

Labour Market Profile 2019



NEPAL

Danish Trade Union
Development Agency,
Analytical Unit



Ulandssekretariatet
Danish Trade Union Development Agency - DTDA

PREFACE

The Danish Trade Union Development Agency (DTDA) is the international development organization of the Danish trade union movement. It was established in 1987 by the two largest Danish confederations, the Danish Federation of Trade Unions (Danish acronym: LO) and the Danish Confederation of Professionals (Danish acronym: FTF). As of January 2019, the LO and the FTF merged to become the Danish Trade Union Confederation (Danish acronym: FH).

The outset for the work of the Danish Trade Union Development Agency (former known as the LO/FTF Council) is the International Labour Organization's (ILO) Decent Work Agenda (DWA) with the four Decent Work Pillars: Creating decent jobs, guaranteeing rights at work, extending social protection and promoting social dialogue.

The overall development objective of the DTDA's interventions in the South is "to eradicate poverty and support the development of just and democratic societies, by furthering the DWA. DTDA works in partnership collaboration with trade union organizations in Africa, Asia, Latin America and the Middle East. The immediate objective of the program collaboration is to assist the partner organizations to become change agents in their own national and/or regional labour market context, capable of achieving tangible improvements in the national DWA conditions.

Support for development of strong, independent and democratic trade union organizations as well as well-functioning and sustainable labour markets and framework conditions conducive for business and economic growth contributes towards the creation of inclusive growth with due respect of human (labour) rights, thus towards the achievement of the UN Sustainable Development Goals (SDGs) in labour market related issues.

The Labour Market Profiles (LMP) provide a comprehensive overview of the labour market situation in the individual countries of engagement. The LMPs aim at giving a picture of structures, developments and challenges in the labour markets portrayed. They are divided into ten thematic sections describing trade unions, employers' organizations, tripartite fora and institutions, national labour legislation, violations of trade union rights, wages and working conditions, status of the workforce, education, social protection, and economy.

The LMPs are reporting on several key indicators within the framework of the DWA and the Sustainable Development Goals on labour market issues, and address a number of aspects of labour market development such as the trade union membership evolution, social dialogue and bi-/tri-partite mechanisms, policy development and legal reforms, status vis-à-vis ILO conventions and labour standards, etc.

Main sources of data and information for the LMPs are:

- National partner organisations provide data in their annual narrative progress reports, including information on labour market developments. Furthermore, specific types of data and information relating to key indicators are collected by use of a unique data-collection tool. This data collection is done and elaborated upon in collaboration between the DTDA Sub-Regional Offices (SRO) and the partner organizations.
- National statistical institutions and international databanks are used as source for collection of general (statistical) data and information. This includes the ILOSTAT and NATLEX, World Bank Open Data, ITUC Survey of violations of Trade Union Rights, the U.S. Department of State as well as other labour related global indexes.
- Academia and media sources (e.g. LabourStart, national news, etc.) are also used in the general research on labour market issues.

Through the compilation of information and data from the different sources, the DTDA aims at providing easy access to core labour market data from a wide range of national and international sources while adding relevant data and information obtained from partner organisations and from being present in terms of having staff and offices (SROs) in the countries/regions mentioned.

Labour Market Profiles for more than 30 countries are available on the Danish Trade Union Development Agency website:

<http://www.ulandssekretariatet.dk/content/landeanalyser>.

ACKNOWLEDGMENT

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The front page photo illustrates Nepalese construction workers and it is photographed by Carsten Snejbjerg.

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EXECUTIVE SUMMARY

The labour market's landscape in Nepal is changing from a rigid system to new structures that takes important steps to improve industrial relations and workplace cooperation. Central legal reforms are reshuffling the country's governance framework, and major revision of the Labour Law and the social protection system create new development.

Economic growth has been solid during the last decade, except a recession hit hard due to the 2015 earthquake. Although the extremely working poor (<US\$1.9 per day) is declining and projected at 6.3% in 2020 and a middle-class is rising, the country is still situated among the poorest in the world. These changes are driven by relatively high wages and foreign personal remittance that has boosted investments in services. As a contrast, creation of new formal skilled wage-earning jobs is slender, the labour productivity is stocked very low and the export sector is declining.

There are observations of the labour legislation concerning the international standards of the workers' right to organize, the right to collective bargaining, and the right to strike. Regular violation of trade union rights is present, and workers often lack the guarantee of rights in practice.

Social dialogue among stakeholders on the labour market has taken new steps. For example, tripartite technical working groups have contributed on several key policy reforms in 2018 as well as the collective bargaining system opened up of Collective Bargaining Agreements (CBAs) on enterprises level and expanding sector-wise (Industrial). Coverage of CBAs is on a rise but has been challenged by political infighting, dominated by informal micro- and small enterprises, and lack of knowledge or incentives of labour regulations.

The nation is furthermore under demographic changes due to a declining fertility rate and growing urbanization rate. Although many Southern Asia countries have experienced employment structural changes, the projections based on the country's latest statistics from 2008 suggested it has stalled: vast majority operate in informal vulnerable employment, and dominated by the agricultural sector. On the other hand, other updated economic data point towards that the employment in service sector has been on a rise during the 2010s, but a growth in the industry sector continues being stuck.

The unemployment rate is projected low in Nepal at 1.3% in 2019. It is shadowing the fact that around 45% of the workforce is inactive on the labour market, high out-migration rate, and informal workers are often either under- or over-employed. A youth unemployment "time bomb" is looming since many Nepali youths enter the labour market without marketable skills, and almost one out of four (23%) young persons are no longer in the education system, not working or training for work.

A massive out-migration of Nepalese men workers has made women stepping in and now dominating the agricultural sector. Not to mention, women have confronted governmental bans and regulations that forbade them to emigrate as workers. Gender inequality is similarly illustrated in deep gender wage gap.

Children have a relatively high enrolment in primary and secondary school level in Nepal, but one-half in employment have not completed their basic education, which is especially among girls. This situation is due to deep-rooted and systemic problems such as low teacher morale, mismatch of skills in the formal labour market and a high child labour rate, all tailed by ethnic, cultural, and gender inequalities.

Social protection has suffered from low coverage among the population due to no legal provision for social insurance and stayed privileged for only formal public employees. Social protection is being reshaped, e.g. opening up for enrolment of employees from the private sector was initiated in the end of 2018 along with regulation provision for medical insurance for every worker, which includes informal workers. As an example, relatively fast-growing social health insurance coverage is in progress. Despite rising tax revenue, the public welfare system's financial sustainability is challenged.

Trade unions and employers' organizations are working to ensure their representation in social dialogue bodies at local level and the new provincial level. Unionism is on an upsurge: as an example, the three main trade union organizations are collaborating in the International Trade Union Confederation – Nepal Affiliate Council (ITUC-NAC) and demonstrated an aggregate membership growth of 12% in the period from 2014 to 2018. Trade union density of the total employment was estimated at 11% in 2018 which is relatively high in comparison to many other Southern Asia countries.

Two templates below provide a fast overview of what is happening in the labour market based on key indicators that is monitored by the Danish Trade Union Development Agency in collaboration with the International Trade Union Confederation – Nepal Affiliate Council (ITUC-NAC). ‘Yes’ and ‘No’

measurements are based on assessments from the DTDA Sub-Regional Office in Asia.

The second template on next page is presenting the status of the key Sustainability Development Goals indicators’ value and targets related to the labour market.

Status of key labour market indicators within the framework of the Decent Work Agenda (DWA) in Nepal, 2018

| Creating decent jobs | |
|--|---|
| Policy reforms addressing creation of decent employment | Yes – a wide range of labour market policies have been adopted and enforced in recent years, which include special attention paid to women and youth. |
| ILO standard setting on improvement of status of workers from the informal economy | Yes – Tri-partite National Informal Economy Forum is not set, but the existing tripartite forums (e.g. Minimum Wage Fixation Board, national level advisory committees, etc) are addressing status of informal economy workers in progress and policy addressing this issue is adopted. |
| Guaranteeing rights at work | |
| Growth in partner trade union members (ITUC-NAC) from year 2017 to 2018 (%) | 8.6%. |
| Violations of trade union rights | Ranking three out of five (five is worst) on the ITUC’s Global Rights Index in 2018 * |
| Labour legislation is improved according to ILO standards | Yes – detailed operational guidelines to implement the principles of the amended the Labour Act; provisions on legal and arbitrary dispute resolution; setting-up of Occupational Health and Safety (OHS) committees and enterprise-level CBA; and details on the implementing rules and regulations in the application of social security in both formal and informal sector, among others. |
| Partner organizations with minimum 30% women representation in leadership positions and decision making bodies | Total: 30% (GEFONT: 41%, NTUC: 23%, and ANTUF: 33%). |
| Extending social protection | |
| Health social protection coverage as % of total population in partner countries | 5% of the total population covered by the Social Health Insurance (SHI). |
| Workers from the informal economy have access to national social security schemes | Existing social security arrangements, which have limited coverage, exist mostly within the formal sector only. No official data at the moment. The Social Security Act and its By-laws have just been enacted in the last 2 years, and mechanisms for registration will only start in 2018. |
| Promoting social dialogue | |
| Trade union density of total employment (%) | 11% |
| Trade union density of employees (%) | 54% |
| Cooperation in labour-employer relations | Ranking 134 out of 140 countries. ** |
| Number of Collective Bargaining Agreements (CBAs) of partner trade union members (ITUC-NAC) | Total: 149 (GEFONT: 56, NTUC: 21, and ANTUF: 72). All CBAs were conducted at the local level. |
| Coverage of CBAs among ITUC-NAC membership | 4.3% |
| Bi-/tri- partite agreements concluded | Yes – Government institutions, employers’ organization (FNCCI) and trade unions (ANTUF, GEFONT, NTUC, and INDECONT) have representation on the tripartite councils, committees, and technical working groups; depending on the issue at hand - social security, labour law amendment, labour organization law amendment, occupational health and safety, among others. With the change in Nepal’s government structure (national, provincial, local) and the devolution of powers and authority to local and provincial units, employers and workers’ organizations are undergoing structural reforms within their respective organizations, to ensure that they will have representation at the local economic bodies. |

* This is interpreted as ‘Regular violations of rights’; i.e. Governments and/or companies are regularly interfering in collective labour rights or are failing to fully guarantee important aspects of these rights. There are deficiencies in laws and/or certain practices which make frequent violations possible (Source: ITUC, Global Rights Index, 2018).

** This indicator is based on data from the Global Competitiveness Index that represents employers’ opinion from surveys (Source: World Economic Forum, Global Competitiveness Report 2018).

Other sources: DTDA Sub-Regional Office data collection tool, and own calculations on trade union density.

Status of labour market related Sustainable Development Goals in Nepal

| Indicators | Value | Year | SDG Targets |
|---|----------|------|--|
| 1.1.1: Working poverty rate (percentage of employed living below US\$1.90 PPP) | 6.7 % | 2019 | By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day |
| 1.3.1: Proportion of population covered by social protection floors/systems | 63 % * | 2010 | Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable |
| 5.5.2: Female share of employment in managerial positions | 19 % | 2008 | Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life |
| 8.2.1: Annual growth rate of real GDP per employed person | 1.7 % | 2019 | Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors |
| 8.3.1: Proportion of informal employment in non-agriculture employment | 99 % | 2008 | Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services |
| 8.3.1: Men | 99 % | 2008 | |
| 8.3.1: Women | 99% | 2008 | |
| 8.5.1: Average hourly earnings of women and men employees | - | - | By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value |
| 8.5.2: Unemployment rate (15+ years) | 2.7 % ** | 2019 | |
| 8.5.2: Unemployment rate (15-24 years) | 4.3 % ** | 2019 | |
| 8.5.2: Men (15+ years) | 3.2 % ** | 2019 | |
| 8.5.2: Men (15-24 years) | 5.7 % ** | 2019 | |
| 8.5.2: Women (15+ years) | 2.2 % ** | 2019 | |
| 8.5.2: Women (15-24 years) | 2.9 % ** | 2019 | |
| 8.6.1: Proportion of youth (15-24 years) not in education, employment or training) | 23 % | 2008 | By 2020, substantially reduce the proportion of youth not in employment, education or training |
| 8.7.1: Proportion and number of children aged 5-17 years engaged in child labour (Total) | 22 % | 2014 | Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms |
| 8.7.1: Boys | 20 % | 2014 | |
| 8.7.1: Girls | 23 % | 2014 | |
| 8.8.1: Frequency rates of fatal and non-fatal occupational injuries | - | - | Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment |
| 8.8.2: Level of national compliance with labour rights (freedom of association and collective bargaining) | - | - | |
| 9.2.2: Manufacturing employment as a proportion of total employment | 0.2 | 2008 | Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries |
| 10.4.1: Labour income share as a percent of GDP | - | - | Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality |

* Based on limitations of data availability, this indicator's value is persons above retirement age receiving a pension.

**ILO estimations based on Key Indicators of the Labour Market (KILM).

Source: [United Nations, Sustainable Development Goals, Knowledge Platform](#) and [ILO, Key Indicators of the Labour Market \(KILM\)](#)

COUNTRY MAP



Source: CIA, The World Factbook

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TRADE UNIONS

The trade union movement in Nepal was initiated back in 1947. By the Trade Union Act from 1992, unionism was divided in three structures: i) confederation, ii) federation, and iii) enterprise-level unions (see also the section: National Labour Legislation). Nepal, like other Southern Asia nations, has a tradition of a multiplicity of unionism, e.g. industrial unions or employers' unions, craft unions, white-collar unions, and company or enterprise based trade unions. The trade union movement in Nepal was affected by a long period of civil war (1996-2006). It resulted that the right to organize met conflicts and confrontations along with legal barriers. There were even attacks between trade unions. The turmoil was related to trade unions that often had links to political parties and did not operate independently. The rivalry between unions furthermore resulted in a fragmented trade union movement. However, during the last decade, the trade union movement changed tremendously opening up of dialogue.

Today, around 1,000 enterprise-level unions are recognized. Among the nine main trade union confederations, almost 1.8 million members are recorded with a share of women at 26% on average. Trade union density increased by one percentage point in the period from 2017 to 2018 reaching 12% of the total employment, which is relatively high in comparison to many other Asian countries (see more details in Table 1).¹ This increase shows that the pace of the trade union membership registration is superseding the employment growth. Not to mention, the dataset is not fully updated, and it suggests to underestimate the real trade union density rate.

Table 1: Status of trade unions in Nepal, 2018

| | |
|---|-----------|
| Number of trade union confederation (JTUCC) | 9 |
| Enterprise level unions (2009) | <935 * |
| Members of trade union centres (JTUCC) | 1,779,614 |
| Membership growth 2014-2018 (ITUC-NAC) | 12 % |
| Trade union density of total employment | 11 % |
| Women member share of trade unions (JTUCC) | 26 % |
| Affiliated trade union members from the informal economy (GEFONT and ANTUF) | 559,492 |

* Recognized trade unions.

Source: [ITUC, List of Affiliated Organisations, 2014](#); [younionize.info](#), NTUC, and own calculations on trade union density.

