislation

The role of employment protection in increasing or decreasing demand for young workers is subject to intensive debate. Designing and enforcing employment protection regulations involves trade-offs between the degree of effective protection for workers and incentives for firms to hire, especially inexperienced youth and other new labour market entrants. In particular, strict and uncertain procedures concerning the hiring and firing of permanent workers along with high severance pay tend to make employers reluctant to hire youth on open-ended contracts (ILO 2012).

Nonetheless, tackling youth unemployment should not weaken the protection to which young workers are entitled. The 2005 Resolution concerning youth employment recognized that labour laws, and where they exist, collective agreements, should apply to all young workers, including those currently lacking protection because of disguised employment relationships (ILO, 2005). Care has to be taken, therefore, to ensure that policies designed to enhance access to jobs for young people do not lead to discriminatory practices, and that there are measures to encourage the transition from temporary jobs to permanent jobs for young people (ILO, 2012).

In the case of Nepal, protection exists in a number of laws cited below. However, given that over 90 per cent of young workers are in the informal economy, it is clear those protective measures are poorly enforced. In fact, weak or non-existent protection under the law is one of the defining features of informality. Enforcement of laws through the poorly resourced labour inspectorate is minimal, with estimates suggesting that only 1 per 1,476,000 workers in the labour force is covered by labour inspection (Danish Trade Union Council, 2014).

Among the laws in existence for protection are the Labour Act 1992 (with the first Amendment Act six years later, i.e. in 1998), which has provisions for the rights, interests, facilities and safety of workers and employees working in enterprises of various sectors. The Act has a provision for employment and security of service, under which there are different provisions in the interest of employees and workers, such as job classification, appointment of worker and employee security of service. Similarly, the Act provides for working hours, under which there are number of working hours, intervals for refreshment and rest, and overtime hours. Under the remuneration chapter, there are various provisions such as annual increment in remuneration, payment of remuneration, allowances and facilities. Similarly, in terms of health and safety, the Act provides for various provisions such as protection of eyes, protection from chemical substances, and provision for safety against Fire. Provisions such as the welfare fund, compensation, gratuity, the provident fund and medical expenses, and leave are also detailed.

The Labour Act also has separate provisions applicable to special types of enterprises. These include tea-estates, construction businesses, transportation businesses, and tourist-oriented businesses.

The issue of employment protection is subject to much debate in Nepal and is often the basis of industrial tensions. Some see labour market regulations to ensure protection as an obstruction to investment and employment creation; others see it as an essential means to redress labour market inequalities and failures. Trade unions have expressed their dissatisfaction at the poor enforcement of the law and the ability of employers to evade it. Employers, on the other hand, believe that the difficulties imposed by the existing law, particularly on the dismissal of workers, discourages hiring and enterprise growth. Until social dialogue platforms can be strengthened, the issue of employment protection will continue to be the source of fractured industrial relations, which ultimately will be detrimental to youth employment outcomes.

There may be an opportunity however for labour relations in the country to begin a new chapter. As part of the DWCP, ILO will support Nepal in the development of a tripartite consensus that can strike a balance between flexibility and security and protection for workers. Labour law reform will focus on dismissal provisions, use of contract workers, use of disguised employment and, importantly, the creation of a new industrial relations institution – the National Labour Relations Commission (NLRC). The NLRC will have a variety of roles including mediation,

conciliation and arbitration of interest disputes and the settlement of rights disputes concerning claims of unfair dismissal. It will also be given a central role in establishing the minimum wage and minimum employment conditions (DWCP, 2013).

4.5.3 Passive labour market policies

Income support for young people, such as unemployment benefits, when combined with active labour market policies, can assist in the early exit of young people from unemployment. Good practices from around the world suggest that conditionality (establishing criteria for eligibility), activation (measures to move people back into the labour market) and mutual obligation (recipients must engage in active job search and improve employability in exchange for receiving efficient employment services and benefits) can keep young people connected with the labour market, particularly those groups at risk of marginalization (ILO, 2012).

Nepal does not have passive labour market policies such as unemployment insurance per se. However, the proposed National Employment Policy being prepared by the Ministry of Labour and Employment has a provision for an unemployment allowance for youth belonging to the families in disadvantaged regions, and poor people living below poverty line.

