

# Pathways to prosperity and inclusive job creation in Nepal

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October 2017

## Key messages

- Nepal is on course to reach lower-middle-income country (LMIC) status by 2030, but it is important to agree a vision in which sectors help to achieve a more desirable economic transformation pathway.
- Examining the contribution of different sectors to promote growth, economic transformation, jobs and inclusion suggests a focus on four sectors: agro-processing and light manufacturing; information and communication technology (ICT); tourism; and hydropower.

## Introduction

Building a consensus view of how Nepal can transform and create jobs in the future is crucial to incentivise policy action. However, there seems to be little or no political debate on job creation. This presents an opportunity to agree a consensus view and a unifying, practical vision on how the country can transform and create jobs. This note examines credible pathways to prosperity and inclusive job creation from a scenario perspective. It discusses the type of sectors that can help grow and transform Nepal to reduce its import dependency and increase its exports and what implications different sectors have for inclusive job creation. Sector notes produced as part of this study provide further details on what can be done in practice, based on new firm-level surveys of over 40 firms.

## Can Nepal reach MIC status by 2030?

The Government of Nepal (GoN) aims to achieve economic transformation through a series of three-year plans. The 12th Plan (2010–2013) targeted Nepal's graduation from least developed country (LDC) status to that of developing country by 2030. The 13th Plan (2013–2015) accelerated the target year for this process by 2022. The 14th Plan (2015–2017) does not alter the LDC graduation target, aiming to meet these goals by 2022, and adds new targets on achieving the Sustainable Development Goals and becoming a middle-income country (MIC) by 2030.

This note examines the feasibility of these high-level goals. We find, by projecting past growth rates (over 2000–2015) in population and gross value-added over 2015–2030, that Nepal should be able to attain LMIC status by 2029. However, this requires the creation of 6.1 million jobs, of which 3.1 million are needed simply to match population growth; three million would need to be created by low productivity agriculture.

Nepal faces two additional challenges related to sectoral growth paths. Nepal's growth rate over the past has not been transformational or quality job-intensive and economic transformation from agriculture to non-agriculture has been slow. In turn, jobless growth, lack of change in employment structures, casualisation and informalisation of jobs and a skills mismatch have acted as a push factor for youth to look for work overseas as distress employment. It is estimated that 3.5–4 million people are working abroad, generating remittances of more than 30% of gross domestic product.

## Transformational sectors in Nepal

A range of sectors can help prospects in Nepal for sector growth, economic transformation, jobs and inclusion. Table 1 uses the following assessment criteria to assess the contribution of a sector to Nepal's development objectives:

- Past growth performance (over 2001–2015) and contribution to aggregate growth (direct impact)
- Labour productivity level (in 2015);
- Record in creating jobs directly, over 2001–2015;

- Inclusivity (direct impact), percentage and number of jobs that are female, informal or rural;
- Number of studies indicating a sector as promising.

The assessment suggests the following as important for achieving growth, transformation, jobs and inclusivity:

- **Manufacturing.** Several studies suggest this sector as promising (e.g. **agro-processing and light manufacturing**). It created a large number of jobs and is also seen as relatively inclusive, yet its contribution to growth has been low so far.
- **Transport, storage and communications.** Much

of the interest in this sector is in the ICT sub-sector as promising, but overall the composite sector has grown fast, has high productivity and has contributed strongly to overall growth.

- **Tourism** was added to the list as hotels and restaurants sub-sector does not fully capture the importance of the sector (e.g. it does not include transport, which is seen as a positive sector; and if the inclusivity criterion were widened the tourism sector would score higher on this too).
- **Electricity (hydropower).** This is a sector that has grown fast and, given the country’s natural endowments, has much potential for the future.

Table 1. The characteristics of different sectors in achieving Nepal’s development objectives

Sector	Past growth rate	Contribution of sector to average growth	Current productivity level	Job creation record	Inclusivity of sector	Promising sector in literature	Overall assessment
Agr/fore/fishing	Medium	High	Low	High	High	Medium	Positive
Mining	Medium	Low	Medium	Low	High	Low	
Manufacturing	Low	Low	Medium	High	High	High	Positive
Utilities	High	Low	Medium	Medium	High	Medium	Positive
Construction	Medium	Medium	Medium	Medium	Medium	Low	
Wholesale	Low	Medium	Medium	High	Medium	Low	
Hotels, restaurants	Low	Low	Low	Medium	Medium	High	
Transport, comms	High	High	High	Medium	Medium	High	Positive
Fin. Intern.	High	Medium	High	Low	Low	Low	
Education	High	High	Medium	Medium	Medium	Low	Positive
Health, social work	High	Low	Medium	Low	Low	Medium	
Admin, defence	High	Low	Medium	Low	Low	Low	
Real estate, bus.	Medium	Medium	High	Low	Low	Low	
Other comm./ Soc. pers serv	High	Medium	Medium	Low	Medium	Low	
<b>Criterion for scoring</b>	Growth rate 2011–2015 L: ≤ 3.5 M: 3.5–4.5 H: ≥ 4.5	% contribution to growth 2001–2015 L: ≤ 5% M: 5%–10% H: ≥ 10%	% relative productivity level 2015 L: ≤ 30% M: 30%–100% H: ≥ 100%	Job creation 2001–2015 L: ≤ 100,000 M: 100,000–250,000 H: ≥ 250,000	Average of 3 components (% female jobs, % rural jobs and % informal workers in 2015)	# included in 6 reviewed studies L: 0 M: 1–2 H: ≥ 3	Average score (L=1, M=2, H=3), positive when average score is greater than 2

Agriculture is also important due to the major effects on growth and jobs and inclusion in the past. However, it is a very broad sector, with weak labour productivity, and there are major questions around its ability to continue growing at the same rate. Much interest in the sector is in the agro-processing component, discussed above, or in forest products. Education has many desirable aspects, but it is not seen as a sector that on its own can drive growth. Skills are important for other sectors, but commonly there are still prevailing debates as to whether more skills lead to faster growth, or whether faster growth in sectors leads to more and better skills.

## Conclusions

We suggest GoN finalise and implement a **long-term vision for economic transformation and job creation** that provides details on the **positive role of government** in promoting the sectors suggested above. It can do this by rolling out an **updated Vision 2030, which includes a targeted approach** based on

appropriate prioritisation. We suggest the **National Planning Commission be empowered** to roll out such a strategy and have the power (and adequate budget) to discipline and coordinate other departments. By focusing on sectors with potential (agro-processing, light manufacturing, tourism, hydropower and ICT) **through targeted action and better co-ordination, Nepal can achieve economic transformation.**

## References

Henley, G., Hoque, S., Lemma, A., Pandey, P., te Velde, D.W. (2017) *Pathways to prosperity and inclusive job creation in Nepal*. London: ODI.

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