Two platforms of collaboration and coordination between trade union centres are operating:

First of all, the Nepal Trade Union Congress (NTUC), the General Federation of Nepalese Trade Unions (GEFONT), and the All Nepal Federation of Trade Union (ANTUF) affiliated to the International Trade Union Confederation (ITUC), and formed the ITUC-NAC in back in 2003. The institution is the more developed organisation with a joint secretariat. As an impact of the disastrous earthquake in 2015, the ITUC-NAC contributed to project activities, which included participating in a Roadmap for Nepal reconstruction.² ITUC-NAC membership rate has been on a steady growth of 12% in the period from 2014 to 2018, and representing 72% of the total Joint Trade Union Coordination Centre (JTUCC) membership (see below). In these three joined centres, almost one out of three (30%) of members is a woman (see more detailed in Appendix Table 21). ITUC-NAC members in the formal sector usually have the check-off system arranged with employers/enterprises they have good relations. They mobilize local union leaders in the collection of membership fees in enterprises that they do not have agreements with employers.

Second, the Joint Trade Union Coordination Centre (JTUCC) was established in 2007 as an umbrella body to unify all registered trade union confederations: GEFONT, NTUC, ANTUF, the Confederation of Nepalese Professionals (CONEP), the Madhesi Trade Union Confederation (MTUC), the National Employees Federation of Nepal (NEFON), the National Democratic Federation of Nepalese Trade Unions (NDFONT), the National Democratic Confederation of Trade Unions-Independent (NDCONT-I), the Nepal Inclusive Trade Union Federation (NITUF), and the National Democratic Confederation of Nepalese Trade Unions (NDCONT). This centre represents approximately 1.8 million trade union members. It is a high-level trade union mechanism that functions as a looser forum, and it has improved their capacity of promoting social dialogue. Among others, JTUCC has been active in the reform on the minimum wage system in recent years and filed a Freedom of Association case in the International Labour Organization's (ILO) Complaints Procedure, among others.

The approved Labour Law reform from 2017 has initiated changes in the trade union structures that are currently in progress to be set-up in the regional and local level: the organizations attempt aligning their respective structures with the new political structure of the government, to ensure workers' representation along with the various social dialogues, policy-making platforms in

the local, provincial and national level (see also the (sub)-sections: Social dialogue and National Labour Legislation).

The political scene was a run-up to the elections (local, provincial, and federal) back in October 2017. Two major left-wing parties, the UML (United Marxist Leninist) and CPN (Maoist Center), decided to forge alliance and a new Communist Party of Nepal was sworn in in February 2018. These changes also initiated a merger between GEFONT and ANTUF in May 2018. Eleven members high-level Unity Coordination Committee is declared and working on gearing up the unity process through a Plan of Action (see more below).

The status of the three major trade union centres is summarized below:

General Federation of Nepalese Trade Unions (GEFONT)

In 1989, GEFONT was established as an underground association of four federations of workers. GEFONT has 19 affiliated unions, representing around 445,014 members in 2018. One out of three (33%) is a woman elected in the National Executive Committee of GEFONT during the 5th National Congress.³ Besides, cumulative women membership in the affiliated unions has been on an upsurge from 20% in 2014 to 31% in 2018. Around 64% of total membership are informal organized workers. GEFONT affiliates are associated with various Global Union Federations (GUFs) and the International Trade Union Confederation (ITUC). About 300 union members/cadres and leader (men and women) from GEFONT got elected in the parliaments (Provincial/Federal) and Local Body (Municipal) in 2017.

All Nepal Federation of Trade Union (ANTUF)

ANTUF is the Maoist union. It was registered as a legitimate trade union after the end of the civil war. ANTUF is an umbrella organization for industry-wise national trade union federations, and it has slightly more than 410,000 members in 2018, out of which 28% are women.⁴ The organization took the decision to unity and merging process with GEFONT, but agreements on the process is not yet implemented. ANTUF is engaging in unify other blocks of unions. The centre has promoted campaigns/activities from both the formal sector and informal economy over the years. ANTUF is affiliated to the ITUC.

Nepal Trade Union Congress (NTUC)

In 1990, the Nepal Trade Union Congress (NTUC) came into existence. Later in 1998, the Democratic

Confederation of Nepalese Trade Unions (DECONT) was formed as a breakaway federation from NTUC. They both later re-merged and operate now with around 425,014 members through 25 affiliated national organizations.⁵

Around 29% of total membership are women, and 26% are affiliated organized workers from the informal economy. There are close to 165,000 paying members from the informal economy in NTUC, out of which 15,000 have access to social protection schemes. Based on the National Women Conference and National Youth Conference in 2014, women and youth delegates were separately elected. Furthermore, around 175 enterprise unions have collective bargaining agreements out of 600 enterprises union organizations. NTUC is affiliated to the ITUC.

NTUC has setup a Workers Welfare Fund, which is a cash transfer scheme to the members who are undergoing medical treatment. This fund covers up to NPR 25,000 (US\$240) for the treatment cost for each member subject to the availability of fund ceiling.

EMPLOYERS' ORGANISATIONS

Employers represent a small part of the total employment and estimated at around 1.0% in 2019 (see Figure 3 ahead).

The Global Competitiveness Index provides the employers view on several aspects. In particular, it's Pillar 8 looks at the labour market and measures its efficiency in a given country. This particularly Pillar is elaborated upon surveys among employers and other statistical data. On this background, the labour market is considered to be fragile, placed in the bottom segment of the pillar's ranking set as 125 out of 137 countries (1st is the best).

Out of the 12 labour market efficiency indicators, the best rankings are 'Internal labour mobility' and 'Labour tax rate', which indicate that as an employer in Nepal it is easy to get employees within the country, and low labour taxes reduce a negative impact on employment. The nation stands on the rock-bottom in the indicator on 'Cooperation in labour-employer relations', which reflects the problematic challenges on social dialogue on the labour market in Nepal (see more details in Table 2).

Table 2 Employers' view of the labour market efficiency in Nepal, 2018

| Indicator | Rank * |
|--|--------|
| Total | 125 |
| Redundancy costs (weeks of salary) | 112 |
| Hiring and firing practices | 114 |
| Cooperation in labour-employer relations | 134 |
| Flexibility of wage determination | 119 |
| Active Labour policies | 96 |
| Worker's rights | 50 |
| Ease of hiring foreign labour | 117 |
| Internal labour mobility | 34 |
| Reliance of professional management | 113 |
| Pay and productivity | 106 |
| Women participation in labour force | 119 |
| Labour tax rate % | 37 |

* Rank from 1 to 140 (1 is best).

Source: [The Global Competitiveness Report 2018- Pillar 8.](#)

Federation of Nepalese Chambers of Commerce & Industry (FNCCI)

The FNCCI was established in 1965, and it is the nationally and internationally recognized umbrella organization of business in Nepal. The federation represents the interests of the private sector, and it is involved in the promotion of socio-economic development of Nepal through private sector-led economic growth. Its mission is facilitating Nepalese business becoming globally competitive.

The organization's membership structure has expanded from 96 District/Municipality Level in 2016 to 105 in 2019 (May). During the same period, chambers stay in 75 Districts; Commodity/Sectoral Associations increased from 91 to 101; leading public and private sector undertakings from 635 to 951, and continue with 20 Bi-national Chambers.⁶

As just mentioned, legal reform for labour market governance is a milestone for promoting industrial relation and workplace cooperation. The FNCCI is in progress to restructure in line with the new governance system, and it points out a need to address industrial ties, enterprise promotion and job creation.

To address skill mismatching in the labour market, FNCCI furthermore promotes market-based training for young people entering the labour market. There is currently no data available on the training's coverage.

GOVERNMENT

Ministry of Labour, Employment and Social Security (MLESS) has a Department of Labour and Occupational Safety (DLOS) with the objective to maintain the

implementation of the law, provision and policy related to the labour by creating secured, decent and healthy working environment for the labour force. Additionally, it targeting new technology and market in accordance with the national manpower to reduce unemployment. The main aspects regarding labour are outlined below:⁷

- To eliminate unemployment by preparing skilled and competitive manpower in accordance with the national and international labour market.
- To provide the labour force with safety and healthy working environment in the industrial occupation and informal region.

The approach of people falling in the criteria of woman, youth, native, madhesi, muslim and war-affected are ensured in the employment.

The establishment of Labour Management Information System (LMIS) and Employment Service Center (ESC) attempted through the DLOS has been delayed. However, three ESCs, at Labour Office Dhangadhi, Kathmandu and Biratnagar, have been established to carry out the Labour management information functions under DOL.

The Ministry is a central institution in the promotion on policy, but that implementation remains a major challenge. It is noted that Occupational and Health Safety (OHS) as well as the human and financial resources for undertaking the work required by policies in the area of employment are lacking. The capacity is minimal and the assigned role limited (see more in the section: Working Conditions).⁸

CENTRAL TRIPARTITE STRUCTURES

Tripartism is a collaboration based on the social dialogue of employer/business, organized labour and state affiliations within the economy. The labour relations system is aiming to encourage less adversarial modes of settling disputes and ensuring speedy disposition of labour cases. In Nepal, there are different types of tripartite bodies and the leading institutions are presented below:

National Labour Advisory Board (NLAB)

The National Labour Advisory Council (NLAC) was renamed in the new Labour Law from 2017 as the National Labour Advisory Board (NLAB). The minister for MLESS is the chairperson of the NLAB where trade unions and employer association send 5 (2 should be women)

representatives from each organization. Only a few trade unions were represented in the particular board. The absence of several legally registered trade unions created dissatisfaction, and there were many complaints.⁹ Besides that, the board helps the government to develop/amend different laws and policy related with labour and the world of work.

There were some gaps in the former NLAC meetings, but it supported a wide range of issues: for example, during the 2010s, resolving pay hike endorsed by the government, an agreement between employers and major trade unions that proposes implementing 'No Work No Pay' policy and providing social security allowance to workers as well as a four-point pact to maintain industrial peace. In recent years, the NLAC/NLAB was participating in the Labour Act and Social Security Act reforms (see also the section: National Labour Legislation).

Minimum Wage Fixation Committee (MWFC)

The Government may fix the minimum remuneration rate on the recommendation of the tripartite MWFC. The Committee makes a recommendation on minimum wage levels for non-agricultural workers in enterprises (including tea estates). It consists of an equal number of workers and employers, and representation of the government. Experts can be consulted by the MWFC regarding the determination of minimum wage rates. If it is not possible to form the Committee, or if it is unable to make a recommendation, the Government may prescribe the minimum wage rates applicable to workers and employees of enterprises.¹⁰

The MWFC also participated actively to support reforms of the Labour Act and the Social Security Act, which include recommendations to social security benefits to workers and revision of wages every two years.

Social Security Fund Management Committee (SSFMC)

Social Security schemes that will be implemented have to be decided by the government, after consultations with the social partners. Under the provisions of Social Security Regulation, a tripartite Board of Trustees of the Social Security Fund consisting of 11 members has been established. This Board has made decisions on the schemes that should be implemented and formed a committee to write procedures for four systems namely maternity, sickness, employment injury, and medical schemes. The committee also contributed with recommendations to the new Social Security Act (see also the sections: National Labour Legislation and Social Protection).

Institutions on dispute solution

The Employment Dispute Resolution System in Nepal operates between labour and management of factory or industry or company. Generally, there are two types of labour dispute: collective dispute and personal dispute. There are furthermore two types of dispute resolution bodies: Quasi-judicial Body and Judicial Body. First, the Quasi-Judicial Body operates with ten Labour Offices under the government placed in different parts of the nation. Both have powers administrative and judicial with hearings to follow disputes such as on remuneration and facilities, on recruitment, on avoid attendance in office by the proprietor, and Trade Union Registered. Second, the Judicial Body (i.e. Labour Court) has most often appellate jurisdiction, e.g. case should be decided within ninety days, the case should be determined not to repeal/dismiss after submitted of proof by parties, and case should be reconciliation between parties.¹¹ Both administrative and judicial procedures are subject to lengthy delays and appeals.¹²

Overall, there are various ways to settle labour disputes, i.e. arbitration, mediation, negotiation conciliation, trial, mini-trial, among others. Arbitration is one of the most important methods of alternative dispute resolution on the labour market in Nepal. In practice, most cases are settled through mediation. However, the judicial system has been somewhat insufficient to define non-arbitral disputes and somewhat cumbersome.¹³ On the positive side, the Labour Law from 2017 enclosed mandatory arbitration for collective disputes. The disputed parties must attempt to settle the dispute by arbitration, and it includes the so-called 'essential service' and in Special Economic Zone. The Arbitration Tribunal is representation workers, employer and the government. Any agreement between the Collective Bargaining Committee (CBC) and employer concerning collective dispute or award of the arbitration tribunal is binding upon both the parties.

In the aftermath of the Labour Law 2017, there is a movement of creating tripartite bodies at the local level to deal the labour issues. It is estimated to solve 90% of labour related issues in local level/plant level.¹⁴ However, it is important to realize that a majority of workers are still concentrated in informal micro- and small enterprises with insufficient knowledge or incentives applying the tripartite dispute system.

Social dialogue

Social dialogue is defined by the International Labour Office to include all types of negotiation, consultation or simply exchange of information between, or among,

representatives of governments, employers and workers, on issues of common interest relating to economic and social policy.

Social dialogue among tripartite institutions improved significantly in recent years across all industrial areas. As a result of the Labour Law from 2017, not only the disputes system experiences improvements, but also the collective bargaining system opening up of Collective Bargaining Agreements (CBAs) on enterprises level as well as widening sector-wise (Industrial). These CBAs have already been in practice in some sectors many years, but not all. This new legal expanded provision has just been introduced in the labour market, and its fully spread-out in practice in every industry remains.¹⁵

The three trade union federations in ITUC-NAC registered 149 CBAs in 2018, conducted at the local level, covering 4.4% of the total membership. In addition, the number of workers covered by CBAs is growing relatively fast at 109% from 2017 to 2018. Yet, its coverage among employees is still low at 1.7% in 2018 (see more details in Table 3).

Table 3: Status of Collective Bargaining Agreements (CBAs) in ITUC-NAC, 2018

| | |
|--|----------|
| Number of CBAs (local level) | 149 |
| Number of workers covered by CBAs | 56,188 |
| Growth in workers covered by CBAs, 2017-2018 | 109 % |
| CBA coverage of employees | 1.7 % |
| CBA coverage of ITUC-NAC members | 4.4 % |
| Growth in CBA coverage of employees, 2017-2018 | 0.9 p.p. |

Source: ITUC-NAC and own estimations on CBA coverage

The trade union movement has faced challenges in reaching CBAs due to political infighting that delayed settlements. In many cases, CBAs are not always effectively implemented that is often related to technical problems, ambiguity in the terms and conditions or simply because the agreements are not based on “good faith bargaining”.

Some of the changes that were introduced in the Labour Law reform in 2017 were that in an entity with 10 or more employees, there should be a Collective Bargaining Committee (CBC). It outlines how the CBC should be formed such as by authorized trade union or by all the trade unions in the absence of authorized trade union or by the signature of 60% workers in the absence of any trade union. The member of the committee should be at least three but not exceeding eleven. The committee is

authorized to submit collective demands, negotiate and settle the claim in collective dispute, among other things. CBC is a central part of the procedure for settlement of a collective dispute.¹⁶ In addition, where 20 or more employees are engaged, employer shall constitute a Safety and Health Committee (SHC), which was no such provisions in the previous act. As mentioned, the labour market is dominated by informal micro- and small enterprises, which reduces CBAs’ scope and the evolution of workplaces’ committees.

Trade unions and employers often disagree in matters of labour market issues. Employers claim the labour organizations appear to be a significant threat to growth and employment generation; the workers, on the other hand, complain about the ineffectiveness of the labour laws and its evasion on the part of the employers. Such a scenario interrupts confidence between the conflicting parties, resulting in worsening industrial relations, strikes and lockouts. In recent years, stakeholders - the government, trade unions and employers - have taken some steps to improve social dialogue.