The above measure will support Nepal's progress in developing the basic components of a social protection floor. Though fragmented, existing elements include: a pension scheme; allowances for single women, highly endangered indigenous peoples, and the disabled; and grants for children under the age of five in some districts. A current stocktake of transfer-based social protection in Nepal includes seven major cash transfer programmes, a mix of conditional and unconditional, and up to 20 scholarship programmes that offer both cash and in-kind support.

A Social Security Act has also been drafted and was endorsed in April 2012 by a high-level tripartite committee under the Ministry of Labour and Employment. The Act has not yet been adopted because of delays caused by the failure to adopt a constitution.

4.5.4 Active labour market policies

Active labour market policies (ALMPs) comprise a range of measures to support the reintegration of workers into the labour market. Some measures aim at easing the transition to the labour market, others at preventing detachment from the labour market and de-skilling. Still others target disadvantaged groups. They are an essential tool, therefore, in mitigating the education system and labour market failures, and ensuring greater equity. Youth are an important target group

for ALMPs in many countries and can often have specifically designed elements to support integration, including employment subsidies for employers to hire young workers, direct public employment creation schemes, self-employment opportunities, and training programmes to increase skills and employability.

ILO experience has shown that ALMPs are likely to be most effective where they are well targeted, meet the specific requirements of the intended beneficiaries, are based on careful analysis of the local employment situations, are linked to demand for real jobs, and include measures to improve the competencies, skills and sustainable employment opportunities of beneficiaries (ILO, 2005).

Furthermore, the key to reaching maximum benefits from ALMPs is intelligent design and cost-effective implementation. Programmes need to avoid deadweight loss (the same result would have been realized without the programme); substitution effects (subsidized participants may have replaced non-participants); displacements (output of subsidized activities may displace that of non-subsidized activities); and creaming off (they help those who are already better off) (ILO, 2012).

ALMPS exist in Nepal though they tend to be fragmented with poor coordination between them. In terms of enhancing labour market information, Nepal has set up an Employment Services Centre and Employment Information Centres under the Department of Labour in order to provide employment-related information to aspiring job seekers. There are also plans to develop the information centres as Integrated Employment Exchange Centres with a view to providing service to job aspirants and facilitating their access to employment based on their knowledge, skill, experience and educational qualifications. The Youth Employment Promotion Centres, (envisaged though not yet created by the National Youth Policy 2010) also aim to expand and coordinate the youth employment programmes at local level.

Training opportunities are offered through a number of agencies such as CTEVT, the Ministry of Labour and Employment (MOLE)'s training wing, the Department of Cottage and Small Industries (DCSI), and the Cottage and Small Industries Development Board (CSIDB). The Ministry of Youth and Sports has also started various skill training programmes for young people, but they use MOLE, DCSI/CSIDB, CTEVT and Staff College training facilities in the absence of their own. International development partners, including the Asian Development Bank and the World Bank, are also supporting various training programmes.

In addition to training opportunities and improving labour market information processes, the Government and the donor community have made strong investments in the provision of temporary employment opportunities through a number of public works programmes (PWPs). These schemes entail creating assets using labour-based approaches to compensate for the failure of the labour market to deliver adequate employment. They vary considerably in size,

geographical spread and coverage in terms of penetration within districts and also with regard to their primary focus, with some aiming to create infrastructure as the major objective, some to create employment and others to contribute to social protection or food security outcomes. Still others attempt to address multiple objectives simultaneously (ODI, 2013). Among the more widely known schemes is the Karnali “One Family, One Employment” programme geared towards providing employment opportunities for poor households in the country’s Karnali zone. The schemes often include complementary interventions to indirectly promote youth employment, including a programme to promote loans for income generation managed by the Ministry of Finance.

The Government has also been considering the adoption of additional direct employment schemes, including “relief schemes”, as well as a national employment guarantee scheme to complement existing provisions. However, as a result of the failure to draft the new constitution and the dissolution of the Constituent Assembly, plans for an employment-guarantee scheme have become less of a priority at central level. It is likely that such a scheme will not be developed until the fundamental constitutional issues are resolved.

