Policy Paper

Creating Jobs in Nepal through an Export-Focused Industrial Strategy

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1. Executive Summary

Nepal's biggest economic problem is not that people don't have work, it is that most work is low-paying, informal, and unproductive. A large share of the workforce remains engaged in agriculture, which contributes about 25 percent of GDP, while many others work in small informal activities with low incomes. At the same time, many young people continue to leave the country in search of better opportunities because they cannot find stable, well-paying jobs at home.

The country remains heavily dependent on remittances, which rose significantly in recent periods (for example, increasing 37.7 percent in NPR terms in the first eight months of FY 2025/26) (Nepal Rastra Bank, 2026). This means Nepal is still relying on exporting its people instead of building productive jobs domestically. Although exports of goods and services have shown notable growth, much of the increase has come from re-exports rather than high value-added production within the country, and the trade deficit remains a challenge.

This paper proposes a clear and practical solution: Nepal should focus on industries that can create many jobs quickly while also earning foreign currency. This can be achieved by prioritizing sectors such as agro-processing, tourism and related services, and light manufacturing, supported by specially designed Employment Zones.

To ensure the program succeeds and does not repeat past failures, the government will complete all necessary legal, administrative, operational, financial, and institutional preparations before launching pilots. Special attention will be given to overcoming bureaucratic hurdles, legal constraints, and budgetary issues through targeted amendments and strong safeguards. Win-win conditions will be created so that private investors find the zones attractive and profitable. If implemented with strong safeguards and discipline, this strategy can deliver visible results within one year and lay the foundation for long-term economic transformation through job-rich, export-oriented growth.

2. The Problem Nepal is Facing

Nepal's employment challenge is not primarily about open unemployment but about the quality of employment. A significant portion of the workforce, around 60 percent or more is still engaged in agriculture, even though this sector contributes roughly 25 percent to GDP. This highlights very low productivity and income levels for many workers. Informal employment remains very high, meaning most people lack job stability, benefits, or opportunities for skill development (International Labour Organization, 2024; World Bank, 2025).

Youth unemployment stands at around 20-21 percent. Even those who find work often end up in low-productivity informal jobs. Nepal's industrial and manufacturing sector is small and underdeveloped, contributing about 13 percent to GDP. While merchandise exports have grown (for example, rising over 20 percent in some recent periods), much of this has involved re-exports rather than deep domestic value addition (Nepal Rastra Bank, 2026; Department of Customs, 2025).

As a result, migration has become the default option for many young people. While remittances provide crucial short-term support to families and the economy, they do not build sustainable, productive capacity inside Nepal. The country needs to shift from exporting labor to exporting goods and services produced by Nepali workers.

3. Why Not All Investment Creates Jobs

It is important to understand that not all investments generate the same number of jobs. Some sectors are highly capital-intensive and rely on machines, creating few long-term employment opportunities. Others are labor-intensive and can employ many more people for the same level of investment.

For example, large infrastructure projects like hydropower require massive capital but often create only a limited number of permanent jobs. In contrast, sectors such as tourism, agro-processing, and garment manufacturing are more labor-intensive and have higher job-creation potential.

Investing in tourism and related activities can support a wide range of jobs including direct roles in hotels and guiding, as well as indirect jobs in transportation, food supply, handicrafts, and local services. One tourist can generate multiple jobs across the economy. Agro-processing allows Nepal to move beyond exporting raw materials (tea, coffee, herbs, spices, dairy) to higher-value products. Light manufacturing, such as garments, carpets, and furniture, leverages Nepal's abundant labor while targeting export markets.

This is why Nepal must be selective. The goal should not be just any economic growth, but job-rich growth that also strengthens foreign exchange earnings.

4. The Proposed Strategy: Export Jobs First

The central idea is straightforward: focus on industries that simultaneously create large numbers of jobs and earn foreign currency.

Nepal has comparative advantages in three key areas:

- Agro-processing: Process raw agricultural products domestically (packaging tea, producing essential oils from herbs, value-added dairy, spices) to create jobs, reduce post-harvest losses, and increase export earnings.
- Tourism and related services: Expand beyond basic hospitality to build a broader ecosystem that supports guiding, transport, local food, and handicrafts. Tourism has strong multiplier effects.
- Light manufacturing: Develop garments, carpets, furniture, and similar labor-intensive industries with clear export potential.

These sectors can absorb semi-skilled and unskilled workers while gradually building skills and productivity.

5. Employment Zones: A New Way of Thinking

To accelerate progress in these sectors, the government should establish "Employment Zones" distinct from traditional industrial zones that have often remained underutilized.