A training curriculum is developed on social dialogue by the ITUC-NAC that will be integrated into the curriculum on CBA since these are strictly related themes. ITUC-NAC focuses on promoting the practice of enterprise-level CBA, per salient provisions of the amended Labour Law, and make a stronger campaign for industry-based CBA.

Another issue is that there is no involvement of social partners, such as trade unions, by the government on the national Sustainable Development Goals (SDG) national plan definition and implementation. However, trade unions raise concerns regarding the absence of adequate human and financial resources to implement the objectives set by the government. According to the recommendations from the trade union movement in Nepal, meaningful progress towards achieving the national 2030 Agenda should prioritize the following:¹⁷

- Creating employment, decent work and decent wages.
- Ensuring gender equality by providing women’s full and equal access to the world of work.
- Establishing robust and regular social dialogue and integrating it into the policy-making process.
- Implementing labour law, social protection systems for workers and people living in poverty;
- Addressing occupational health and safety and environmental issues.

NATIONAL LABOUR LEGISLATION

Labour laws and regulations' framework in Nepal is supposed to protect workers in principle to a considerable degree. Legislation has an insufficient effective reach in practice since the nation features a large proportion of workers who operate in the informal economy with non-compliance to labour regulations.

Nepal counted 134 approved labour market-related legislature in 2019 (February). There were significant legal reforms approved in the parliament in recent years that are changing the industrial relations in Nepal, and it was mainly in 2017. Some of the central law reforms were the Contributory Social Security Act 2017 and the Labour Law 2017. The By-laws of the Labour Law has been passed in June and the Social Security Law in November of 2018. Despite these laws are in force, the implementing mechanism, particularly the new by-laws, are still to be set in function (see more below, Table 4 and Appendix Table 22).

Table 4: Number of national labour, social security and human rights related legislations in Nepal, 2014-2018

| 2014 | 2015 | 2016 | 2017 | 2018 |
|------|------|------|------|------|
| 2 | 2 | 3 | 17 | 2 * |

* By-laws of the Labour Law and the Social Security Law.

Source: [ILO, NATLEX, Nepal](#)

Some of the statuses of central labour-related legislation are outlined below.

Constitution

A new Constitution went through a long, complicated process from an Interim Constitution from 2007. The Assembly was dissolved in 2012, and a new a second attempt to write a new constitution was finally reaching the Constitution of Nepal in September 2015, replacing the Interim Constitution. The new republic is now a federal state with boundaries for seven Provincial states. Several issues such as social security, employment, trade unions, the settlement of industrial disputes and labour rights and dispute-related matters are in the concurrent list of the central and provincial governments; the latter not yet set up any provincial government structures. The 2015 Constitution provides that the rights to form a trade union, to participate in it, and to organize collective bargaining are fundamental rights. The renewed constitution expands the social security provisions and changes in the education system landscape.

There are more than ninety numbers of languages spoken as the mother tongue of a different community, and the Nepali society has been deeply polarized. Some ethnic

communities disagree with the proposed boundaries of the new provinces. Also, groups and campaigners on women's rights argued that the new constitution discriminates against Nepalese women in what is already a patriarchal society (see also the sub-section: Gender).¹⁸ Amendments of the new Constitution were approved by the Parliament in January 2016 that were related to ensuring more inclusive social justice, to create House of Representatives and a new process of constituency delimitation helping the Madhesi groups, which is a group ethnically and socially close to Indians just across the border.

Significant adjustments need to be made to the government structure. They include amending at least 400 existing acts, restructuring the civil service at all levels, devolving fiscal management, and determining the division of funds, functions, and functionaries between various levels of government.¹⁹ In other words, issues managed by the central, district and village authorities are moving to the seven new states and 753 local governments for which new legislation, institutions and administrative procedures are being formalized as constitutionally prescribed. Meanwhile, the central-level authority is being streamlined with a focus on oversight. These exercises at state restructuring are expected to result in improved outreach and service delivery but will likely take time before they become fully operational.

Labour Law

After almost seven years of tripartite consultations, lobbying and advocacy, the Parliament finally approved to introduce the Labour Law from 2017 (2072) to revitalize the labour market. The replaced Labour Act from 1992 (2048) directed the labour market for nearly 20 years, and it turned out to make it vulnerable, and even leading to unhealthy industrial relation environment. The reform has been applauded by both trade unions and employers' organizations.

The new Act regulates employment relations, working hours, labour disputes, and occupational safety and health standards. It also recognizes the right to form a trade union, to participate in its activities and to acquire its membership or become affiliated with or involved in other union activities.

The new Labour Law from 2017 and by-laws from 2018 have introduced significant improvements. These are summarized here: i) recognizing enterprises even down to one worker, ii) social security benefit from working day-one, iii) the informal economy is introduced, iv) clarifying job categories, v) where 20 or more

employees are engaged, employer shall constitute a Safety and Health Committee, vi) provisions of both enterprises as well as industrial CBA, vii) outsourced employees can be engaged in the work as prescribed by the Ministry, viii) workers are eligible for gratuity from the first day of employment, and ix) provisions for medical insurance and accident insurance.²⁰ See more details of the changes in Appendix Table 23. The final version of the amended Labour Act By-laws in May 2018 is not entirely what the trade unions expected, mostly in labour migration and coverage of migrant workers in social protection.

It is important to realize that although all workers, including those from the informal economy, are in principle introduced in the new Labour Law. In practice, though, informal workers are not covered by the labour market regulations (see the sub-section: Informal Economy). It will take time to trickle down the new labour market regulations and structures, especially among workers from the informal economy.

Contributory Social Security Law

This Act is from 2017 and the By-laws of Social Security Program came into force from November 2018. This reform can be taken as a new era for the Nepalese labour market. The program aims to make the working class people realize about the guarantee of social justice. With the implementation of the program, workers shall be entitled to have five schemes: i) medical care, ii) health and safe motherhood, iii) accident and disabilities safety, iv) security of the dependent family, and v) old age security.²¹

The government has worked on the new Social Security Act for several years. The first draft legislation did not cover the informal sector workers. The trade union movement recommended including this segment in the new social security system. In August 2014, the parliament passed a resolution directing the government to craft a revised law for the social security of workers. This legal provision act seeks to ensure universal social security scheme for all types of workers, including workers from the informal economy.²² Overall, the new social security system is without a doubt challenged by full registration of all workers and immediate application of the five schemes after the adoption of the By-laws (see more in the section: Social Protection).

Observations on the labour legislation

The International Trade Union Confederation (ITUC) has some observations of the legislation in comparison to the

international standards on the right to organize, the right to collective bargaining, and the right to strike:²³

- Excessive representativity or a minimum number of members required for the establishment of a union.
- Restrictions on trade unions' right to establish branches, federation and confederation or to affiliate with national and international organizations.
- Single trade union system imposed by law and/or a system banning or limiting organizing at a certain level (enterprise, industry and/or sector, regional and/or territorial, and national).
- Non-Nepalese can be members of a union. However, only Nepalese nationals can be elected as trade union officials.
- Obligation to observe an excessive quorum or to obtain an excessive majority in a ballot to call a strike.
- Excessively long prior notice / cooling-off period.
- Authorities' or employers' power to unilaterally prohibit, limit, suspend or cease a strike action.
- Discretionary determination or an excessively long list of "essential services" in which the right to strike is prohibited or severely restricted.

It is also registered that the government is unable to enforce applicable laws fully since resources, inspections, besides remediation are inadequate, and penalties for violations are insufficient to deter violations.²⁴

Ratified ILO Conventions

Concerning Nepal's ratification of international labour standards, a total of eleven ILO Conventions are ratified. First, the eight Fundamental Conventions are the most important conventions that cover four fundamental principles and rights at work. The nation has ratified seven, but still not the Freedom of Association and Protection of the Right to Organise (C87).

Second, ILO has designated four Governance Conventions that are important to build national institutions and capacities that serve to promote employment, i.e. these conventions support a well-regulated and well-functioning labour market. The country has ratified one out of four of these Governance Conventions, i.e. Tripartite Consultation (International Labour Standards) Convention (C141).

Third, ILO has furthermore 177 Technical Conventions, out of which three conventions is "Up-To-Date" and

actively promoted, i.e. an Up-To-Date Convention is one that is ready for ratification by the Member States and/or one that has been examined by the ILO Governing Body and deemed to be still relevant.²⁵ Nepal has three up-to-date Conventions. See more details in Appendix Table 25.

Out of 11 Conventions ratified by Nepal, of which 11 are in force, no Convention has been denounced.²⁶ The latest ratified Conventions were the Indigenous and Tribal Peoples Convention (No. 169) and the Abolition of Forced Labour Convention (No. 105), both from 2007.

The ILO Committee of Experts on the Application of Conventions and Recommendations (CEACR) had several comments on the Right to Organize and Collective Bargaining Convention (No. 98) from 2018. The Committee concerned to the lack of official information on investigations on anti-union dismissals, threats against trade union members and the weakness of collective bargaining given that CBAs only covered a tiny percentage of workers in the formal economy. CEACR noted with regret that while the new Constitution, as well as the new Labour Law, prohibits discrimination, none of them contain an explicit prohibition of discrimination against workers because of their trade union membership or participation in trade union activities. The Committee furthermore requested the Government to specify the conditions under which trade unions were authorized to bargain collectively and some clarification on compulsory arbitration conditions.²⁷

The Governing Council Member of GEFONT was re-elected third time as the Deputy Member in the Governing Body of the ILO during the 106th Session of the International Labour Conference in June 2017. For the first time, the Nepal Government has been selected as the Deputy Member in ILO Governing Body.

Trade Agreements

Nepal operates with 17 bilateral trade agreements and it takes part in other two overlapping regional agreements: South Asia Free Trade Area (SAFTA) and the Framework Agreement on the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). SAFTA seeks to eliminate all trade barriers and tariffs among the member countries and to promote free movement of goods across borders. The agreement supports economic liberalization complying with WTO standards.²⁸ The BIMSTEC covers seven member countries (Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand).

Nepal benefits from the United States' Generalized System of Preferences (GSP). GSP is a unilateral trade benefit from the U.S. government, allowing duty and quota-free access for some product. A country can be removed if it is violating or does not take steps to uphold the ILO Core Labour Standards. Each state is reviewed annually, by the U.S. government.²⁹

Nepal also benefits from the European Union's (EU) unilateral Generalized System of Preferences, Everything but Arms (EBA), which allows duty and quota-free access for all products except arms. A country can be removed from EBA if it seriously and systematically violates principles of human rights and the ILO Core Conventions. So far, only Myanmar and Belarus have ever been removed.³⁰

In October 2018, Nepal and Malaysia signed a Memorandum of Understanding (MoU) after a decade of negotiations. It was the first formal accord signed even though Malaysia has remained one of the primary recipients of Nepali workers. The deal with Malaysia may not be much different from similar pacts signed with Qatar, Bahrain and Oman in the past, but it stands out from the previous accords primarily due to several provisions that could benefit the workers. Among others, it is the first labour agreement to abide by the low-cost recruitment scheme, commonly known as the free-visa-free-ticket system introduced by the Nepal government in 2015. Once the agreement comes into effect, the employers would have to cover the expenses for recruitment service, visa processing, security and medical screening of workers, besides providing air tickets. The standard tenure of workers has been reduced to two years from the previous three years. Like in the Gulf countries, the workers will be given a two-year contract and will be free to return home after the expiry of the agreement. Also, Nepali workers will benefit the same perks and privileges enjoyed by Malaysian citizens, e.g. they would be entitled to additional pays for overtime without tax cuts. Workers could go to labour court in case they face any exploitation, abuse or mistreatment from the employers, and could seek refuge in Malaysia until the settlement of the case. Not to mention, Nepali workers would be entitled to the same workplace insurance and health insurance enjoyed by their Malaysian counterparts.³¹ The MoU still lags on some aspects, especially on the issues relating to the rights of domestic workers and the right to a union.

Nepal has not yet signed similarly labour pact with Saudi Arabia, the United Arab Emirates and Kuwait, which

together with Malaysia and Qatar absorb over nearly 80% of around 3 million Nepali migrants (see the section:

Migration). Negotiations with these countries are in progress, and the MoU between Nepal-Malaysia is considered as necessary steps, and as a model for labour pacts that Nepal signs with other countries. Several agencies argue that the MoU is likely to discourage employers from hiring workers from Nepal.

TRADE UNION RIGHTS VIOLATIONS

Nepal is ranking as three out of five (five is worst) on the International Trade Union Confederation's (ITUC) Global Rights Index in 2018, listed by 'regular violations of rights', i.e. governments and companies are regularly interfering in collective labour rights or are failing to guarantee essential aspects of these rights fully. There are deficiencies in laws and practices, which make frequent violations possible.³² The latest two cases with violations of rights in Nepal registered by ITUC were from 2017: two teachers injured during protest, and police injure protesting health workers.³³

The government is unable to enforce applicable laws fully since resources, inspections, and remediation are inadequate, and penalties for violations are insufficient to deter violations. In practice, discrimination in employment and occupation are present in a wide range of aspects: gender, caste, ethnicity, national origin, citizenship, disability, religion, sexual orientation and gender identity, and HIV-positive status. This stance is common in the informal economy, which is not covered by the labour market regulations. In the formal sector, labour discrimination generally takes the form of upper-caste men without disabilities being favored in hiring, promotions, and transfers. In the public sector, such discrimination also is based on personal affiliation and reportedly occurred in many instances with the tacit understanding of political leaders.³⁴

Concerning the ILO's Freedom of Association cases, there were no active cases. The only follow-up case from 2016 was allegations from the complainant organization, the Joint Trade Union Coordination Centre (JTUCC). It was about without consultation of the workers' organizations, of the Industrial Enterprises Act and the Special Economic Zone Act, which deny the right to strike to workers in industrial enterprises and in the special economic zone, as well as the publication of the 2016 notification under the Essential Services Act prohibiting the exercise of the right to strike in 17 sectors. This case raised some requests from the ILO's Committee on Freedom of

Association (CFA). First of all, how the strike prohibitions in the 2016 Industrial Enterprises Act and the 2016 Special Economic Zone Act interact with the newly adopted 2017 Labour Act, i.e. how to bring them into line with the principles on freedom of association. Second, the 2016 notification issued under the Essential Services Act created the need to take measures to restrict the prohibition on strike action to essential services in the strict sense of the term.

Table 5: ILO Complaints Procedure, Freedom of association cases, Nepal, 2018

| | |
|-----------|---|
| Active | 0 |
| Follow-up | 1 |
| Closed | 4 |

Source: [ILO, NORMLEX, International Labour Standards country profile, Nepal](#)

WORKING CONDITIONS

In 2007, the government passed the Labour Regulation and fixed the minimum wage for the first time. Minimum wage is the lowest amount a worker can be legally paid for his/her work. For the sixth time in the last decade, the minimum wages were revised in 2018. The pay-scale is divided into Tea Estate and Other Enterprises. The former increased 49% from Rs7,075 (US\$66) per month in 2016 to Rs10,781 (US\$98), the latter with an upsurge of 39% from Rs9,700 (US\$90) per month to Rs13,450 (US\$123) in the same period (see also Table 6). The new pay-scale revision was in line with the Labour Act from 2017, and it was succeeded by tripartite negotiations.

