

# Nepal: The job creation challenge

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# Outline

- Background: Economy and labour market of Nepal
- From MDGs to SDGs: Salience for Nepal
- Preliminary empirical evidence: Impact of migration/remittances on the left behind (project supported by Partnership for Economic Policy)



Background: Economy and labour market of Nepal

# Low growth, deindustrialization

20-year annual GDP growth until 2017/18	4.3
10-year annual per capita GDP growth till 2017/18	3.2
10-year annual per capita GNI growth till 2017/18	3.4
Manufacturing share of value added	6.3% in 2017/18; 9% in 1995
Exports as % of GDP, 2017/18	8.8
Imports as % of GDP, 2017/18	45.5

# Where remittances save the day

Per capita GDP, 2017/18	US\$1004
Per capita GNDI, 2017/18	US\$1294
Remittances as % of GDP, 2017/18	24.2

% of households with absentee(s) abroad	32.8
% of households receiving remittances from absentees abroad	24.7
Male absentees abroad as % of working age population including those abroad	23.8
Male absentees abroad as % of population aged 16-34 including those abroad	32
Male returnees from abroad as % of resident population aged 16-34	14.5
Estimated stock of absentees abroad (2018)	at least 2.2 million
Age of male absentees	Median: 28; p75: 35
Labour permits issued during 2008/09-2016/17	3.6 million
<i>Average labour permits issued per year</i>	<i>394,964</i>
Labour permits renewed during 2011/12-2016/17	1.2 million
<i>Average labour permits renewed per year</i>	<i>199,447</i>

Average increase in labour force per year: 344,000 (ILO estimate)



# Features of labour market

Sectors of employment, 2011 (%)	
Agriculture, forestry and fishing	63.95
Manufacturing	5.63
Construction	3.39
Wholesale and retail trade; repair of vehicles and motorcycles	7.04
Transportation and storage	2.28
Education	3.75
Others	13.95
Share of self-employment in non-agriculture (as main sector of employment)	from 7.7% in 1996 to 12.7% in 2012
Share of households with enterprises	24.2% in 1996 to 34.6% 2012
Informal employment in non-agricultural employment	70%

Labour underutilization		
% of employed workers who worked for less than 40 hours per week	54	Source: NLSS III
Labour underutilization rate (as % of labour force)	30	Source: NLFS II
<i>Among age 20-24</i>	<i>46</i>	
<i>Among age 25-29</i>	<i>39.1</i>	

Low education profile (residents)	
Age group	Grade 10 or above (%)
15-34	26.88
20-34	29.24

Skill profile of out-migrants (2013/14)	
Unskilled	74%
Semiskilled	12%

## From MDGs to SDGs: Saliience for Nepal

# MDGs

- MDGs: Significant achievements in poverty reduction, and health and education outcomes
- Poverty reduction target met (remittances contributed)
- Nagging concern: poor domestic output and employment growth
- Well-recognized in policy discourse: relying on labour exports cannot be a viable, sustainable development strategy

# Salience of SDGs

- Emphasis on not just development outcomes but also the mechanism for realizing those outcomes—for example, through productive employment generation
- Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Current slogan: Prosperous Nepal, happy Nepalis
  - Boils down to creating decent and productive employment to Nepali citizens on Nepali soil
  - Labour force in 2018: 16.32 million (ILO estimate)
  - Labour force to increase by some 3.3 million between 2018 and 2030 (ILO estimate)

## Some SDG targets (Goals 1, 8 and 9)

Year	2015	2030
Per capita GNI (US\$)		2500
<i>Required growth rate in per capita GNI beginning 2017 (%)</i>	7.2	
Population below US\$ 1.25 per day (PPP value) (%)	23.7	4.9
Per capita GDP growth (%)	2.3	7
Annual growth rate of real GDP per employed person	1.6	10
Underemployment rate (15-59 years)	27.8	10
Manufacturing value added by 2030	6.6	15
Manufacturing employment share (%)	6.6	13

Preliminary empirical evidence: Impact of remittances on the left  
behind

## Impact on the left behind: a preliminary investigation

- Policy emphasis: Channelizing remittances into “productive” use; harnessing returnees
- Narrative on “productive” use mostly concentrates on macro aspects
- Less discussed (micro aspect): Entrepreneurship among left-behind family
- Implications of the left-behind operating non-farm enterprises:
  - domestic employment prospects of returnees
  - employment prospects of migrants’ children
  - employment opportunities for non-migrants in the neighbourhood (“self-discovery”)

