

**PROPOSED “MAKING THE LABOR MARKET WORK FOR YOUTH IN NEPAL PROJECT”
AND PROPOSED “TECHNICAL ASSISTANCE TO SUPPORT AN INCLUSIVE JOBS
STRATEGY FOR NEPAL”**

AIDE MEMOIRE

March 14-24, 2017

I. Introduction and Acknowledgement

1. From March 14– 24, 2017, a World Bank task team led by Jasmine Rajbhandary (Senior Social Protection Specialist), Ian Walker (Lead Economist, Jobs) and Ashish Narain (Senior Economist, Trade and Competitiveness) carried out consultations with the government for the identification of the proposed *Technical Assistance to Support a Nepal Jobs Platform* and the *Making the Labor Market Work for Youth Project*. The objectives of the consultations were to discuss the foundations of the Jobs Platform and the associated technical assistance program; and to conduct a scoping exercise to identify possible components of the Project.

2. The World Bank team expresses its deep appreciation for the cooperation extended by the Government of Nepal (GoN), the development partners, and the representatives from the private sector and NGOs for the active participation during consultations. The list of people met is included in the Annex.

3. The attached Aide Memoire (AM) lays out strategic ideas on the jobs platform and areas for technical assistance, the potential scope of the project and other critical issues discussed during the consultations.

II. Background

4. Nepal’s demographic transition has resulted in large number of youths entering the labor market, presenting both opportunities and challenges linked to creating more and better jobs. Today’s youths are more educated and if linked to productive employment they can become an engine of economic growth and poverty reduction for Nepal.

5. However, structural transformation has been limited. The share of industrial jobs has been flat, at a low 11 percent for the past two decades. This has reinforced slow demand growth for higher-productivity work in urban labor markets, leading to under-employment among the relatively well-educated cohort of youths who are now graduating from the education system. Youth unemployment is relatively low (three percent). However, most young people work in unsatisfactory, low-productivity jobs.

6. In *rural areas*, this has generated a strong flow of out-migration as young men seek opportunities elsewhere. However – in the absence of better alternatives - they have moved mainly into low-skilled service activities (either internal or overseas). Earnings in rural labor markets are rising, both in agriculture and in low-skilled nonagricultural wage work. But this reflects falling labor supply (linked to out-migration), rather than increasing labor demand. At the same time, employment intensity is declining, particularly among women (possibly due to increased reservation wages, linked to migrant remittances). To improve rural jobs outcomes, there is a need to increase labor demand in higher-productivity activities (including, but not limited to, agriculture and agribusiness) and to address the gender-specific opportunities that arise from male out-migration. In *urban areas*, the main challenge is the lack of good employment opportunities, so interventions to raise labor demand are a priority, as well as supporting job search and matching processes for workers.

7. Weak innovation and entrepreneurship are important constraints to increasing labor demand in Nepal. International evidence suggests that small and medium enterprises (SMEs) have high potential to create jobs and raise productivity and earnings for young people. Young, growth-oriented companies

interventions, linked to clearly-defined jobs impacts. It will be integrated into the proposed Jobs Platform, together with other jobs-relevant activities in the Country Program.

Component 1: Increasing Labor Demand. This component will focus on releasing constraints to employment growth by supporting accelerators, incubators and other schemes to help labor-intensive firms (especially SMEs) to grow. These will aim to: (a) enhance entrepreneurship skills (e.g. networking, marketing, sales, manufacturing practices, labor and financial management); and (b) improve access to capital finance through instruments for public-private risk-sharing, such as: partial risk guarantees, convertible loans and matching grants. Jobs metrics will be at the center of the design of the component.

Component 2. Improving youth labor market participation. This component will finance actions to remove barriers to labor market participation and improve the quality of jobs matches for specific groups. It will support interventions designed to: (a) increase rural women's access to job opportunities in agriculture, tourism, reconstruction and other high-potential sectors; and (b) improve the returns to migration (e.g. by linking remittances to investment in human and physical capital, supporting returning migrants to access good quality jobs, including business formation and promoting the adoption of risk mitigation mechanisms for migrants).

Component 3. Modernizing policies and regulations to promote faster jobs growth in Nepal. This component will be structured around a small number of DLIs to support improved public policies for job creation; the strengthening of systems for youth labor market inclusion; and the modernization of regulatory frameworks for labor, finance and product markets to remove obstacles to job-creating investments.

Component 4. Capacity building, monitoring and evaluation and project management. This component will finance capacity building for partner agencies, the project monitoring and evaluation system and the administration of project implementation.

- C. Proposed Institutional and Implementation Arrangements.** The Project will establish appropriate implementation arrangements to support effectively integrated cross-sectoral interventions. This would include selecting one (or more) implementation agency(ies) and establish a mechanism for all the relevant Ministries and partner agencies concerned to play an appropriate role in the decision making process and implementation of the proposed Project.