In these zones, companies will meet realistic, sector-specific minimum job-density requirements linked to the land they use. This prevents land from being allocated to highly automated or low-employment activities. These zones must offer ready infrastructure such as reliable electricity, water, roads, and internet, so companies can begin operations quickly. All approvals will be streamlined through a single-window system with strict timelines.

Job targets will be flexible and tailored to each sector (higher for garments and tourism-related activities, relatively lower for higher-value agro-processing). Graduated incentives, better terms for higher job quality, wages, or export performance will encourage better outcomes.

The government will start with only 2-3 well-chosen pilot zones in strategic locations, such as near agricultural belts in the Tarai for agro-processing and logistics, or in tourism hubs like Pokhara. Strong private sector involvement in zone development and management will be ensured.

6. Supporting Measures

Employer-Driven Apprenticeships and Temporary Wage Support

One major barrier to hiring young workers is their lack of practical experience. To bridge this gap, the government will introduce temporary wage support through an employer-driven model.

Companies will identify their needs and participate in on-the-job training. The government will cover a portion of wages (for example, 40-60 percent) for 3-6 months for new young workers. Payments will be released only after verified employment periods through digital payroll systems and will include retention bonuses if workers stay longer (for example, 12 months).
This short-term bridge will help young people gain experience and enter the formal workforce. Industry associations will help design practical training curricula to reduce skills mismatches. The program will start small with willing firms and will be tightly monitored to avoid deadweight loss or misuse.

7. Making Local Governments Part of the Solution

Local governments will play a supportive but important role. They are well-placed to help with land facilitation, community engagement, basic infrastructure maintenance, small enterprise support, and matching local workers to job and apprenticeship opportunities.

A portion of inter-governmental grants (10-20 percent) will be linked to measurable employment outcomes, such as increases in registered formal workers or successful apprenticeship placements. Data from the Central Bureau of Statistics and digital tracking systems will ensure transparent monitoring.

Central and provincial governments will lead overall strategy, investor outreach, and large-scale zone development, while local governments focus on facilitation. Capacity-building training will be provided to local governments to strengthen their ability to support economic activities effectively.

8. Implementation Timeline

- Months 1–9 (Preparation Phase): Complete all legal, administrative, financial, and operational preparations (detailed in Section 10), including necessary Act amendments. Select pilot zones, finalize rules, and engage private sector.
- Months 10–15: Prepare infrastructure in pilot zones, launch investor outreach, and roll out the apprenticeship and wage support program.
- Within 12–18 months: First companies should begin operations and hiring. Initial results from pilots should become visible.
- Year 2 onward: Evaluate performance rigorously and scale successful models.

9. Expected Results

With strong upfront preparation and disciplined execution, the pilots can generate initial investment commitments and several thousand new formal jobs within the first year. If private investment responds well, this could scale to tens of thousands of jobs over a few years.

If investment commitments remain low or private sector response is slower than expected, the government will not force companies or squeeze the private sector. Instead, it will quickly review and improve the attractiveness of the zones based on investor feedback. This could include further streamlining procedures, offering more competitive incentives, or adjusting non-essential requirements while keeping core job and export goals intact.

The strategy is built on win-win principles. The government gains more jobs, higher exports, and reduced migration pressure. The private sector gains reliable infrastructure, faster approvals, temporary wage support for new hires, tax and customs incentives, and a stable policy environment that improves profitability and reduces risk. Graduated incentives will reward companies that create more and better jobs or achieve higher exports.

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10. Implementation Safeguards: Ensuring the Program Does Not Fail

To minimize all major risks, including bureaucratic hurdles, legal constraints, and budgetary issues, the government must complete the following preparations before launching any pilot zones

Overcoming Bureaucratic Hurdles

Bureaucratic delays in approvals, coordination across ministries, and overlapping regulations have historically slowed industrial projects. These will be addressed by empowering a strong single-window system at the Investment Board Nepal (IBN), introducing mandatory timelines with “deemed approval” provisions, and using digital platforms for all clearances. A high-level inter-ministerial Task Force chaired by the Finance Minister, with private sector representation, will ensure monthly coordination and fast resolution of issues.