4.5.5 Social dialogue on youth employment

Social dialogue is an essential mechanism for developing effective policy solutions to the challenges faced by young people in the labour market. It is predicated on an enabling environment created by the Government in which dialogue between tripartite partners can flourish, and in which young people are adequately organized and represented so that they can articulate their policy needs. However, the prospects for social dialogue on youth remain weak given the general backdrop of tense industrial relations. A crisis of confidence between the social partners has meant that strikes, lockouts and blockages are commonplace. This has not only constrained relations between employers and workers but hampered investment and growth in the country. Furthermore, organization is weak in Nepal. Trade union density is estimated at around 10 per cent of the labour force, with 5 per cent covered by collective bargaining agreements (Danish Trade Union Council, 2014). Young people are among the most poorly organized groups.

In recent years, the Government of Nepal has taken several initiatives to improve social dialogue aimed at advancing the labour and employment agenda in the country. Some important milestones include the establishment of a Tripartite Task Force on Social Security; the drafting of the Social Security Act; the adoption of the 15-point Declaration by the National Labour Conference in July 2012; and the drafting of five labour-related acts after extensive tripartite social dialogues, namely, the Labour Act, the National Labour Commission Act, the Trade Union Act, the Bonus Act and the Unemployment Benefit Insurance Act. A National Plan of Action on the Implementation of ILO Convention 169 on Indigenous Peoples’ Rights has also been drafted.

However, these policies, as well as the social dialogue platforms, remain weak and largely ineffective. The Ministry of Youth and Sports has the potential to coordinate dialogue on youth employment though its capacity is weak both in terms of technical and financial resources. The proposed National Employment Policy has suggested institutional mechanisms to support youth employment dialogue; however, until a new constitution is adopted, it is unlikely in the current period that progress will be made on social dialogue on youth.

5

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Nepal has made considerable progress on many fronts since the achievement of peace in 2006, including the formation of a republic and the start of a new chapter in the country's development. Poverty and inequality have been steadily decreasing, and Nepal's progress in increasing the educational attainment of its young people is particularly notable. However, immense challenges remain in the educational arena as many groups still have only limited access to education. Regional, rural, gender and caste disparities are strongly evident in that regard. Child and bonded labour also continue to scar the labour market, placing those groups in the most vulnerable segments of the labour force. The greatest danger lies in Nepal's inability to generate sufficient jobs for its young people. The level of frustration among its young people was one of the factors behind the recent civil conflict, and current fractured industrial relations add further layers of instability.

Poor youth employment outcomes are widespread. Among them are high levels of youth unemployment, high levels of informality and high levels of outmigration. At a rate of over 19 per cent (using the strict unemployment definition) youth unemployment is significantly more than adult unemployment (3 per cent). A young person is therefore six times more likely to be unemployed than an adult. Levels of unemployment among university graduates are also striking at over 26 per cent. For those for whom unemployment is not an option because of poverty, working in the informal economy is the norm. The informal economy has, in fact, absorbed over 92 per cent of working youth. Migration levels are also rapidly increasing. Despite the risks of exploitation and hazardous work (the Government recorded well over 3,200 migrant deaths between 2008–2014), many young Nepalese see bleak employment prospects in their home communities and have few other options but to seek work abroad.

Of great concern is the political backdrop as Nepal is currently mired in tense industrial relations and simmering political tensions. As Nepal attempts to find its way through political uncertainty, not least the difficulties in adopting a new constitution, there is little likelihood that the youth employment agenda can move forward. Many of the previous gains in social and economic progress are currently in jeopardy. A raft of new policies and legislation has been delayed while

the county focuses its attention on the urgent need for a constitutional framework.

Policy measures have already been put in place to support youth employment. These include the National Youth Policy, elements of the industrial and agricultural policies, as well the draft national employment policy. These policies, however, are very broad-based, and implementation will require prioritization, ideally through tripartite discussion, given existing resource constraints. Importantly, the youth employment agenda as a whole would benefit greatly from having a coordinating body that could bring together key stakeholders and establish entry points into policy formation. As yet, this institutional set up does not exist.

On the positive side, youth employment policy formulation has been given a boost through the recently released SWTS. The survey has provided important insights into the labour market challenges facing young people. It has been able to identify a range of weaknesses that can be rectified through further policy formulation and prioritization within existing policies. It showed, for example, the lack of capacity of labour market information systems, and the lack of importance given to vocational training despite the labour market need. The accompanying LDES study also provides a snapshot of labour market demand. More extensive analysis of labour market demand would also help to ensure that young people are able to attain the skills needed in the rapidly changing labour market.