Minimum wage in Nepal is among the highest in Southern Asia. The regulation applies to both the formal sector, which accounted for approximately 10% of the total employment, and in principle the informal economy. The implementation of the minimum wage is mainly in the formal sector in practice. A gender wage gap is even wider in comparison to other Southern Asia countries: women earn 41% of men's earning.³⁵ Around three out of four women are engaged in unpaid labour within the household. There is likewise a direct relation between wage range and level of education: higher education leads to a higher pay rate.

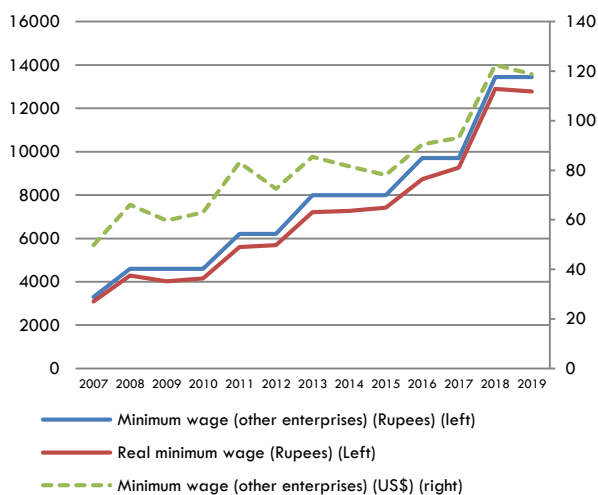
Table 6: Wages and earnings in Nepal, Monthly

| | Current Rupees | Current US\$ |
|---|----------------|--------------|
| Median salary (2018) | 25,000 | 220 |
| Minimum wage (Tea Estate)(2018/19-) | 10,781 | 98 |
| Minimum wage (Other Enterprise)(2018/19-) | 13,450 | 123 |
| Growth in minimum wage (Other Enterprises), 2016-2018 | 39% | |
| Growth in household income, 2006-2015 | 10% | |

Source: *Pioneer*, *Salary Explorer* and *CEIC*

The minimum wage has increased steadily during the last decade. There has been relatively high inflation on consumption prices that challenge workers income purchasing power (see also Figure 1 and the section: Economic Performance).

Figure 1: Minimum wage trends in Nepal, Rupee and US\$, 2007-2019



Source: *ILOSTAT*, *The Kathmandu Post* and own calculations on real minimum wage, i.e. minimum wage deflated in inflation.

Workers in Nepal often have little knowledge of Occupational Safety and Health (OSH) structures. It could to some extent explain why accidents are commonplace in many sectors. Implementation and enforcement of occupational health and safety standards are minimal, and the Ministry of Labour, Employment and Social Security (MLESS) considered it the most neglected area of labour law enforcement. The ministry found violations across sectors, including construction, mining, transportation, agriculture, and factory work.³⁶ Among others, the government has not sufficient capacity to enforce OSH structures widespread. The implementation remains minimal in practice. The MLESS employed up to 12 factory inspectors for the entire country in 2017, who also acted as labour and occupational health and safety

inspectors. It equals that these inspectors cover one inspector per close to 268,000 employees (which represent just 19% of the total employment; see also Figure 3 ahead). The ILO recommends 1 per 40,000 workers in less developed countries.³⁷

Labour regulations confront challenges. Among others, although there is provision for permanent recruitment after 240 days of work in an enterprise, the new Labour Law provision is often not implemented. A majority of the workers continues to be recruited either through temporary contract or on a daily wage basis for a long period. Besides, most of the workers have been seen struggling with the management for minimum wage increment.³⁸ A brief overview of Nepal's formal working conditions is outlined below in Table 7.

Table 7: Status of Working Conditions in Nepal

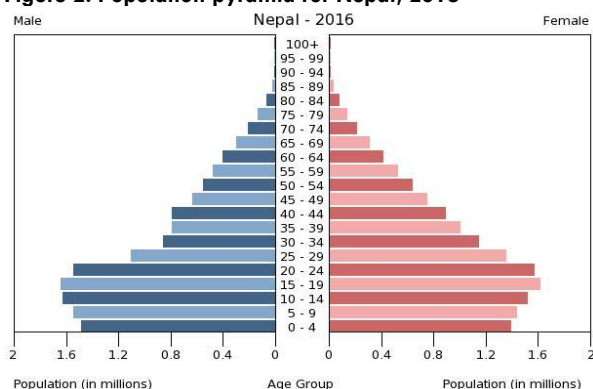
| | |
|--|----------|
| Fixed-term contracts prohibited for permanent tasks | No |
| Maximum length of a single fixed-term contract (months) | No limit |
| Standard workday | 8 hours |
| Premium for night work (% of hourly pay) | 0% |
| Premium for overtime work (% of hourly pay) | 50% |
| Paid annual leave (average for working days with 1, 5 and 10 years of tenure, in working days) | 18 days |
| Minimum length of maternity leave | 60 days |
| Receive 100% of wages on maternity leave | Yes |
| Five fully paid days of sick leave a year | Yes |
| Unemployment protection after one year of employment | Yes |

Source: *World Bank, Doing Business, Labor Market Regulation in Nepal*

WORKFORCE

Nepal's total population is estimated at 32.7 million inhabitants in 2018, and it is a highly diverse country comprised of 103 different social groups identified. The fertility rate (i.e. the average number of children a woman will have during her child-bearing years) is declining from 3.2 in 2006 to 2.1 in 2016. This drop is reflected in the population pyramid: the nation has a relatively large youth bulge, with around 50% of the population beneath the age of 25, but the youngest segments are lower than the youth segments (Figure 2). This situation is challenging the country's future of its public health and pension financial sustainability. Part of the demographic changes is related to an evolution of internal rural-urban migration: Nepal is one of the ten least urbanized countries in the world, but it also one of the top ten fastest. The urbanization rate has reached around 20%, and it grew by 3.2% from 2015 to 2018.³⁹

Figure 2: Population pyramid for Nepal, 2016



Source: [CIA, The World Factbook, Nepal](#)

In Nepal, about 55% of the population of 10 years and above is economically active, which holds 17.3 million workers in employment in 2019 based on ILO estimations. Table 8 below shows that the Nepalese have a significant higher total employment-to-population ratio than the Southern Asia average with a 31 percentage point gap. The gender gap is just on the margin in the country, which is in contrast to a deep gap in the region. Likewise, Nepalese youth has a very high employment-to-population ratio in comparison to the regional average, and also here the gender gap is on the margin.

Table 8: Employment-to-population ratio in Nepal and Southern Asia, Age and Sexes distribution, %, 2019

| Sexes | Age | Nepal | Southern Asia |
|-------|-------------|-------|---------------|
| Total | Total 15+ | 82 % | 51 % |
| | Youth 15-24 | 72 % | 30 % |
| Men | Total 15+ | 83 % | 77 % |
| | Youth 15-24 | 70 % | 45 % |
| Women | Total 15+ | 81 % | 25 % |
| | Youth 15-24 | 74 % | 15 % |

Source: [ILO, Key Indicators of the Labour Market](#)

Since the 2000s, Nepal did not go through a structural transformation of its employment. The segment of employees (i.e. those who get a basic remuneration not directly dependent the revenue of the employer) has experienced a slight increase, reaching around one out of five (20%) in employment. It is this group of employment that is more representing in the formal sector. The contributing family workers (i.e. who hold self-employment jobs in an establishment operated by a related person, with a too limited degree of involvement in its operation to be considered a partner) is the largest segment of 43% of the total employment. This segment is also 30 percentage points higher than the Southern Asia average. The other group of own-account workers

(i.e. those who hold self-employment jobs and do not engage 'employees' continuously) consists of around 36% of the total employment. These two latter segments are gathered as 'vulnerable employment'. This latter segment is less likely to have formal work arrangements, and are often characterized by inadequate earnings, low productivity and difficult conditions of work that undermine workers' fundamental rights (see also the sub-section: Informal Economy).⁴⁰

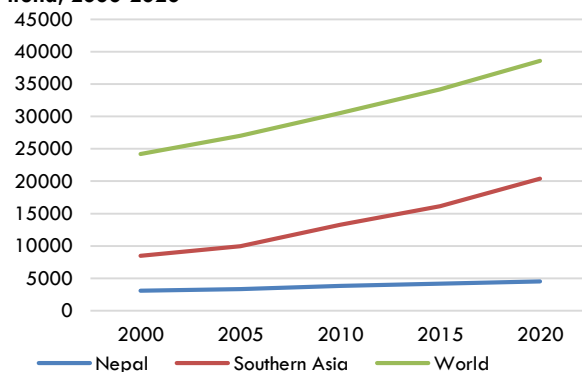
Figure 3: Estimations and projections of status of employment in Nepal, %, 2000-2020



Sources: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

Figure 4 below shows that the labour productivity in Nepal has been weak since the 2000s and with a fast-widening gap to the Southern Asia average. The relatively low labour productivity is connected to high informality and low developed vocational skills and training. Another determining factor is that the NEET-rate (i.e. not in education, employment or formal training) is one of the highest in the region with 23% of the youth aged 15-24. It points towards a dysfunction between the education system, labour market and the economy.

Figure 4: Estimations and projections of labour productivity trend, 2000-2020



Note: Labour productivity is defined as output per worker (GDP constant 2011 international \$ in Purchasing Power Parity (PPP))

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

There is a linkage in the status of employment and labour productivity. First of all, employees in the formal sector often have more access to capital, finance and training, which boosts the labour productivity. It is important to realize that Nepalese workers' share of employees (20%) is below the Southern Asia region and far beneath the World averages, 27% and 54%, respectively. Second, own-account workers and contributing family workers often operate in informal micro- or small-enterprises with low productivity activities. It gives more insights in what keeps the labour productivity low in the country.

Unemployment

The unemployment rate in Nepal is estimated low at 1.3% in 2019, and stays lower than the regional average of 3.1%, based on stringent international statistical standards (Table 8). Due to this low unemployment rate in Nepal, a gender gap appears not to be a critical issue. Also among the Nepalese youth, the unemployment rate is quite low at 2.1%, and it stays significant more inferior than the regional average. Young Nepalese men's unemployment rate is higher than women's (see more in Table 9). However, on a broader method of measuring the unemployment rate based on national surveys, suggests that this rate was up to 24% (in 2013): it was higher in urban zones of 35% while it was 22% in rural areas.

Table 9: Unemployment and underemployment in Nepal and Southern Asia average, %, 2019

| Type | Gender | Nepal | Southern Asia |
|------------------------|--------|-------|---------------|
| Unemployment | Total | 1.3 % | 3.1 % |
| | Men | 1.5 % | 2.7 % |
| | Women | 1.1 % | 4.5 % |
| Youth Unemployment | Total | 2.1 % | 9.9% |
| | Men | 2.6 % | 9.3 % |
| | Women | 1.6 % | 12 % |
| Underemployment (2013) | Total | 5.8 % | N/a |
| | Men | 5.6 % | N/a |
| | Women | 6.0 % | N/a |

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#) and [K4D](#)

Some of the main reasons for the stringent low unemployment rate in Nepal are also attributed to several aspects: i) around 45% of the population is not economically active and excluded from the unemployment statistics, ii) many are migrating to different countries for employment opportunities, and iii) a majority is active in 'vulnerable employment' in the informal economy that is known by either under- or overemployment. The latter segment is not visible in the

stringent statistically unemployment rate. Disguised unemployment also occurs in a developing agricultural country like Nepal, which is the primary source of employment opportunity for the active economic population (see also the sub-section: Sectoral Employment). And as just mentioned, these are an acute shortage of formal employment (employees) opportunities in Nepal.

The trade union movement in Nepal has promoted an unemployment benefits scheme in the aftermath of the reform of the Social Security Regulations from 2011. However, opinions on the scheme's coverage differ amongst all parties involved in the negotiations, and its financial sustainability and administration are questionable. Another factor that creates limitations in the process of creating an unemployment benefits scheme is the lack of resources directed towards vocational training (see also the sub-section: Vocational Training).⁴¹

On the positive side, in November 2018, Nepal implemented a new contribution based social security program. The program aims to make the working class aware of its rights in terms of social justice. The program is carried out by the social security fund, which was created in 2017. The program initially focuses on four focus points: i) medical care; health and safe motherhood, ii) accident and disabilities safety, iii) security of the dependent family, and iv) old age security.⁴² Even though that protection of unemployed workers is not mentioned as one of the main focus points, an unemployment protection scheme was mentioned before the implementation and is likely to be implemented later on. Additionally, the four focus points implemented already covers certain forms of unemployment as people who get unemployed because of accidents and disabilities, and security to people who had a family member who has died, which they were economically dependent on (see more in the section: Social Protection). The new social security program will most likely also lower the broader unemployment rate since people are more eager to take up work since they know that they receive a pension when they retire and that in case of accidents at the workplace, compensation is now provided. The social security scheme will soon be extended to workers in the informal economy.⁴³

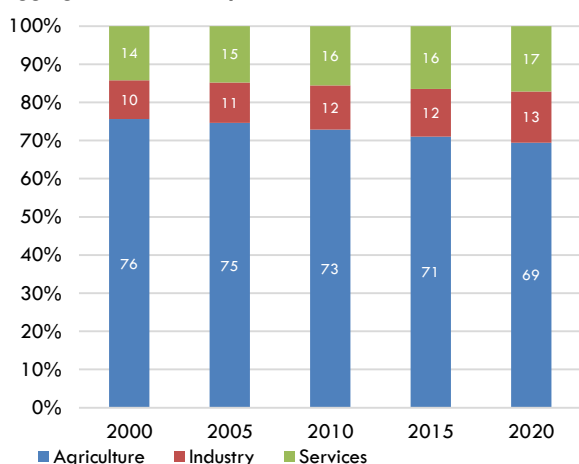
Underemployment is defined as people who seek to have additional hours of work in their present job, those who seek to get an extra job or those who are looking for a new job with more working hours than their current job. In Nepal, however, underemployment appears not to be a critical issue with around 5.8% of the total employment.

The SDG 8 on Decent Work focuses, among others, on achieving full and productive employment and decent work for all women and men by 2030. With the low unemployment rates that Nepal has presented in recent years, they are on the right path towards achieving that goal (see also the SDG table on Page v). However, as mentioned, these numbers are somewhat misleading when taking into consideration the previously mentioned reservations on the statistical interpretation of unemployment.

Sectoral Employment

Since the year 2000, there have been some structural changes in the margin on the employment by aggregate sectors in Nepal. First of all, the agricultural sector is projected to employ close to seven out of ten (69%) of total employment in 2019 and an estimated drop of seven percentage points since 2000. The industry sector stays as the smallest group of 12% and basically on a flat growth. The share of the service sector was projected at 16% and similarly with no significant upsurge (see more details in Figure 5). It is interesting to observe that Southern Asia averages in these three aggregate sectors are: 42%, 24% and 34%, respectively. Furthermore, these Nepalese estimations are based on the latest Labour Market Survey from 2008 and it could underestimate the real changes in the 2010s. An updated Nepal Labour Market Survey 2017/18 is currently in progress. The upsurge of urbanization and a rising service sector share of the Gross Domestic Production (GDP) (see ahead) suggest a rising service sector.