It is envisaged that a single Project Management Unit (PMU) will be established for the day-to-day management, monitoring and coordination of the proposed Project. The PMU will also be responsible for overall financial management of the project by Appraisal, the Government has agreed to appoint a project director, and one or more project managers. During the Preparation phase, the Government will designate a focal point as counterparts for the project preparation activities from each key Ministry that include MOF, MOLE, MOI, MOA and others, as appropriate.

- D. Preparation work.** The Bank's task team will continue working with the Ministry of Finance and other key Ministries and agencies to define the interventions that the proposed operation would support. The preparation work will entail reaching agreement on the following points:

- Project objectives and key results indicators
- Project scope, including details of activities to be supported by each component
- Institutional and implementation arrangements
- Project cost and financing estimates
- Project pilot selection

Annexes

Annex 1: Bank Team (Alphabetical Order)

1. Anastasiya Denisova, Economist
2. Anupa Aryal Pant, Private Sector Specialist
3. Anupama Shakya, Temporary
4. Ashish Narain, Sr. Economist
5. Ashim Nepal, Financial Sector Specialist
6. David Ian Walker, Lead Economist
7. Jasmine Rajbhandary, Sr. Social Protection Specialist
8. Jyoti Maya Pandey, Social Protection Specialist
9. Karishma Wasti, Agriculture Specialist
10. Lansong Zhang, Operations Analyst
11. Maya Sherpa, Operations Officer
12. Maheshwor Shrestha, Young Professional
13. Maria Laura Sanchez Puerta, Sr. Economist
14. Rajshree Karki, Program Assistant
15. Saurabh Rijal, Consultant
16. Shubha Chakravarty, Economist
17. Suravi Bhandari, Consultant
18. Sushila Rai, Program Assistant

7. Ms. Niyama Rai, National Project Coordinator, South Asia Labor Migration Governance (SALM), ILO
8. Mr. Binod Shah, Assistant FAO Representative
9. Mr. Arjun Thapa, Program Manager, FAO
10. Ms. Mio Yokota, Program Specialist, UN Women
11. Mr. Bharat Kumar Pokharel, Country Director, Helvetas
12. Mr. Sandip Paudel, Project Manager, Helvetas
13. Ms. Barbara Weyermann Lama, First Secretary, (Development) Program Manager, SDC
14. Ms. Usha Bhandary, National Program Officer, SDC
15. Ms. Nabina Shrestha, Programme Analyst, UNDP
16. Ms. Smita Gyawali, Project Officer, ADB

Private Sector

1. Mr. Shailendra Raj Giri, Managing Director, Rogari Pasal, Mero.Job.com and Real Solutions
2. Mr. Sanjib Kumar Niraula, Business Manager, Rojgari Pasal
3. Mr. Varun Lohia, Executive Director, Lohia Group Companies and First Vice President of Nepal Young Entrepreneurs Forum (NYEF)
4. Mr. Prakash Maharjan, President, Shakti Food Pvt. Ltd.
5. Mr. Mohindra Singh, Managing Director, Godavari International
6. Mr. Pankaj Pradananga, Director, Four Season Travel
7. Mr. Binod Dhakal, President, CAN Federation
8. Mr. Tyler McMahon, International Adviser, Smart Paani
9. Mr. Birendra R. Joshi, COO, Rooster Logic
10. Mr. Suyog Shrestha, CEO, Amuse Communication
11. Mr. Sunil Chitrakar, CEO, Mahaghuti
12. Mr. Manish Shrestha, Head of Business Development, Kazi Studios
13. Ms. Bibhuti Neupane, Program Coordinator, Antarprerana
14. Mr. Bibek Bhandary, Investment Manager, Antarprerana
15. Mr. Ravi Phuyal, Co-Founder, NEHUB
16. Mr. Pukar Malla, Executive Director, Daayitwa
17. Ms. Nayana Shakya, Program Lead, MIC Nepal
18. Mr. Nanda Kishor Mandal, Head-YSBC, Kings College
19. Ms. Milee Shrestha, Senior Specialist, Ncell
20. Mr. Milan Mani Sharma, Corporate Communication Expert, Ncell
21. Mr. Arpan Khanal, Investment Manager, True North Associates
22. Ms. Nitika Bajracharya, Investment Manager, Dolma Fund
23. Ms. Swati Pujari, Communications Officer, One to Watch
24. Ms. Sunaya Tamrakar, Investment Manager, One to Watch
25. Mr. Sandeep Lama, Managing Director, Gulf Employment

Association

1. Ms. Rita Bhandary, President, Federation of Women Entrepreneurs of Nepal
2. Mr. Himal Mahat, President, Association of Youth Organization in Nepal
3. Mr. Rohan Gurung, General Secretary, Association of Foreign Employment
4. Mr. Ajay Shrestha, Second Vice President, Nepal Young Entrepreneurs Forum
5. Mr. Bimal Dhakal, President, Nepal Association of Foreign Employment
6. Dr. Bishnu Prasad Gautam, Executive Director, Youth Self Employment Fund

Banking Sector

1. Mr. Janardhan Dev Pant, CEO, Nirdhan Bank
2. Mr. Ajay Shrestha, CEO, Bank of Kathmandu
3. Mr. Parshuram Chettri,