Overcoming Legal Constraints

Frequent changes to incentives through annual Finance Acts create uncertainty. Overlapping provisions across multiple laws cause confusion, and some labor and approval rules are rigid for new investors. The following key laws need development or amendment for smooth functioning:

- Special Economic Zone (SEZ) Act, 2016 (and 2019 Amendment): Amend to formally introduce Employment Zones as a new or enhanced category with flexible, sector-specific job-density requirements, stronger single-window provisions (30-45 day timelines with deemed approval), and explicit win-win incentives. Include provisions for PPP models in zone development and management.
- Industrial Enterprises Act, 2076 (2020): Amend to align incentives with employment and export outcomes, provide longer policy stability (minimum 5-7 years lock-in), and prevent annual Finance Act overrides on zone-specific benefits. Strengthen employment-based tax exemptions.
- Foreign Investment and Technology Transfer Act (FITTA), 2019: Amend to streamline FDI approvals for priority sectors, reduce minimum thresholds where needed, and improve one-window coordination with IBN and Department of Industry.
- Labour Act, 2017: Introduce targeted flexibility for apprenticeships and probation periods in Employment Zones (while protecting core rights) and support employer-driven on-the-job training models. Ensure consistency with SEZ provisions on labor relations.
- Public-Private Partnership and Investment Act (PPIA), 2019: Strengthen provisions for PPPs in zone infrastructure and operations.
- Intergovernmental Fiscal Arrangement Act / Local Government Operation Act: Amend to enable performance-linked grants (10-20% of transfers tied to verified job creation and apprenticeship outcomes).
- Develop a new Employment Zones Regulations under the amended SEZ Act for detailed implementation rules.

These amendments should be fast-tracked in the first 6 months of the preparation phase through stakeholder consultation (including FNCCI and sector associations) to ensure private sector buy-in and reduce legal risks.

Overcoming Budgetary Issues

Capital expenditure execution in Nepal has historically been low due to poor project readiness, procurement delays, and cash flow problems (World Bank, 2025). To address this:

- Create a dedicated multi-year Employment Zones Fund (ring-fenced) with initial seed funding from the national budget, supplemented by concessional loans and grants from the World Bank, ADB, and bilateral donors.
- Prioritize PPP models for zone infrastructure so that private capital shares the burden and speeds up development.
- Use results-based or performance-linked financing for wage subsidies and local grants to improve efficiency and accountability.
- Conduct detailed fiscal costing during the preparation phase and build in sunset clauses and clawback mechanisms for subsidies.
- Improve project readiness through independent feasibility studies and pre-approved procurement packages for pilot zones.

Additional Safeguards

- Use Public-Private Partnerships for zone operations.
- Establish an independent Monitoring & Evaluation unit with a real-time public digital dashboard tracking verified jobs, retention rates, exports, wages, and cost per job.
- Conduct regular investor feedback surveys and fast adjustment mechanisms if response is weak.

These measures will be completed in the first 9 months. Only after they are in place will pilot operations begin. This disciplined approach will prevent policy uncertainty, infrastructure delays, weak coordination, and ineffective spending.

11. Risks and Mitigation

One important risk is that investment commitments may be lower than expected. This will be addressed by building win-win features from the start and maintaining flexibility for targeted improvements based on investor feedback. Bureaucratic and legal risks will be mitigated through the specific Act amendments listed above. Budgetary risks will be managed via dedicated funding, PPPs, and donor support. Regular independent evaluations will allow quick adjustments. Complementary reforms in ease of doing business, trade facilitation, and access to finance will be pursued simultaneously to support the zones.

12. Long-Term Sustainability

This strategy works in stages. Short-term wage support and pilot zones will create quick wins. Medium-term functioning Employment Zones and value chains will build momentum. Long-term performance-linked funding, continuous skills development, and a supportive business environment will create a self-reinforcing system for job-rich growth. The approach will also promote inclusivity for women and youth and incorporate sustainable practices in agro-processing and tourism.

13. Conclusion

Nepal does not just need more jobs, it needs better, more productive jobs that allow people to build better lives at home. The current economic structure keeps too many workers in low-productivity activities and pushes talent abroad.

By focusing clearly on labor-intensive, export-oriented sectors, designing Employment Zones that put jobs first while creating win-win conditions for private investors, introducing smart temporary support for hiring and training, amending key laws to remove bureaucratic and legal hurdles, and putting in place strong implementation safeguards upfront, Nepal can begin a meaningful shift.

This is not about large, complex overhauls or forcing the private sector. It is about setting clear priorities, completing all necessary preparations and legal amendments beforehand, taking practical steps, learning from pilots, maintaining policy stability, and ensuring disciplined implementation with strong private sector participation. With these measures, the strategy can reduce migration pressure, boost exports, and support more inclusive economic growth.

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