

# Are sectoral labour markets in Nepal helping firm growth?

Alberto Lemma

October 2017

## Key messages

- The report examines what can be done to ease Nepal's constraints to job creation based on a new firm-level survey.
- Four sectors (ICT, agri-processing, tourism and light manufacturing) crucial for economic transformation and job creation vary in terms of labour market tightness. Growth prospects are strong in ICT; employment grew fast in ICT and tourism.
- Labour market tightness varies markedly by skills level. The market for less skilled employment is not tight but it is much more difficult to find skilled workers, these tend to migrate when faced with a lack of opportunities in Nepal. Most firms spend a significant amount of resources providing on-the-job training to ensure they have adequately skilled workers.
- Constraints to firm growth go beyond a lack of skills in the workforce. Unreliable power supply and trading conditions for manufacturing and agro-processing firms tend to be critical; for tourism, lack of transport infrastructure, and for ICT, lack of connectivity, intellectual property and security rights, tend to be more binding constraints than skills.

## Introduction

This briefing summarises the main findings and policy suggestions a report by ODI's Supporting Economic Transformation (SET) programme in collaboration with the South Asia Watch on Trade, Economics & Environment (SAWTEE). It examines what can be done to ease Nepal's constraints to job creation based on a new firm-level survey in four promising sectors for economic transformation and job creation. It does this by analysing the current state of the labour market in Nepal and examine whether constraints to growth relate to skills supply or to other factors.

## The Nepalese labour market

**Nepal is unique among low-income countries in that labour migration is so extensive that in some sectors there are reports of a labour shortage.**

Appropriate policy suggestions depend on understanding where there is excess demand and supply of labour in a sector – that is, understanding the tightness of the labour market and whether it is functioning efficiently.

**Up-to-date and in-depth knowledge of the Nepali labour market is limited.** The country carried out a comprehensive survey of its labour force in 2008,

leaving a significant knowledge gap on movements in the labour market over the past decade.

**To provide a more recent snapshot of the labour market and constraints to firm growth, four key sectors were selected: tourism, information & communication technology, light manufacturing and agri-processing.** These were based on the findings of the *Pathways to prosperity and inclusive job creation in Nepal* report, chosen on their potential for export market orientation; capacity to promote economic transformation and potential to create productive jobs. The survey involved 43 firms in Kathmandu and Biratnagar.

## Labour market tightness

**Growth in firm level employment varies significantly by sector.** Light manufacturing firms experienced limited growth (or even negative, if outlier firms are included), whilst tourism and ICT firms showed higher levels of employment growth. ICT is experiencing the fastest business growth, facing more labour tightness than other sectors.

**Competition across all sectors comes from both domestic and international sources.** Food producers face significant competition from imported goods; the

ICT sector from firms across the world; Nepali tourism firms face both regional and internal competition.

**In ICT, light manufacturing and tourism, it is difficult to retain workers due to migration or workers setting up their own enterprises.** Wages were reported to be rising annually by between 10% and 30% in tourism and ICT, wages in light manufacturing and agro-processing were in line with inflation or minimum wage requirements. Greater feminisation of workers was reported in agro-processing and light manufacturing, a further possible sign of a shortage of workers.

## Labour market skills

**All sectors reported a shortage of experienced and high-skilled/technically skilled workers.** The general availability of workers for low- or medium-skilled jobs was reported as being adequate across all sectors, as vacancies were not going unfilled – though firms generally had to hire and train inexperienced workers.

**While the percentage of foreign workers was extremely low in interviewed firms, firms reported that some were hired to fill technical roles, with differences across sectors.** For tourism and ICT sectors, there was limited evidence of a significant presence of foreign workers. Agro-processing and light manufacturing firms hired a small number to fill a technical skills gap.

**Firms tend to rely on a significant amount of on-the-job training to get adequately skilled workers.** No respondents mentioned hiring employees who had been trained at external skills training centres, leaving their utility in doubt.

## Constraints to firm-level growth

**Whilst a skills gap is evident, firms cited reliable power, transport logistics and lack of infrastructure, often as the main constraints to growth.** Other important constraints were found to be regulatory barriers (i.e. capital account restrictions) and limited state-business interactions.

**These constraints were cited as greater inhibitors to growth than a lack of skills.** Even though these are well known constraints in Nepal, firms reported that they had yet to find effective ways to work with government to relax these constraints.

## Knowledge gaps

**One obvious knowledge gap is the lack of a recent Labour Force Survey.** Preparations for a new LFS are being made (with ILO support); this should help

improve the knowledge base. More information (age, gender, skills, education etc.) would help an understanding of where employment bottlenecks exist.

### Firm surveys could also gather more information.

The next round of the World Bank Enterprise Survey could also include more granular information on whether (and what type of) skills form a constraint to firm operations, labour turnover rates, training costs, etc. This would help give a more holistic view of the labour market.

## Policy suggestions

The firm survey indicates the importance of the following constraints, both in terms of broader market and skills gaps constraints, that affect firm growth (in order of significance):

- *Transport and infrastructure:* Increased investment in transport and energy infrastructure is one of the main policy priorities as spillover effects affect demand- and supply-side constraints within the labour market;
- *Systemic on-the-job training:* The perceived practical skills gap could be reduced through a systemic on-the-job training system linking students from tertiary and secondary education with firms looking for the required basic skills;
- *Technical and vocational training:* Providing specific technical and vocational training to cover 'base' technical skills that can be horizontally applied between firms to meet the skills gap;
- *Capital account restrictions:* Allowing Nepalese firms to engage in international (online) payment systems by increasing inward and outward payment caps and simplifying procedures could help firms expand access to international markets.

## References

Henley, G., Hoque, S., Lemma, A., Pandey, P., te Velde, D.W. (2017) *The Nepal Labour Market: A Four Sector Case Study*. SET Report. London: ODI.

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

© SUPPORTING ECONOMIC TRANSFORMATION.

The views presented in this publication are those of the author(s) and do not necessarily represent the views of DFID or ODI.