Figure 5: Estimations and projections of employment by aggregate sector in Nepal, %, 2000-2020



Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

Table 10 provides an overview of the sub-sectors' employment status. Women had a higher share than men

on total employment, 53% vs 47%, respectively. This difference was to a large degree related to that women were dominating the largest agricultural sector (74%). Women were filling gaps left by absent men who migrate – internally and abroad – looking for job opportunity along with the prolonged internal conflict (see also the sub-section:

Migration). And, women's participation rate in this particularly low-income sector is furthermore the highest rate in Asia. Another issue is that most work in the agricultural sector is done through informal structures. On the other hand, men's employment was leading all other sub-sectors, except the diminutive electricity, gas and water sub-section. Trade, restaurant and hotel sector (which include tourism) was the second largest sector (8%) followed by the manufacturing sector (6.6%). This manufacturing employment ratio is much higher than the SDG register with a value at 0.2% (see Indicator 9.2.2 in SDG Table on Page v). Regardless of the diverging data value, Nepal is highly challenged to reach the targets of promoting inclusive and sustainable industrialization and significantly raise industry's share of employment and gross domestic product. This challenge includes that the manufacturing's contribution to the Gross Domestic Productive (GDP) is on a declining trend (see ahead)

Table 10: Total sub-sector employment and employment share (%) and ratio of men per sector(%), 2008

| Sector | Total employment | Employment share | Ratio of men per sector |
|---|------------------|------------------|-------------------------|
| Agriculture | 8,704,000 | 74 % | 39 % |
| Mining & quarrying | 27,000 | 0.2 % | 70 % |
| Manufacturing | 773,000 | 6.6 % | 61 % |
| Electricity, gas & water | 109,000 | 0.9 % | 36 % |
| Construction | 367,000 | 3.1 % | 89 % |
| Trade, restaurants & hotels | 889,000 | 8.0 % | 61 % |
| Transport, storage & communication | 198,000 | 1.7 % | 96 % |
| Finance, real estate & business services | 103,000 | 0.9 % | 77 % |
| Public administration, education and health | 471,000 | 4.0 % | 70 % |
| Other sources | 137,000 | 1.0 % | 69 % |
| Total | 11,778,000 | 100 % | 47 % |

Source: [ILO, Key Indicators of the Labour Market \(KILM\) data based on the Labour Market Survey, 2008](#)

As an impact of privatization in the 1990s in Nepal, the public sector has been withdrawing from most of the economy, leaving more room for the private sector. Today, close to 99% of formal firms are privately owned. Even social sectors such as health and education have a significant private sector presence. Taking into consideration the relatively low labour productivity, it suggests that most firms are unproductive and that there is a misallocation of resources across firms. Not to mention, most firms are small: only 18% of Nepal's formal firms have more than 20 employees.⁴⁴

Even though more than two out of three (69%) of the total employment dominates the agricultural sector, this sector contributes just a share of 26% of total GDP. This situation can partially be explained by several natural disasters, among others the earthquake in 2015, which created significant setbacks in agricultural production. A lack of access to machines and vocational training are also challenging the development of this sector. It gives an echo in the country's low labour productivity. Instead, the service sector is driving the economy: around 17% of the total employment is contributing to 52% of the GDP. It is notably that the tourism sector in the trade, restaurant and hotels sector thrive this relatively high GDP share. In the industry sector, both the employment and GDP share are in line at 13% (see Table 11). Nepal's manufacturing base share in GDP was mainly falling from 9% since 2001 to just 6% today, and it replicates lacks dynamism and a drag on economic growth.

Table 11: Estimations of employment and GDP in aggregate sector share, %, 2017

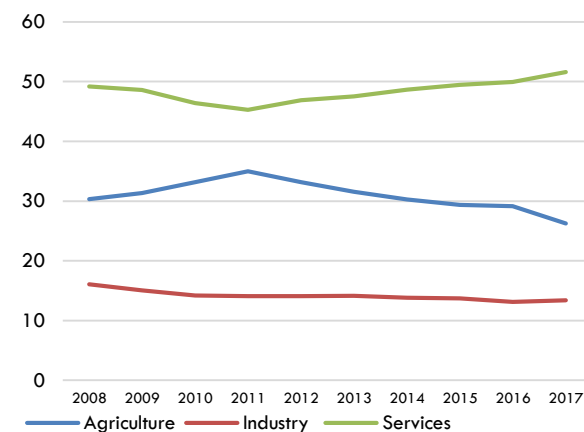
| Sector | Employment share per aggregated sector | GDP per aggregate sector |
|-------------|--|--------------------------|
| Agriculture | 70 % | 26 % |
| Industry | 13 % | 13 % |
| Service | 17 % | 52 % |
| Total | 100% | 100 % |

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#) and [World Bank, World Development Indicators](#)

Figure 6 below shows the trend of the aggregate sector share in GDP in the last decade in Nepal. Just limited structural transformations are happening: the service sector increased from 49% to 52%, the industry sector on a slightly declining rate from 16% to 13%, and the agricultural sector from 31% to 26%. These changes are to some extent in line with the changes in the employment by the aggregated sector in Figure 3 and Figure 5. It is worthwhile to mention that the agricultural sector value

added to GDP initiated its downturn during the 2010s, so far, and an upsurge in the service sector. This change is not yet registered in the national employment statistical register. New jobs are being created mainly in low-value services and construction.

Figure 6: Aggregate sector value added to GDP in Nepal, % of GDP, 2008-2017



Source: [World Bank, World Development Indicators](#)

Migration

In Nepal, external labour migration is a substantial part of the economy and the labour market. First of all, around 28% of Nepal's workforce works abroad. As for the period 2008-2017, the Nepalese government issued approximately 3.5 million work permits to Nepalese migrants leaving the country. Other data reveal that in the period from 2013 to 2017, around 350,000 more people left than enter into the country (see more in Table 12).

Table 12: Status of Migration in Nepal

| | | |
|--|---------------|-------------|
| Net number of migration (2013-2017) | Nepal | - 350,000 * |
| Net migration rate | Nepal | - 7.78 ** |
| | | (2010) |
| | | - 2.68 ** |
| | | (2015) |
| Personal remittance (received), % of GDP (av. 2013-2017) | Nepal | 30 % |
| | Southern Asia | 4.2 % |

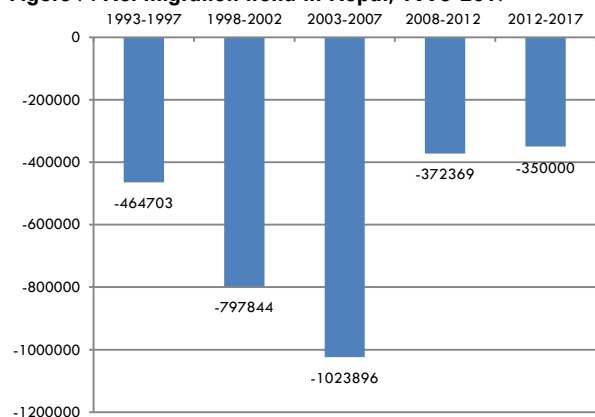
* Net migration is the net total of migrants during a period of five years, i.e. the total number of immigrants less the annual number of emigrants, including both citizens and non-citizens. ** One migrant per thousand of the population.

Source: [World Bank DataBank](#) and [KNOEMA](#)

Second, Figure 7 and Table 12 illustrate some changes in the net migration trend in Nepal. The (negative) net migration increased rapidly during the end of the 1990s and the 2000s in the country. It was triggered by a

drastic rising emigration rate (i.e. people leaving the country) due to political instability caused by the Civil War (1996-2006) in the country, known as the Maoist Conflict. Since 2008, the net migration fell back to its level during the beginning in the 1990s, and it was influenced from the tens of thousands of displaced Nepalese returned home to rebuild their lives after the Civil War as well as an impact of the global financial crisis in 2008-2009.

Figure 7: Net migration trend in Nepal, 1993-2017



Note: Net migration is the number of immigrants minus the number of emigrants, including citizens and noncitizens, for the five-year period.

Source: [World Bank, World Development Indicators](#)

Third, the amount of personal remittances – i.e. personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households – become very important for the nation’s economy since the 1990s. Remittance increased from 11% of GDP in 2002, peaking at 31% in 2016, and now down to 28% in 2017; and recorded as the 4th highest proportion in the world. In comparison, the personal remittances average in South-Asian was at 3.5% in the same year (see more in Table 12 above). This remittances rate has boosted savings and investment into construction and services such as real estate, but investment is stagnated due to chronic political instability, weak governance and decline in the manufacturing sector (see also the section: Economic Performance).

External migration is dominated by men: even though the share of women migrants has been on a steady rise in recent years, 95% of the total migrants were men in 2017. An extensive labour migration of men from rural areas also explains that 84% of economically active women work in the low-income agricultural sector. It is important to realize that this gender gap in the migration workers abroad flow is mainly due to governmental bans and regulations that forbade Nepalese women to migrate as domestic workers. The government’s intent was to protect the emigrating women from long working

hours, sexual harassment, physical abuse and economic exploitation. The initiative activated a negative impact in the flow of women’s labour migration. Nepalese women who want to migrate as domestic workers have instead started migrating through informal channels, which places them in a position of being very vulnerable. It makes these women unable to access support services and visit their family at home, in fear of being barred from work, which has been the case for several Nepalese women who has worked in the Gulf Cooperation Council countries.⁴⁵ Overall, Nepali migrant workers abroad, men and women, often continued to face exploitive conditions.

The top three destination countries for Nepalese migrants are Malaysia (30%), Qatar (22%), and Saudi-Arabia (20%). There are only a few countries that are banned by the Nepalese government as a destination country for migrants. These countries include Libya and Iraq.

Many migration workers go through formal recruitment agencies and in the framework of bilateral labour agreements. However, a myriad unregistered and unregulated labour “brokers” and intermediaries are complicating the recruitment practices. The migration regulations require contracts for workers going abroad to be translated into Nepali and must attend an orientation program. The effectiveness of the initiatives remained questionable.⁴⁶

With reference to the bilateral labour agreements, for example, South Korea and Nepal signed a Memorandum of Understanding in 2008 that allowed Nepalese workers under the Korean Employment Permit System. This has gained employment to 45,000 Nepalese workers from 2008 to 2017, and there has particularly been a demand for workers in the manufacturing, agricultural and fishing sector. Going to South Korea has been increasingly popular for Nepalese workers because of high wages and good working conditions, but it stays low at 1.3% of the total migration out of the country.⁴⁷ Nepal and Qatar also signed a ten-point pact on migrant workers in November 2015. Even though Malaysia still is the most popular destination country for Nepalese migrants, the permits issued to the country has fallen in recent years. From 2013 to 2017, the share of permits to Malaysia has fallen from 43% to the current 30%. This was due to a bilateral labour agreement between Malaysia and Bangladesh in 2016, which opened up for 1.5 million Bangladeshi workers, working in Malaysia over a 3-year period. This has made Bangladeshi workers more attractive for Malaysia than the Nepalese workers, which reduced the

employment opportunities for the Nepalese workers in that country. A bilateral labour agreement between Nepal and Malaysia went through several rounds of discussion concerning a bilateral agreement over recent years. They finally signed a labour pact in October 2018 that entails Nepali migrant workers will not have to pay fees for the job. Employers will be responsible for all the expenses on behalf of the Nepali workers including recruitment service charge, two-way tickets, visa fee, medical check-up and security screening of the worker.⁴⁸

In January 2019, Japan and Nepal have agreed to begin sending Nepali unskilled workers to Japan as soon as the two countries finish devising new labour mechanisms. The plan is to attract around 345,000 workers to Japan in 14 different industrial sectors including: Nursing care, janitorial work, manufacturing, the hotel industry, fishing, and food services. Previously, Japan's immigration laws have been limited to a small number of highly professional skilled and specialized workers in permanent positions.⁴⁹

As already described, the rural-to-urban migration (also known as the urbanization rate or internal migration) in Nepal is relatively low, but it doubled since 1990. Rural-to-urban migration has become as a lure to better employment and education opportunities, and health services as compared to rural areas. However, this situation has created a higher pressure on the already limited urban services and infrastructures. Equally important, the caste system in Nepal is frequently excluding the Adibasi-janjati and Dalit in many aspects of the urban life.

Informal Economy

Dealing with the labour market in Nepal it is divided between a formal sector and the informal economy. The former is covered by the labour market regulations, e.g. paid leave or social security contributions by the employer. The latter is not covered by these formal employment conditions. According to the latest available statistical data from the authorities, it was estimated that 92% of the employed aged 15 years and above were informally employed in all industries in 2008. After excluding the agriculture and fishing industries, the share of non-agricultural informally employed counted 70% (see more in Table 13). Especially informal workers are often subject to exploitation and deprived of many fundamental rights at work.⁵⁰

Workers in 'vulnerable employment' could be used as a proxy indicator of the status of the informal economy: in Nepal, this segment is on a slowly declining trend of (minus) 2.6% since 2010 reaching 79% in 2019 (Table 13). This segment is less likely to have formal work arrangements or lack decent working conditions, adequate social security and 'voice' through effective representation by trade unions and similar organizations.

Since informal economy constitutes a vast majority of the employment in Nepal, it does not surprise that it has an important role in the country's economy, estimated at 52% of GDP. Since the informal workers are not receiving much formal training and skills development, excluded from the appropriate regulatory framework, it influences negatively the labour productivity (revisit Figure 4 above).

Table 13: Status of informal economy in Nepal

| Indicator | Value |
|---|------------|
| Contribution of informal economy to GDP | 52% |
| Ratio of informal workers (incl. agricultural workers) to total employment | 92 % |
| Informal economy workers, incl. agriculture (number) | 10,847,000 |
| Informal economy workers, non-agricultural workers | 2,142,000 |
| Share of informal economy jobs to total non-agricultural occupation * | 70 % |
| Non-agricultural informal economy workers, without regular paid employees * | 82 % |
| Vulnerable employment (2019) ** | 79 % |
| Growth in vulnerable employment from 2010 to 2019 | -2.6 % |

* The informal economy was defined only in respect of the non-agricultural sectors. ** Contributing family workers and own-account workers cover the concept vulnerable employment.

Source: [Nepal Labour Force Survey 2008](#) and own calculations on vulnerable employment growth based on ILO estimations

On the positive side, because of strong advocacy and lobbyism from the Nepalese trade union movement, the reform of the Labour Law from 2017 and its by-laws in 2018. The new Labour Law now covers both the formal sector and informal economy. This means that the vast majority of informal Nepalese workers now have, in principle, access to the same working conditions as workers in the formal sector. A new contribution-based social security program/scheme came into force from November 2018. This program covers both the formal and informal Nepalese workers. It allows workers to be entitled into five programs that include: medical care, health and safe motherhood, accident and disabilities safety, the security of the dependent family, and old age security (see more in the section: Social Protection).⁵¹ How it will be achieved in practice, the upcoming years will show. So far, the registration of workers in the informal

economy to social security is faced with several issues, such as:

- Most of the informal economy workers have low literacy and limited access to Wi-Fi and computers. Registration has to be done online, and it would usually take about 30 minutes to accomplish the online form completely.
- Online registration costs money and takes so much of workers' time. Wi-Fi connections are intermittent and could delay the registration process online.
- Social Security Fund is also challenged in terms of facility, human resources and capacity to register and cover everyone immediately.
- Nepal's geography is also one challenge in reaching out to more informal economy workers, as they live in the far-flung areas all over Nepal, and information and facility for inquiry and registration are not present.
- The process of getting a PAN number, a worker's taxpayer/ identification number and a bank account, are too complicated. PAN number and bank accounts are prerequisites to social security registration, payment of contributions and accessing the benefits.⁵²

The SDGs include an indicator of the proportion of informal employment in non-agriculture employment. The aim is to promote development-oriented policies that support productive activities and decent job creation. Furthermore, the indicator aims to encourage formalization of small and medium-sized enterprises, which informal enterprises usually are. The recorded measure of 92% informal employment in Nepal indicates that the country is struggling to fulfil the SDG goal. However, the new Labour Law that includes the informal economy is an important step towards achieving this goal (see also the Indicator 8.3.1 in Table SDG on Page v).