Within the broader context of the economic direction of the country, a stronger focus on employment generation is warranted, particularly given the overreliance on out-migration to mitigate poor employment outcomes. The draft national employment policy offers a range of measures to support the goal of employment growth. However, like many other policies, it is very broad-based and will require further tripartite discussion to prioritize key areas for implementation, “buy-in” by different stakeholders, and to ensure adequate resourcing.

While structural shifts are taking place in the economy with the share of agriculture in GDP decreasing and the share of services increasing, there are some inherent weaknesses. Industry, particularly manufacturing, is struggling and has been on the decline. Neither services nor industry have been able to generate sufficient numbers of alternative jobs to absorb the large numbers of young people entering the labour market each year. Agriculture remains the main employer of both adult and youth populations, though its share is declining among youth. Furthermore, GDP is based on primarily exogenous factors: monsoon-led agriculture and remittances-induced services sectors. There needs to be a much stronger shift towards GDP growth based on human resources and employment creation.

5.2 Recommendations

Mainstreaming youth targets into national policy agendas

The review of policies has shown that youth are gaining policy attention but not yet on a scale that would make an impact on poor youth employment outcomes. Nepal does currently have a youth policy, but it is so broad based that prioritization will be necessary in the context of scarce resources for implementation. It currently functions more as a guidance paper than an operational policy with adequate budget. The mainstreaming of youth concerns into other national policies is patchy. Many policies do make explicit mention of youth but do not proceed to the next step of developing specific youth targets for their outcomes.

Other policies only have an implicit understanding that youth will benefit in general. Again, those policies are often so comprehensive that prioritization will be essential. What is needed is a vehicle to drive the youth policy agenda forward such as that envisaged by the draft national employment policy. ***While the Ministry of Youth and Sports has this mandate, its capacity, resources and influence are weak. Moreover, technical capacity on youth employment resides with the Ministry of Labour and Employment. It would make sense therefore for Nepal to consider a partnership and coordination function between these ministries that would bring youth concerns into the national policy arena.*** That would therefore provide Nepal with an essential social dialogue platform that has proven to be a vital mechanism for facilitating better youth employment outcomes in other countries.

More generally, the policy review has shown that until constitutional issues are resolved, it is unlikely that policies on employment will be implemented in a coherent manner. The destabilization caused by the failure to adopt a Constitution is of great concern, not only because it has halted the adoption of a raft of policies and laws, but because it also feeds the frustration of many Nepalese, including the youth population. ***However, in spite of ongoing political uncertainties, immediate action on setting up a social dialogue platform on youth employment as described above could provide a range of positive impacts. Among them are: signalling that the Government places priority on finding solutions for the problems of young people in the country despite the current turmoil; enabling tripartite partners and other stakeholders to review existing policies and identify priorities for implementation; and in broad terms, supporting the democratization of the youth population by facilitating their organization, representation and voice and providing an outlet for a discussion of their challenges.***

Shifting the focus to employment

Youth issues notwithstanding, there is scope to more firmly establish employment generation in general into economic policies. Analysis of the (is still high) as well as the growth of the services sector. The industrial sector, particularly manufacturing, remains weak, and has been declining in the recent

period. GDP growth therefore has primarily been driven by exogenous factors – monsoon-based agriculture and high inflows of remittances to boost services. In effect, Nepal has bypassed the traditional development trajectory of shifting from agriculture to industrialization, instead leapfrogging to services where poor quality jobs are prevalent. However, greater investment in its industrial policies, particularly manufacturing, energy, transportation and infrastructural development is likely to reap greater dividends in terms of higher value production and employment generation. Such a shift is also likely to not only support private sector growth both directly and indirectly but also absorb large numbers of highly educated youth into virtuous cycles of research and development and innovation. ***Nepal could therefore consider placing more resources and investment into its existing industrial policies, expanding its infrastructural development programmes and ensuring greater investment in energy development, which are currently having a generally restrictive effect on manufacturing and private-sector growth.***

Revitalizing rural economies

While greater investment in the industrial sector as described above is necessary, this does not negate the need for greater intensification of agriculture. In fact, parallel strategies for increasing productivity in agriculture and supporting the growth of industry can reap significant employment dividends and push Nepal further along on the path of development. Nepal remains a primarily rural country, with agriculture absorbing the largest share of employment despite its share of GDP declining. These low levels of productivity in agriculture can be boosted by intensification and support for farm and off-farm activities, which can generate the types of quality jobs in rural areas that can alleviate poverty rates.