**What is the effect of remittances from abroad on left-behind household members’ engagement in non-farm entrepreneurial activities?**

## Previous studies: Jury still out

- Remittances largely used to fund consumption; contribute to poverty reduction (see survey in Yang (2011), *Journal of Economic Perspectives*)
- Mixed evidence on effectiveness of remittances to encourage entrepreneurship in migrant-sending countries (see survey in Naude et al. (2017), *IZA Journal of Migration*)
- Effect hinges on source of remittances, who uses remittances, etc. (Naude et al. (2017))

## Evidence from Nepal: misinterpretation

- *<5% of remittances spent on capital formation and business → international migration and remittances have no role in enabling entrepreneurship*
  - Remittances are fungible; heterogeneity across households
  - A small amount of money could be critical
  - Remittance receipt >> credit worthiness
  - With basic consumption needs satisfied >> spare time for enterprises

# Method and data

- Outcome variable: 1 if individual is self-employed in a non-farm enterprise, 0 otherwise
- Key regressor: 1 if household to which individual belongs receives remittances from absentee(s) abroad
- Population of interest: Individuals aged 15-64 residing in Nepal
- Endogeneity
  - IV: out-migration rate at village or district level 10, 20, 30 years ago
  - Well-established IV: e.g., Rozelle et al. (1999); McKenzie and Rapoport (2007); Lokshin and Glinskaya (2009); Lokshin et al. (2010)
  - Alternative IVs: Emissions growth or GDP growth in major destinations (India, Malaysia, Qatar, Saudi Arabia, UAE) in the three years leading to the household survey year, weighted by prevalence of migration to these destinations from village/district 10 years ago
- Linear probability model with IV
- Data: Cross-sectional, nationally representative household survey, 2011

# Summary statistics

	mean	sd	min	p25	p50	p75	max
Self-employed in non-agriculture (1 if yes)	0.204	0.403	0.000	0.000	0.000	0.000	1.000
Household receives remittances from absentees abroad (1 if yes)	0.213	0.410	0.000	0.000	0.000	0.000	1.000
Out-migration rate in village, 2001	0.032	0.037	0.000	0.007	0.021	0.042	0.241
Out-migration rate in district, 2001	0.031	0.029	0.004	0.015	0.020	0.035	0.151
Out-migration rate in district, 1991	0.031	0.033	0.002	0.009	0.018	0.035	0.168
Out-migration rate in district, 1981	0.023	0.030	0.001	0.004	0.010	0.032	0.172
GDP growth in key destinations, weighted by destination-wise village out-migration rate	0.488	0.707	-0.002	0.079	0.184	0.586	4.734
Emissions growth in key destinations, weighted by destination-wise village out-migration rate	0.475	0.702	-0.248	0.082	0.174	0.540	4.759
Gender (1 if male)	0.437	0.496	0.000	0.000	0.000	1.000	1.000
N = 16724							

# Results I

	(1)	(2)	(3)	(4)
	OLS	OLS	IV	IV
Received remittances from absentees abroad	-0.071***	-0.031***	-0.178**	0.004
	(0.010)	(0.009)	(0.075)	(0.024)
Observations	16724	16724	16724	16724
Adjusted $R^2$	0.005	0.174	-0.007	0.173
IV type				Village, 2001
Controls		Yes		Yes
Fstat from first stage				111.686

Standard errors in parentheses

Robust standard errors are clustered at PSU level

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

## Results II

	(1)	(2)	(3)	(4)
	OLS	IV	IV	IV
Received remittances from absentees abroad	-0.028***	0.086**	0.118**	0.161**
	(0.009)	(0.039)	(0.056)	(0.069)
Received remittances from absentees abroad x male	-0.008	-0.262***	-0.437***	-0.454***
	(0.015)	(0.101)	(0.142)	(0.175)
Observations	16724	16724	16724	16724
Adjusted $R^2$	0.174	0.158	0.131	0.127
IV type		Village, 2001	District, 1991	District, 1981
Controls	Yes	Yes	Yes	Yes
Fstat from first stage		34.359	17.772	11.243
Effect on male	-0.036	-0.176	-0.319	-0.293
P-value of effect on male	0.013	0.017	0.002	0.020

# Questions

- What explains the differential impact across gender groups?
- Potential lines of enquiry
  - Which individuals actually receive remittances?
  - Is there heterogeneity in effects within women?
- What can government do?



Thank you