Child Labour

Child labour stays widespread in Nepal. In recent years, the Nepalese government has made small steps in the process of eliminating the worst forms of child labour. The new Labour Law from 2017 includes the prohibition of forced labour and places penalties on violations of forced labour. An initiative to develop a national plan to eradicate all forms of child labour was launched in 2017. This plan is still waiting for endorsement at the cabinet. The policy has received critique from the ILO since it always does not address all forms of child labour.⁵³

A child is considered working or economically active if the child has a job or a business, or is engaged either as paid or unpaid in the family farm or business, at any time for at least one hour during the week. Though child labour is declining on the margin every year, Nepal still accounts for around 22% of all children are in child labour. Of these 38% are estimated to be engaged in hazardous work, and 60% of these are girls.⁵⁴ Nepal's child labour rate is furthermore significantly higher than Asia and the Pacific average (see more in Table 14).

Table 14: Status of working children, proportion of all children in Age Group 5-17, Nepal and Asia and the Pacific

| Region | Year | Type | Proportion |
|--------------------------------------|------|---------------|------------|
| Nepal (Ages 5-17) | 2014 | Child labours | 22 % |
| | | Hazardouswork | 38 % * |
| Asia & The Pacific (Ages 5-17) | 2012 | Child labours | 9.3 % |
| | | Hazardouswork | 4.1 % |

* Data from 2010.

Sources: [ILO, Eliminating child labour in Nepal](#), SDG Table in Page v (Indicator 8.7.1), and [ILO, Accelerating action against child labour, International Labour Conference, 99th Session 2010](#)

The consequences of social inequities reinforced by racial or social discrimination is a reason for practice of child labour. For example, children from indigenous groups in rural areas of Nepal are more likely to drop out of school to work. Weak social protection schemes just as inability of parents to earn and to decrease the economic burden in their family leaves the children with no choice but to enter the labour market whilst toiling hard to make money for their poor families. The most common forms of child labour in Nepal is connected to agricultural work, domestic services, the stone-breaking industry and the entertainment sector, all informally.⁵⁵

The minimum age for hazardous work and the age requirements for leaving school is also a challenge in Nepal. According to international standards, the minimum age for hazardous work is at 18 years of age. In Nepal, the minimum age for this type of work is 17. This means that children who are 17, are not protected by the country's hazardous work list, which leaves children in this age extra vulnerable to the worst forms of child labour. The list does not include one of most common forms of child labour that is brick making, which has been labeled as a hazardous form of employment with heavy loads of carrying and exposure to dangerous substances.⁵⁶

In Nepal, it is compulsory to attend school until the age of 13. Afterwards, it is conceivable to drop out of school. This situation has created problems for the Nepalese children since the minimum age for employment is 15.

Thus, the children aged 13 and 14 are also at high risks of child labour, since they can leave school but are not legally permitted to work.⁵⁷

Gender

Albeit the labour legislation in Nepal provides the same protection and rights to men and women, the latter group often face discrimination in several aspects. In the reality, particularly in rural areas, women are often discriminated due to lack of awareness of their rights, lack of education and many people choose to ignore the law as well. Women have the rights to equal shares of their parent's inheritance and keep the eventual property after an ended marriage. However, cultural traditions shadow that many women are afraid to speak up for their heritage, and many are not aware of their rights.⁵⁸ Gender non-discrimination in hiring does not exist in Nepal. Not to mention, legislation states that it is prohibited to discriminate in terms of payment and remuneration based on gender. Data revealed a deep gender gap in terms of earnings thus women are often not respected in equal pay (revisit the section: Working Conditions).

It has already been presented that Nepalese women have a quite high participation rate - in line with men's participation rate; and it is significantly higher than Southern Asia average. Gender gaps are minimal in terms of unemployment and underemployment, but then again it is related to low numerical values. Instead, the gender gaps are present among the employees and vulnerable employment. Women are much more in vulnerable employment in the agricultural sector while men are dominating the formal employees in the industry and the service sector (see more in Table 15).

Table 15: Workforce key indicators gender gaps in Nepal, 2019

| | Men | Women | Gender gap, percentage point (p.p.) |
|-------------------------|-------|-------|-------------------------------------|
| Employment | 83 % | 81 % | - 2 p.p. |
| Unemployment | 1.5 % | 1.1 % | - 0.4 p.p. |
| Underemployment | 5.6 % | 6.0 % | + 0.4 p.p. |
| Employees | 31 % | 9.6 % | +21 p.p. |
| Vulnerable employment * | 67 % | 90 % | - 23 p.p. |

* Aggregate own-account workers and contributing family workers.

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

The Gender Inequality Index – measuring health, empowerment and economic status – is ranking Nepal as number 149 out of 189 countries. This index visualizes that especially in terms of educational attainment, men have more education than women: the share of men over 25 years of age with at least secondary school is at 43% for men and only at 27% for women (see also the section: Education). On the positive side, Nepal has recorded

quite high in terms of women seats in the parliament at 30% in 2017.⁵⁹

The traditional caste system was abolished in 1963. However, conventional beliefs of this system still affect the Nepalese society. The lowest cast of people in the community are called Dalit, and they cover around 15% of Nepal's population.⁶⁰ The word Dalit is associated with being inhuman or untouchable, i.e. many people think less of Dalit people and they face discrimination in terms of their gender and caste. For example, Dalit women have faced severe discrimination, and they are at high risk of sexual abuse, violence, early marriage and human trafficking. Today, approximately 60% of the Dalit girls are married before they are 16. Not to mention, in the formal sector, it is clear that men from upper-caste systems are favored for hiring and promotions.⁶¹ On the positive side, the Nepalese government has made initiatives to end the discrimination towards Dalit women, which includes special legal provisions for Dalit women in employment in the public service.⁶² In connection to the first local elections in Nepal for 20 years, a new act called the Local Level Election Act came to place in 2017. The Act stated that in each ward committee in the country minimum one out of four members should be a Dalit woman. This has resulted in that approximately 6.000 Dalit women are now represented in the local government.⁶³

Youth

The Nepalese youth (15-24 years) covers 30% (6,392,000 young people) of the total population in Nepal in 2019 and of those seven out of ten (72%) are in employment. The country's youth population confronts that the labour market is not capable of providing sufficient formal decent work or opportunities.

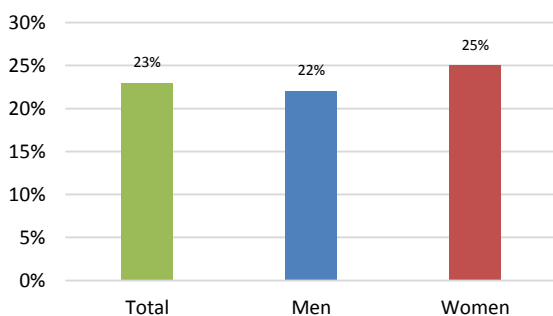
One issue is that the education system has not supplied adequate skills among students and it has created a mismatch to the labour market's demands. As an example, the educational attainment on higher education levels have been quite low: only 17% of the youth had passed secondary or higher than secondary education. Those who reach the minimum education standards are still often with low quality of skills and inexperience.⁶⁴ This situation places Nepal in a weak position in shaping the labour productivity and strengthening international competitiveness.

As outlined in Table 9 on unemployment above, the youth unemployment rate is quite low in Nepal at 2.1% in 2019 and stays 7.8 percentage points lower than the Southern

Asia average. However, the low youth unemployment rate is shadowed by the high mismatch between the demand for young workers and the supply or availability of appropriately skilled workers in the formal sector. This is an impact of poor quality education along with the labour market information systems that are unable to match supply with demand, and often even at fault. The demand-side problem of a lack of structural transformation in largely agricultural economies means that there is a minimal request for highly educated workers. In Nepal, while there appear some structural shifts away from the agricultural sector towards the services sector with mainly poor-quality jobs, bypassing the weak industrial sector. The later sector has the highest potential for absorbing highly educated workers.⁶⁵

The NEET rate – a young person who is no longer in the education system and who is not working or being trained for work – provides a broad measure of the untapped potential of youth who are neither improving their future employability through investment in skills nor gaining experience through employment. Figure 8 below shows the NEET rate at 23%. This rate is more or less in line with other neighboring countries, e.g. Asian and Pacific average at 21%.⁶⁶ Young Nepalese women had a slightly higher NEET rate than men that diverges by three percentage points. SDG targets the NEET rate to reduce by 2020 substantially. However, based on the limitations of data availability, Nepal's NEET rate is from 2008, and therefore it is not possible to examine the trend before the upcoming Nepal Labour Force Survey 2017/18 is published. Another SDG target includes to develop and operationalize a strategy for youth employment. In this respect, Nepal is lacking an actual plan concerning youth employment. Too substantially decreasing the NEET rate, state policies and strategies have to be made to absorb the youth to the country's labour market in a higher degree (see more in Indicator 8.6.1 in Table SDG on Page v).

Figure 8: NEET share in Nepal, Age 15-24, %, 2008



Note: The NEET's share covers the Philippine youth not in education, employment, or training.

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

It is also notable that many youths were affected by Nepal's Civil War (1996-2006), including co-opted, manipulated or forced activities that created victims who suffered direct violence and lost the opportunity to attend a school or vocational training.⁶⁷

EDUCATION

Most Nepalese have a relatively high net enrolment in primary school, but a large segment is not completing the basic education. To point out, during the last decade the education system in Nepal confronted a quality crisis. The curriculum is not addressing the diversity, teaching materials are minimal, and discrimination to children from lower caste and class just as remote areas are prevalent. These weaknesses are deep-rooted and systemic problems such as low teacher morale, mismatch of skills in the labour market and the high child labour rate. In addition, the quality of many public schools compared to private schools is very poor.

Based on the limitations of data availability, one out of two (50%) in employment had less than basic education, and only one out of five (21%) has a basic education. Fewer have progressed into higher education levels (Table 16).

Table 16: Employment by education in Nepal, % of employment distribution, 2008

| | Less than basic | Basic | Intermediate | Advanced |
|-------|-----------------|-------|--------------|----------|
| Total | 50 % | 21 % | 13 % | 12 % |
| Men | 36 % | 26 % | 16 % | 16 % |
| Women | 63 % | 17 % | 9.8 % | 7.6 % |

Source: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

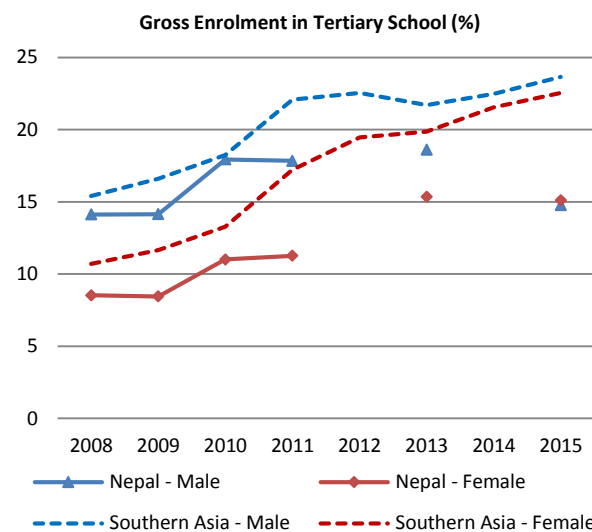
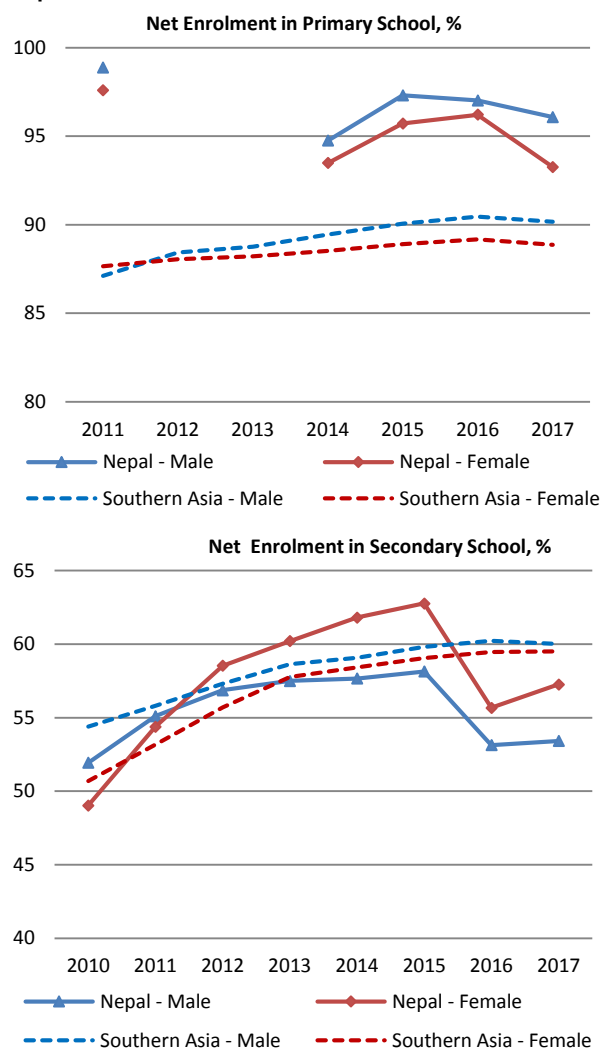
The constitution reform from 2015 placed education as one of the primary responsibilities of the newly formed provincial governments. Education is guaranteed as the fundamental right of every citizen, i.e. the right to access to education and the right to free education up to the secondary level. Today, local governments have a responsibility to operate and manage secondary education (up to Grade XII). Provinces have full authority to design curriculum, oversee teachers and staff and physical facilities and adopt operational policies. It places each province as a policymaker, to ensure quality education, and works as a liaison between educators and the public and the politicians.

Education spending (i.e. government expenditure on education, % of GDP) in Nepal is on a rise in recent years

that is superseding Southern Asia average, 5.1% vs. 3.4% in 2017, respectively.

Table 8 outlines the school enrolment rate trends: all education levels were on an upsurge during the 2010s until a downturn entered since 2015, which is an impact of the provincial reforms. Net enrolment in primary education stays quite high at 95%, and hovering above the Southern Asia average. Males have a slightly higher enrolment rate of 3 percentage points than females. Net enrolment in secondary education was increasing; especially females were superseding males' rate since 2011 in Nepal. However, this rate plummeted in 2015 for both males and females, and it is now staying below the regional averages. Gross enrolment in the tertiary percentage of Nepalese students closed the gender gap, but it is placed below the regional average with a widening gap.