As the report has shown, rural youth, those from marginalized communities and castes are among the most vulnerable to poor transitions to the labour market. They are more likely to have less education and to find themselves among the working poor. Many young people are found on smallholder farms as both paid and unpaid family labour. In general, rural labour markets function poorly in Nepal: labour market governance systems are weak, infrastructure is poorly developed, and education and skills development institutions are poorly resourced. As a consequence many young people, particularly young men, migrate to urban areas or overseas, leaving land untilled or to be worked in a subsistence manner by the remaining women. ***Providing these young people with access to quality education, land, finance, skills, market information, technology and opportunities for entrepreneurship, can significantly stimulate rural economies and provide much needed jobs in these areas. A proven mechanism for facilitating this is through the development of local development strategies. A range of well-tested participatory methodologies for revitalizing local communities has been used around the world. Nepal already has experience with similar local development programmes such as the Sajhedari Bikaas activities funded by the United States Agency for International Development (USAID) and the Micro-Enterprise Development Programme (MEDEP) supported by the United***

Nations Development Programme (UNDP). Nepal could consider expanding these programmes into other regions with high levels of poverty and outmigration. Ensuring specific targeting of young people in terms of entrepreneurship support, microfinance access, training opportunities and market information could significantly improve the youth employment outcomes in these areas.

Furthermore, Nepal can also consider capitalizing on its rich experience in public works programmes that use labour intensive methodologies by expanding those efforts into a national rural employment guarantee programme similar to the one currently being implemented in India. While there have been previous discussions on this, it has dropped off the national agenda while the problems surrounding the constitution are being resolved. Should the discussions resume, developing specific youth employment targets would be an important means of ensuring that young people have better opportunities to remain in their home communities with a stable income, and to become drivers of their community's development.

Making migration a genuine choice

A number of studies and investigative reports have highlighted the poor working conditions of Nepalese workers abroad in recent years. The risks are high – situations of exploitation and abuse are commonplace, and tragically can even result in fatalities. According to Migrant Rights, 726 Nepalese workers died overseas in 2013. Yet many young people in Nepal take this route because their employment prospects are so limited in their home communities.

Despite a number of policies being put in place in recent years, including the 2012 Foreign Employment Act, it is clear that enforcement and the regulatory environment for migration has not been able to keep pace with the sheer numbers of young Nepalese seeking work abroad. Nepal has become one of the largest sending countries in Asia.

There are a full range of measures that can be put in place to support the rights of migrant workers and ensure that migration pays dividends for sending and receiving countries, and for migrant workers themselves. ILO has developed a nonbinding Multilateral Framework on Labour Migration, which provides guidelines based on international best practice on how to better regulate migration flows⁹.

For Nepal, this process should start from the pre-departure process, including the regulation of recruitment agencies that are often the starting point of the exploitation of young migrant workers. In 2014 a crackdown on private recruitment agencies revealed a number of illegal practices in their operations. ***Nepal could consider setting up mechanisms for continuing the monitoring of private recruitment agencies and ensuring their compliance with regulations. Such guidance is provided in ILO conventions such as the Private Employment Agencies Convention, 1997 (No.181).***

⁹ For more details see http://www.ilo.org/dyn/migpractice/docs/28/multilat_fw_en.pdf

Furthermore, proper pre-departure training, which can enhance potential migrants' awareness of their rights as well as their options in case of difficulties, is also essential. Even if scarce resources prevent the Department of Foreign Employment from being physically present in regions prone to high levels of migration, they will need to find outreach mechanisms to provide vital information and training to potential migrants. These could include radio programmes in different languages, mobile information units that can travel to remote regions, printed information in various languages, encouraging returnees to share experiences in community meetings and so forth. Streamlining and simplifying the procedures, and reducing the costs of migration can also significantly reduce the scale of undocumented migration with its attendant risks and vulnerabilities.

Reintegration courses have also proven to be highly valuable for returnees in other countries such as the Philippines, where young workers can learn about opportunities to take advantage of the skills and experiences they have garnered from their migration experience. Additionally, Nepal could establish investment opportunities for remittances in these reintegration programmes. With remittances swelling the incomes of poor households throughout Nepal, there is the challenge of developing mechanisms for not exhausting the whole remittance on consumption, but investing part of it in the productive sector and in entrepreneurship development. Such productive investment opportunities are likely to generate employment, which can in turn enable returnees not to have to endure continuous cycles of repeat migration to support their families. Nepal could therefore consider a range of packages to support the investment of remittances into local communities.

A further area in which Nepal can take action is the removal of obstacles to women's access to overseas employment. Official figures show that only 3 per cent of migrants are women, though it is clear that the irregular migration of women is much higher. While restrictions are often seen by policymakers as a way of "protecting" women, in reality, given the strong demand for occupations such as domestic work in receiving countries, and the weak employment opportunities in the local labour market, such restrictions result in driving migration underground where exploitation and abuse are rife. Women with irregular migration status are much more vulnerable than those with rights protected by official migration processes. *Removing restrictions on women's migration, while also expanding bilateral agreements with receiving countries, simplifying migration procedures, expanding access to information and providing safe and transparent remittance opportunities can significantly reduce risks of exploitation.*

Finally, with regard to migration, Nepal has a responsibility to its young people to generate jobs locally, which will make migration a genuine choice. *Temporary migration should not be seen by policymakers as a solution to the lack of absorption capacity of the domestic labour market. Rather, sending countries such as Nepal have an obligation to pursue policy avenues that can generate*

greater amounts of employment in their own country. ILO's Global Employment Agenda, mentioned previously, provides guidance on the policy mix to support job-rich and inclusive growth that can be tailored to Nepal's priorities and context. Among the measures outlined are interventions to support private-sector growth and entrepreneurship development, local development strategies, support for cooperatives, opening access to finance and expanding skills development.

Moving out of informality

With more than 90 per cent of young workers engaged in the informal economy (when agriculture is included) many young people are trapped in jobs with poor working conditions, low incomes and weak productivity. Nepal has been paying increasing policy attention to the issues of informality, particularly in the draft national employment policy, recognizing it as a drain on the capacities of its workforce and enterprises. Policy measures are therefore being put in place to support transitions out of informality.

Nepal can take advantage of the global attention being given to the issue of informality, and the proposed international instrument that may be adopted during the 2015 International Labour Conference to facilitate transitions to formality. Much international experience has been garnered in the recent period showing the importance of developing multiple policy pathways to encourage movement out of informality. Among them are wider access to social protection to mitigate risk, greater protection under the law, support for strengthening organizations amongst informal economy actors, as well as well functioning social dialogue platforms and policy coherence among measures to improve productive employment.

While the scale and diversity of informality in Nepal may seem overwhelming, there is ample opportunity to develop tailored interventions to support the movement of sectors and actors out of informality and towards decent work. *A wealth of good practices that Nepal could adapt to its own context has been generated around the world. A sector-specific approach may be the most viable strategy for Nepal to support transitions. Such a process could begin with the tripartite identification of a specific subsector such as construction or street vending. A further step could then be the commissioning of policy-oriented research and value chain analysis to identify entry points to support formalization. Tailored measures could then be developed in a range of policy areas such as the regulatory environment, using such adapted good practices from around the world as tripartite monitoring teams for the sector. Other policy measures to support transition in the subsector could include facilitating organization and dialogue and expanding access to social protection schemes, including through, for example, the development of welfare funds, if appropriate. Other policy areas for the subsector could include ways to upgrade working conditions, particularly in occupational health and safety, as well as the development of incentives for subsector employers including greater access to finance, training, public procurement contracts and tax breaks.*

Expanding educational access

Nepal has made tremendous strides in increasing educational access and attainment in the past few decades, with the current generation of young people far exceeding their parents' level of schooling. Nonetheless, many vulnerable groups are lagging in access, such as Dalit communities, some ethnic minorities, disadvantaged regions, and those in rural areas in general. The report has shown that there are clear returns to education in terms of better wages and better quality work, notwithstanding the problem of graduate unemployment. ***Continuing to expand educational access can not only avoid early labour market entry and its trajectory of poor-quality employment and lifetime poverty, but also ensure that Nepal is able to fully capitalize on the energy and innovation of its human capital resources. Reintegration programmes for child labourers are also essential in this regard.*** Expanded interventions to engage child labourers into schooling or older youth into better work opportunities can halt intergenerational cycles of poverty and working children.