Figure 9: School Enrolment and Level, Males and females, Nepal and Southern Asia, %, 2008-2017



Caste based discrimination is pervasive, which includes the actual institutions of education that affect negatively to accessing decent work and basic working conditions. As an example, Dalit girls in school often face discrimination in terms of humiliation and shaming from non-Dalit students and teachers. This also means that only 12% of the Dalit girls move on to secondary education.⁶⁸

Vocational Training

Although the constitution of Nepal outlines the changes in the governance structure from a centralized model to federal, state, and local governments, just as makes a clear commitment to education in general, the Technical and Vocational Education and Training (TVET) system is not explicitly clarified.⁶⁹

In Nepal, TVET is implemented in programs run by government agencies, non-government organizations, private firms, as well as projects supported by different donor agencies. The leading TVET provider in the country is the Council for Technical Education and Vocational Training (CTEVT). It was established in 1989, and it operates as a national autonomous apex body of the TVET sector. This Council directly operates 31 technical schools and polytechnics and has accredited hundreds of affiliated private TVET providers (see below). Programs are offered in a multitude of fields, ranging from medical lab technology to agriculture, nursing, culinary arts, automotive technology, hotel management or computer technology. It furthermore involves in policy formulation,

quality control, preparation of competency-based curriculum, developing skill standards of various occupations and testing the skills of the people, conduct numerous research studies and training needs assessment, among others.⁷⁰

CTEVT has registered a wide range of TVET institutions and programs. For example, 529 institutions running long-term programs, 1,024 programs with an enrolment capacity of 40,735 students in 2016. There is no exact figure available as to how many short-term vocational training courses are provided annually in Nepal. However, based on the CTEVT register, a total number of affiliated and constituent institutions for short-term programs was 442 covering 4,417 programs in 2016.⁷¹ These programs are often supported by donors. Based on estimations, the total number of short-term vocational training programs conducted under CTEVT includes around 50,000 students per year. On this background, the current annual student intake capacity of both long-term and short-term TVET courses is limited to less than 114,000. This figure is considerably fewer than the 512,000 young people entering the labour market every year.

Table 17: Status of Vocational Training in Nepal

| | | |
|--|------------|-----------|
| Pupils in vocational training (2016) | Nepal | 114,000 * |
| Firms offering formal training (% of firms) (2013) | Nepal | 32 % |
| Pupils in vocational training (women, %) (2007) | Nepal | 22 % |
| | South Asia | 29 % |

* Total long-term and short-term TVET courses.

Source: [Ministry of Education, Council for Technical Education and Vocational Training Research and Information Division, December 2017](#), and [World Bank, World DataBank](#)

An impact evaluation on the Employment Fund (EF) – one of the most significant youth training initiatives in the country, serving almost 15,000 youth annually – found that after three years of the program, it intervention positively improved employment outcomes. Participation in the EF training program generated an increase in non-farm employment of 15 to 16 percentage points for an overall gain of about 50%. The program made an average monthly earnings gain of about 72%. The report also found more significant employment impacts for women than for men, but younger women ages 16 to 24 experienced the same improvements as older women.⁷²

According to surveys, most youth would like to run their enterprise, but lack skills and capital. Skill acquired

through vocational training or formal education is essential in youth's ability to penetrate the job market. On the other hand, the vocational training courses that are provided are often short-term and are rarely linked up with job guarantees.⁷³

Since the prosperity of a country is coupled with the labour productivity and investment in TVET is central for the development, the demonstrated weaknesses in the Nepalese TVET system is confronting challenges on the labour market.

SOCIAL PROTECTION

A labour market deficiency in Nepal is mirrored in low coverage of social protection (see details in Table 18). However, changes are in progress. Public spending on social protection increased significantly since the Financial Year (FY) 2013/14, and reforms of the social protection system since 2017 are taking positive steps to address structural inequalities in the social protection system.

Table 18: Status of coverage of the social security system and health social protection in Nepal

| Indicator / Year | Beneficiaries | % |
|--|---------------|-------|
| Pension scheme public beneficiaries employees coverage (2014/15) | 212,012 | 7.1 % |
| Employment Provident Fund coverage among employees (2014/15) | 500,000 | 17 % |
| Beneficiaries of social cash transfers of total employment (2015/16) | 2,265,535 | 14 % |
| Health social protection coverage of the population (2016) | 1,449,000 | 5 % |

Source: [ILO and Ministry of Labour and Employment of Nepal, An analytical briefing on the social security sector in Nepal, 2017](#) and [U.S. National Center for Biotechnology Information](#) and own estimations based on data from ILO KILM and the World Bank.

The 2015 Constitution establishes social security as a fundamental right of Nepali citizens and provides a broad framework for the social security system. Nepal has not yet fully set up provincial government structure, and it takes some time. Most of the social security-related authorities are shared among the different levels of government (i.e. central, provincial and local). This system is complex, and it risks confusion over the role of each level of government, and it is going through a reform in the aftermath of the already mentioned Contributory Social Security Law from 2017 and By-laws in 2018.

The social security system is challenged by practical issues and concerns to encourage more workers from both the formal sector and informal economy to register and support it. Taking into consideration that informal

micro- and small enterprises are widespread in the nation, there is a special need to bring this segment to comply. Formal sector workers often find it cumbersome by the bureaucratic and technical processes of getting a Permanent Account Number (PAN) number and opening bank account.

Overall, the social security schemes are divided into three groups: i) social insurance, ii) social assistance, and iii) labour market interventions. These schemes evolved gradually during the last decades.

First, the social insurance schemes cover pension and gratuity benefits in the Employees' Provident Fund (EPF) and the Citizen Investment Trust in relation to disability, maternity leave, work-related injury, sickness and survivors' benefits. The EPF covers 17% of employees (3.2% of the total employment) in 2016 (Table 18 above). It has failed to incorporate self-employed workers, informal workers and other ordinary Nepali citizens.⁷⁴ Government employees are mandatory members of EPF, and there is optional coverage for firms with ten or more employees. Employers bear the full cost. However, these compensations are rarely paid in full. Employers often cut deals with the families of the victims, for instance, a family member is offered the position of the victim, or an amount much smaller than the compensation is paid. EPF had around 500,000 active contributors in 2014/15. A vast majority in the Fund are public employees.

Second, the social assistance programs include social cash transfers, in-kind transfers, primary health care and basic education. Studies argue that six cash transfer programs seem to have a small impact on poverty.⁷⁵ However, this impact is based on earlier data and does not reflect the later doubling the benefits in the Social Security Allowance (SSA) program. Other data reveal that the number of beneficiaries of social cash transfers increased by 11% from the Financial Year (FY) 2012/13 to FY 2015/16, peaking of almost 2.3 million people that are dominated by senior citizens (46%), widows (22%) and children (21%) (see Appendix Table 26).

Third, the labour market interventions include an employment program in Karnali Zone, rural community infrastructure works, technical and vocational education training, skill and entrepreneurship development programs, and child labour elimination and child labour reform programs, all of which are intended to facilitate employment growth and productive labour markets.

Reforms of the social protection framework in recent years launched a wide range of work-related injury insurance, maternity benefit, medical care, and sickness benefit. Several other social security-related measures were announced, including accident insurance for informal economy workers, a national health insurance scheme, and a contributory pension scheme.⁷⁶ These changes are summarized below:

The Social Security Fund (SSF) was established in 2011.⁷⁷ The fund provides minimum social security benefits for the following schemes: i) Medical Treatment, Health and Maternity Protection Scheme, ii) Accident and Disability Protection Scheme, iii) Dependent Family Protection Scheme, and iv) Old Age Protection Scheme. The SSF is financed through a 1% tax on earnings.⁷⁸ Around 470,000 public and 283,000 private sector employees are eligible to be enrolled for social security schemes. Of some 80,000 companies, hardly 500 firms have provided information about their employees to enroll them into schemes.

Public pension scheme beneficiaries stayed low at 7.1% of employees, but the number of enrolled members increased by 12% in the period from 2011/12 to 2014/15. Before, there was no social security scheme of any kind for informal workers. A central issue in the new social security scheme that was approved in 2017 includes formal and informal workers entitled to the abovementioned pension schemes. As a contribution-based social security system to achieve the benefit, both worker and employer, have to contribute 2.6% of the salary per month. For the initial phase, about 300 enterprises have registered in the Social Security Board to date (February 2019). Although the social security tax has been deducted from salaries during the 2010s, the Government has yet to decide on the procedure of using the 1% tax and the social securities to be provided to the contributors, and curbing fiscal space to meet minimum requirements to fund social protection investments and costs.⁷⁹

In November 2018, a social security scheme to protect and secure employees working in the formal private sector was introduced as a milestone in enhancing the relationship between workers and employers. In the first phase of the scheme, employees from the private sector will be provided with financial security in terms of medical treatment, health protection and maternity scheme; accidents and disability plan; dependent family plan; and old-age security programs.⁸⁰ Similarly, private sector employees will have to mandatorily contribute 11% of their basic salary to the fund, while

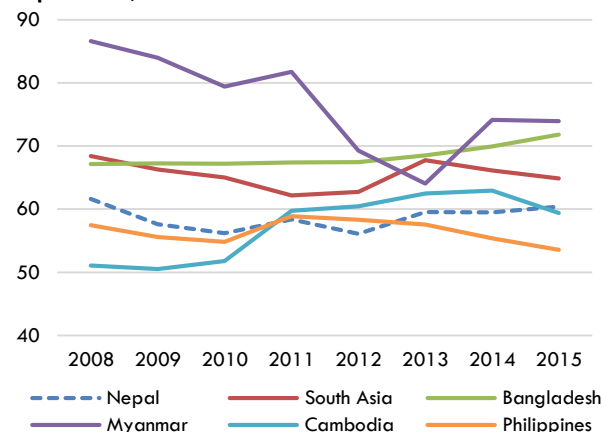
employers will have to contribute another 20% of the employees' basic salary. These contributions make employees entitled to compensation if they lose a job or cannot attend the workplace because of pregnancy, illness or accident.

The government decided in January 2018 to lower the age ceiling for the social security allowance, bringing it down from 70 to 65 years. At present, senior citizens above 70 years are entitled to receive Rs2,000 (US\$18) in monthly social security allowance. There are around 2.1 million people aged 60 or above in the country, and the political decision put additional pressure on the national budget. Studies furthermore reveal that 35% of old-age pensions' eligible beneficiaries are not receiving benefits.⁸¹ See also the Indicator 1.3.1 in Table SDG on Page v.

In the framework of free health-care policy and several other vertical schemes, the social health insurance (SHI) scheme was implemented in 2016 and rapidly covered 5% of the population. However, to achieve universal health coverage (UHC) in Nepal, in addition to operationalizing the scheme, several other requirements must be dealt simultaneously such as efficient health-care delivery system, adequate human resources for health, improved transparency and accountability, among others.⁸²

The current health expenditure increased from 4.4% of GDP in 2008 to 6.1% in 2015, and health expenditure per capita grew from US\$19 to US\$44 in the same period. These changes suggest improvements for the population in Nepal. However, the public health financing is critical for reaching the UHC defined as all people obtaining the quality health services they need without suffering financial hardship. The data below in Figure 10 on out-of-pocket spending is a key indicator concerning financial protection and hence of progress towards UHC. This out-of-pocket expenditure in health has been stalled at around 60% since 2013 in Nepal, but stays slightly below the South Asia average.

Figure 10: Out-of-pocket expenditure, % of current health expenditure, 2008-2015



Note: Out of pocket expenditure is any direct outlay by households, including gratuities and in-kind payments, to health practitioners and suppliers of pharmaceuticals, therapeutic appliances, and other goods and services whose primary intent is to contribute to the restoration or enhancement of the health status of individuals or population groups. It is a part of private health expenditure.

Source: [World Bank, World Development Indicators](#)

ECONOMIC PERFORMANCE

Nepal is among the least developed countries in the world, but it aims to achieve its objectives of reaching status as middle-income country by 2030. It is a landlocked country with inconsistent electricity supply and underdeveloped transportation infrastructure. The economy is heavily dependent on remittances-induced growth that has created trade deficit. The agricultural sector provides a livelihood for at least two-thirds of the workforce but accounts for less than a third of Gross Domestic Product (GDP). Industrial activity mainly involves the processing of agricultural products, including pulses, jute, sugarcane, tobacco, and grain.⁸³ Nepal aims to double agricultural production in the next five years, shift a large part of the population to off-farm and other emerging sectors, and develop a trade surplus for agricultural goods.⁸⁴ However, as demonstrated in Figure 6 above, the agricultural sector value added to GDP has experienced a declining trend since 2011, which is reflecting the challenging targets.

Massive earthquakes struck Nepal in early 2015, which damaged or destroyed infrastructure and homes and economic development plummeted. In mid-August 2017, the worst flood in decades destroyed 64,000 hectares of standing crop, contributing to an estimated reduction in the agriculture growth. Despite these external shocks, economic growth has been strong: a post-earthquake recovery and reconstruction efforts converted into a skyrocketing economic growth in 2017, and estimated

staying high at 6.7% in 2018 and projected to 7.0% in 2019 (see also Table 19).

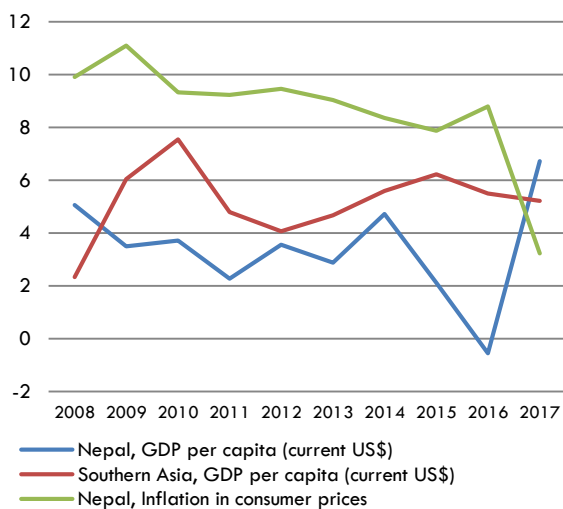
Table 19: Status of main economic issues in Nepal

| | |
|--------------------------------------|-------------------|
| GDP (2017) | US\$ 24.9 billion |
| GDP per capita (current US\$) (2017) | US\$ 849 |
| GDP growth (average, 2014-2018) | 4.8 % |
| Inflation (2018) | 4.2 % |

Source: [World Bank, World Development Indicators](#) and [Statista.com](#)

Figure 11 illustrates that the GDP growth has superseded the population evolution: GDP per capita growth has been high during the last decade, except the downturn in 2015 and 2016. It stayed below the Southern Asia average, though. The gap is also echoed in the previously mentioned relatively lower labour productivity rate (revisit Figure 4). Nepal has a much lower GDP per capita than Asia and the Pacific (excluding high income) average, and the country is ranking 195 out of 228 countries regarding GDP per capita in purchasing power parity (PPP) (1 is richest).⁸⁵

Figure 11: Growth in GDP per capita and inflation in consumer prices, %, 2008-2017



Source: [World Bank, World Development Indicators](#)

The inflation in consumer prices was hovering above 8% before 2017 (see also Figure 11 above). There was a surge in imports of food articles and a rise in food prices. Non-food prices also increased, which was affected by higher prices of petroleum products and the onset of the rupee's depreciation. In the two recent years, 2017-2018, inflation fell below 5%. This aspect reduced slightly the pressure on workers' income purchasing power. Growth of money supply, the growth rate of real GDP and import price are the main determinants of inflation in Nepal. For example, inflation in India is an important contributor for inflation in Nepal, i.e. the nation

is highly dependent on Indian prices because of a weaker supply of domestic production supplemented by the increased imported goods from this neighboring country.

The country's economy also relies on its informal economy. Although this part of the economy is not fully included in the national statistics GDP accounts, it does not mean that there are no linkages between the formal sector and the informal economy. These are interconnected via the goods and services market, the labour market and the money market. In practice, people from the informal economy pay indirect taxes and informal households are primary receivers of government grants. Informal economic activity is complementary to that of the formal economy.