Not only will gaps in access for rural communities and vulnerable groups need to be overcome, ***measures will also need to be put in place to improve the quality of education overall. Given the high rates of educated unemployed, measures will also need to be put in place to ensure that higher education can respond to labour market demand. Enabling educational institutions to forge stronger linkages with the private sector will be an important part of this process. The development of tripartite councils to oversee the content and curricula of higher education could also be a potential avenue to increase its relevance in the labour market.***

Making vocational training an attractive option

The report shows that vocational training is undervalued by young people. Academic education is seen as more prestigious, yet employers are constantly seeking skilled technical workers. While CTEVT has been working to shift these perceptions with vocational training reform, there is still much that could be done in terms of providing incentives to young people in the form of scholarships and other financing opportunities. ***Greater investment in vocational training, including infrastructure, content, technology and equipment, as well as building the capacity of trainers will be needed. Establishing scholarships in courses with high labour-market demand will also make vocational training more attractive. As with higher education mentioned above, supply-side biases will also need to be removed. Vocational training authorities will need to be engaged in analysis of labour market demand, which can feed into curriculum content. The active engagement of the private sector through, for example, tripartite councils will also be key to turning around the weak position of vocational training institutions.***

Building labour market information systems

Both the SWTS and LDES revealed the weaknesses of labour market information systems. The most widely used methods of finding jobs and recruitment were informal channels. Neither young people nor employers put much stock in public employment agencies. There is a great need therefore to strengthen the capacity of these institutions to better meet the needs of both supply and demand in the labour market. As a low-income country, Nepal has severely limited resources to invest in efficient labour market information. Nonetheless, the labour market cannot function effectively without systems to collect and analyse data on existing and future needs. Such information is crucial for policy formulation on human resources development and employment generation. ***Nepal could consider prioritizing the capacity building of its public employment agencies to provide better information to job seekers on the one hand, and stronger linkages with employers on the other. Attracting donor attention to this vital area could help overcome existing resource constraints.***

Addressing social and economic exclusion

Despite being illegal, discrimination continues to feature in the Nepali labour market. Caste groups such as Dalits and ethnic minorities are amongst those likely to have fewer educational opportunities or employment choices. They are also concentrated among the poorest segments of society. Nepal has put in place a number of initiatives to address caste discrimination but not yet on a scale that could overcome the serious exclusion faced by these communities. ***Nepal may wish to consider expanding interventions such as affirmative action policies in education, through scholarships and grants, as well as in hiring for public service. Public awareness raising is also warranted along with the development of democratic platforms through which these communities can be encouraged to organize and articulate their rights. A number of public works programmes are also oriented to vulnerable communities. Nepal may wish to upscale these programmes to expand their coverage to more regions and communities.***

Again, in view of limited resources, this may be an area in which the donor community and the UN country team could provide additional support to Nepal. Ensuring more resources are directed to these communities is essential to enable them to enjoy the same rights as other citizens in the new nation.

Gender discrimination also appears to be prevalent in the labour market. As the report showed, women are often concentrated in certain poorly remunerated sectors and vulnerable employment categories. They are also likely to have had less educational attainment and weaker access to a range of resources including land, technology, finance and skills. ILO has shown that addressing discrimination is important not only from a rights-based perspective, but also an economic one, as it would ensure that the full capacity of Nepal's human resources is harnessed for the development of the nation. ILO experience has shown the importance of

taking both a mainstreamed approach in policy formation (ensuring the differing experiences and needs of both sexes and of discriminated groups are taken into account in policy development), as well as a gender-specific and targeted approach to vulnerable groups to enable them to overcome their disadvantage.

In concrete terms, for Nepal this will require analysing existing policies to see the extent to which women's constraints and needs are addressed, and the availability of resources directed towards vulnerable women (a mainstreaming approach). At the same time, gender-specific interventions may also be warranted. For example, increasing access to education through scholarships, conditional cash transfer programmes, as well as through in-kind incentives, have proven effective in other low-income countries in retaining girls in school. For young women in the labour market, opening up access to a range of productive resources including finance, information, land, business advisory services and skills upgrading could significantly expand their income opportunities, particularly in rural communities. Awareness-raising among employers may also be warranted given that the LDES showed that where a gender preference was expressed in recruitment, it was heavily skewed in favour of young men.

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