Another reason why the informal economy remains significant in the country is due to it is not easy doing business: the nation is ranking low-medium on the global Doing Business Index in 2019 as 110 out of 190 countries (1 is best) and lying slightly below the Southern Asia average.⁸⁶ It is particularly not easy paying taxes (158 out of 190), enforcing contracts (154), dealing with construction permits (148), and getting electricity (137). The highest ranking is protecting minority investors at 72 out of 190 countries (see more in Appendix Table 27). In general, this situation contributes to why firm entry rates are low. Most firms do not grow much as they age, which suggests that they are not making investments that would increase their productivity or product quality.

Although the country has experienced economic development, there are still several challenges that prevent more inclusive growth. The wealth stays concentrated among the richest in society. Data reveal that income inequality, based on the degree of inequality in the distribution of family income (GINI Index), ranked Nepal 115 out of 158 (1 is the highest inequality). On the positive side, the Gini coefficient declined from 43.8 in 2003 to 32.8 in 2010. These improvements are to large degree an impact of the high personal remittance inflow that improves progress in income equality in the country. This change is interlinked to an evolving middle-class that is projected to reach around one out of three (32%) of workers in 2020. Few (6.3%) are expected to be extremely working poor while many workers in employment are still in vulnerable positions that keep them as moderately poor or as near poor (see more details in Table 20).

Table 20: Estimation and projection of employment by economic class in Nepal, 2000-2020

| Year | Extremely poor (<US\$1.90) | Moderately poor (>=US\$1.90 & <US\$3.10) | Near poor (>=US\$3.10 & <US\$5) | Middle class (>=US\$5) |
|------|----------------------------|--|---------------------------------|------------------------|
| 2000 | 48 % | 30 % | 15 % | 7.1 % |
| 2010 | 13 % | 34 % | 35 % | 19 % |
| 2020 | 6.3 % | 27 % | 35 % | 32 % |

Sources: [ILO, Key Indicators of the Labour Market \(KILM\)](#)

Despite the paying taxes regulations in Nepal are cumbersome; the tax revenue is developing fast increasing by 10% of GDP in 2008 to 21% in 2017. This change is supporting the investments in economic development and the costs of the evolving social protection and education systems.

The amount of capital formation reveals how much of the new value added in the economy is invested rather than consumed. When it increases, it points towards that economic activities are in progress, which could support economic development and job creation. Gross fixed capital formation has been on an upsurge during the 2010s in the country, so far: it was estimated at 20% on average during the 2000s, but now peaking at 32% in 2017. In contrast, Southern Asia average in this indicator has been on slender declining trend in the last decade reaching 27% in 2017.⁸⁷

Foreign direct investment (FDI) inflows – i.e. the value of an inward direct investment made by non-resident investors in the reporting economy – is very low in Nepal, or one-third of the Southern Asia average, and concentrated in just a few sectors, such as hydropower. FDI is especially deterred by complex procedures and overly restrictive policies. Regarding the manufacturing firms established with FDI, two-third of them are producing industrial goods, the rest are producing fast moving consumer goods. These manufacturing firms employ 87% domestic workers. Given the volatile outlook for remittance inflows going forward, the focus on attracting FDI will be necessary, not only to increase investment in the economy, but also to maintain external stability.⁸⁸ It is also worthwhile to mention that exports peaked at 26% of GDP in the end of 1990s and declining steady since then reaching 9% in 2017. Nepal's exporters are disadvantaged by high tariffs on crucial imported inputs as well as internal issues such as cumbersome doing business regulations.

Special Economic Zones (SEZ)

The government launched a SEZ plan in 2000 inviting foreign investors to create growth and employment in Nepal. The Special Economic Zone Act was endorsed by the government in 2009, but it was until 2016 it was approved by the parliament. The parliament furthermore approved the first amendment bill of the SEZ Act in March 2019 introducing a new provision under which industries located in SEZs will have to export only 60% of their produce mandatorily.

The extended political process to approve the SEZ Act by the parliament slowed down the SEZs' development. Many trade unions have criticized the SEZ legislation for not having provisions to protect the rights of laborers. Likewise, ITUC has argued that the SEZs in Nepal will deny trade unions and collective bargaining.⁸⁹ Social security benefits, wages and other terms and conditions will be fixed by the SEZ authority without the participation of any workers' representatives. The SEZ Development Committee (SEZDC) is in progress to prepare amendments to the SEZ operating guidelines to improve the investment initiatives.

So far, only the SEZ at Bhairahawa was initiated in 2014. It has struggled to operate properly due to the lukewarm response from the investors to set up industries since central facilities like income tax holiday, special treatment for export and import-oriented industries were excluded. However, it was later introduced. The SEZ at Bhairahawa license for operating is expected to go up to 30 years. A total 23 industries are registered in this SEZ. Fourteen other locations across the country have started acquiring land for SEZ and seven are under construction.⁹⁰ During 2016, also the SEZ in Panchkhal of Kavrepalanchok District entered into the final shape.⁹¹

As indicated, SEZs have provision of 100% tax exemption for the first ten years, 100% exemption on tax bonus for the first five years and 50% tax exemption for the next three years. And an industry inside a SEZ will be able to produce goods at globally competitive prices. Industries located inside a SEZ must export 70% of their products, and workers will not be allowed to stage protests which affect the working environment inside a SEZ.⁹²

APPENDIX: ADDITIONAL DATA

Table 21: Affiliated Trade Unions Centres to JTUCC in Nepal, 2018

| Trade Union Centers | Total Members | Women Members | Women share | Membership growth, 2014-2018 |
|---|------------------|----------------|--------------|------------------------------|
| All Nepal Trade Union Federation (ANTUF) | 410,115 | 135,403 | 33% | 9.2% |
| General Federation of Nepalese Trade Unions (GEFONT) | 440,712 | 97,934 | 22% | 14 % |
| Nepal Trade Union Congress (NTUC) | 425,014 | 150,000 | 35% | 12 % |
| Confederation of Nepalese Professionals (CoNEP) | 253,163 | 38,000 | 15% | 25 % |
| National Democratic Confederation of Nepalese Trade unions (N-DECONT) | 30,000 | 1,800 | 6.0% | -17 % |
| National Democratic Trade Union Federation (NDFONT) | 42,110 | 2,560 | 6.1% | N/a |
| National Democratic Trade Union Federation – Independent (NDECONT-I) | 40,000 | 11,741 | 29% | 9.1% |
| Inclusive Nepal Trade Union Confederation (INTUC) | 37,500 | 750 | 2.0% | N/a |
| Madheshi Trade Union Confederation (MTUC) | 101,000 | - | - | N/a |
| Total | 1,779,614 | 438,187 | 26% * | 19 % ** |

* Excluding MTUC.** This total growth excludes NDFONT, INTUC, and MTUC due to lack of updated data.

Source: JTUCC

Table 22: Labour market related national legislations passed in Nepal in 2014-2018

| Type of legislation | Laws |
|--|---|
| 2014 | |
| General provisions | Prevention of Organised Crime Act, 2070 |
| Specific categories of workers | Civil Service (Third Amendment) Act, 2014 (2070) |
| 2015 | |
| General provisions | Constitution of Nepal, 2015 |
| Employment policy, promotion of employment and employment services | National Employment Policy 2071 (2015) |
| 2016 | |
| General provisions | Judicial Service Commission Act, 2073 (2016) |
| | Special Economic Zone Act, 2073 (2016). |
| | Industrial Enterprises Act, 2073 (2016). |
| 2017 | |
| General provisions | Criminal Procedure (Code) Act, 2074 (2017). |
| | Criminal (Code) Act, 2074 (2017) |
| | House of Representatives Election Act, 2074 (2017). |
| | State Assembly Elections Act, 2074 (2017). |
| | Labour Act, 2074 (2017). |
| | Supreme Court Rules, 2074 (2017). |
| | Disaster Risk and Management Act, 2074 (2017). |
| Equality of opportunity and treatment | National Women's Commission Act, 2074 (2017). |
| | National Dalit Commission Act, 2074 (2017). |
| | Muslim Commission Act, 2074 (2017). |
| | Tharu Commission Act, 2074 (2017). |
| | National Inclusive Commission Act, 2074 (2017). |

| | |
|--|--|
| | Madheshi Commission Act, 2074 (2017). |
| Employment policy, promotion of employment and employment services | Human Rights for Persons with Disabilities Act, 2074 (2017). |
| Social security (general standards) | Contributions Based Social Security Act, 2074 (2017). |
| Indigenous and tribal peoples | Language Commission Act, 2074 (2017). |
| Specific categories of workers | Employee Adjustment Act, 2074 (2017). |
| 2018 | |
| General provisions | By-laws of the Labour Law |
| Social security (general standards) | Social Security Law |

Source: [ILO, NATLEX, Nepal](#) and ITUC-NAC – DTDA Partnership Meeting, February 2019

Table 23: The major revision of the Labour Law in Nepal

| Labour Act from 1992 (2048) | Labour Act 2017 (2074) |
|--|--|
| 1. The Act implies in enterprises having at least 10 workers. | 1. The Act implies in enterprises having even one worker. |
| 2. There was provision of getting social security benefit by permanent worker only. | 2. There is provision of getting social security benefit from working day one. |
| 3. It did not cover in informal sectors. | 3. It covers both formal and informal sectors. |
| 4. It has no clear provision on job categories only permanent, temporary, daily basis. labour was exploited. | 4. There is clear provision in job categories like: <ul style="list-style-type: none"> • Regular Employment • Work Based Employment • Time Bound Employment • Casual Employment • Part time Employment |
| 5. There were no provisions of OSH issues. | 5. Where twenty or more employees are engaged, employer shall constitute a Safety and Health Committee. |
| 6. There was provision of enterprises level CBA only | 6. There is provision of both enterprises as well as industrial CBA. |
| 7. There were no provisions related to Outsourcing. | 7. Outsourced employees can be engaged in the work as prescribed by the Ministry. |
| 8. The workers were eligible for gratuity after the completion of 3 years of service only permanent workers. | 8. The workers are eligible for gratuity from the first day of employment: 8.3% of basic remuneration every month should be deposited by employer. |
| 9. There was no provision for related to the insurance. | 9. There is provision for medical insurance at least 100,000 (US\$911) per year for every worker. Premium to be paid equally by the employer and worker. And provision for Accident Insurance at least 700,000 (US\$6,400) for every worker. Premium to be paid fully by the employer. |

Source: International Trade Union Confederation (Nepal Affiliated Council), Update on Labour Market Profile of Nepal

Table 24: Employment share in sectors in Nepal, 2008

| Sectors | Men & Women | Men | Women |
|--|-------------|-----------|-----------|
| Agriculture | 8,704,000 | 3,429,000 | 5,275,000 |
| Mining and quarrying | 27,000 | 19,000 | 8,000 |
| Manufacturing | 773,000 | 469,000 | 305,000 |
| Electricity, gas and water | 109,000 | 39,000 | 70,000 |
| Construction | 367,000 | 326,000 | 41,000 |
| Trade, hotels and restaurants | 889,000 | 541,000 | 348,000 |
| Transport and communications | 198,000 | 191,000 | 8,000 |
| Finance, real estate and business services | 103,000 | 79,000 | 23,000 |
| Public administration, education, health | 471,000 | 331,000 | 14,000 |
| Other services | 137,000 | 95,000 | 43,000 |
| Total | 11,778,000 | 5,519,000 | 6,261,000 |

Source: ILO, Key Indicators of the Labour Market (KILM).

Table 25: Ratified ILO Conventions in Nepal

| Subject and/or right | Convention | Ratification date |
|--|--|-------------------|
| Fundamental Conventions | | |
| Freedom of association and collective bargaining | C087 - Freedom of Association and Protection of the Right to Organise, 1948 | Not ratified |
| | C098 - Right to Organise and Collective Bargaining Convention, 1949 | 1996 |
| Elimination of all forms of forced labour | C029 - Forced Labour Convention, 1930 | 2002 |
| | C105 - Abolition of Forced Labour Convention, 1957 | 2007 |
| Effective abolition of child labour | C138 - Minimum Age Convention, 1973 | 1997 |
| | C182 - Worst Forms of Child Labour Convention, 1999 | 2002 |
| Elimination of discrimination in employment | C100 - Equal Remuneration Convention, 1951 | 1976 |
| | C111 - Discrimination (Employment and Occupation) Convention, 1958 | 1974 |
| Governance Conventions | | |
| Labour inspection | C081 - Labour Inspection Convention, 1947 | Not ratified |
| | C129 - Labour Inspection (Agriculture) Convention, 1969 | Not ratified |
| Employment policy | C122 - Employment Policy Convention, 1964 | Not ratified |
| Tripartism | C144 - Tripartite Consultation (International Labour Standards) Convention, 1976 | 1995 |
| Up-to-date Conventions | | |
| Working time | C014 - Weekly Rest (Industry) Convention, 1921 | 1977 |
| Wages | C131 - Minimum Wage Fixing Convention, 1970 | 1974 |
| Indigenous and Tribal People | C169 - Indigenous and Tribal Peoples Convention, 1989 | 2007 |
| <p>Note: Fundamental Conventions are the eight most important ILO conventions that cover four fundamental principles and rights at work. Equivalent to basic human rights at work.</p> <p>Governance Conventions are four conventions that the ILO has designated as important to building national institutions and capacities that serve to promote employment. In other words, conventions that promotes a well-regulated and well-functioning labour market.</p> <p>In addition, there are 83 conventions, which ILO considers "up-to-date" and actively promotes.</p> | | |
| Source: ILO, NORMLEX, Country Profiles | | |

Table 26: Number of beneficiaries of social cash transfers in Nepal

| | FY 2012/13 | FY 2013/14 | FY 2014/15 | FY 2015/16 | Growth, 2012-2016 | Proportion of schemes |
|---|------------|------------|------------|------------|-------------------|-----------------------|
| Senior citizens | 864,144 | 929,180 | 951,419 | 1,049,819 | 21% | 46% |
| Single women | 361,350 | 341,106 | 231,352 | 172,842 | -52% | 8% |
| Persons with disabilities | 28,912 | 32,355 | 33,578 | 62,320 | 116% | 3% |
| “Endangered” and marginalized ethnic groups | 18,825 | 19,223 | 20,308 | 23,346 | 24% | 1% |
| Widows | 219,933 | 313,613 | 417,201 | 487,286 | 122% | 22% |
| Children | 551,916 | 537,118 | 506,718 | 469,922 | -15% | 21% |
| Total | 2,045,080 | 2,172,595 | 2,160,576 | 2,265,535 | 11% | 100% |

Source: [ILO and Ministry of Labour and Employment of Nepal, An analytical briefing on the social security sector in Nepal, 2017](#)

Table 27: Ease of Doing Business in Nepal, 2019

| Topics | Ranking |
|-----------------------------------|---------|
| Overall | 110 |
| Starting a Business | 107 |
| Dealing with Construction Permits | 148 |
| Getting Electricity | 137 |
| Registering Property | 88 |
| Getting Credit | 99 |
| Protecting Minority Investors | 72 |
| Paying Taxes | 158 |
| Trading Across Borders | 82 |
| Enforcing Contracts | 154 |
| Resolving Insolvency | 83 |

Note: Doing Business 2019 indicators are ranking from 1 (top) to 190 (bottom) among other countries. The rankings tell much about the business environment, but do not measure all aspects of the business surroundings that matter to firms and investors that affect the competitiveness of the economy. Still, a high ranking does mean that the government has created a regulatory environment conducive to operating a business.

Source: [World Bank & IFC, Ease of Doing Business 2019 in Nepal](#)

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