

The Impact of the Covid-19 Pandemic on Employment in Middle-order Cities of Nepal

A RAPID ASSESSMENT



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Introduction

This paper presents a rapid assessment of the scale and depth of pandemic-related job losses in middle-order cities¹ of Nepal. Analytically, middle-order towns have diverse enough economies to provide a picture of the impact on multiple sectors of the economy. Their economic linkages to rural market-towns as well as higher order cities are more articulated compared to small towns. By that measure, the state of the economy in middle-order towns also tend to reflect the economic performance of the surrounding region. This paper aims to contribute to the understanding of the economic impact of Covid-19 in Nepal in two important ways.

First, by disaggregating and emphasizing the impact of the pandemic in urban areas. The lockdown was enforced in urban areas with greater stringency than in rural areas; the rates of Covid-19 infections too have been higher in urban areas compared to rural areas. Employment opportunities are concentrated in much greater numbers in urban areas compared to rural areas. Most non-agricultural jobs to be found in rural areas are also linked to urban businesses and firms through supply chains, investments, and services. What the national numbers on job losses don't reveal very readily are the underlying variations in the intensity of the impact in the urban versus the rural areas. This study has made a deliberate attempt to isolate the impact of the pandemic and resultant job losses in the urban areas.

Second, by capturing and bringing to the discussion some early dynamics of the recovery process. The last of lockdowns in different parts of the country finally ended on September 9, 2020. From March 24 – September 9, there were intermittent periods when the lockdown was partially or fully lifted. In total, Kathmandu Valley went through 175 days of lockdowns. Almost all the surveys and assessments so far received are from the period when the country was still under lockdown or before early September. No follow up surveys have so far been made available in the public domain. The only exception is a follow-up survey conducted by Nepal Rashtra Bank (NRB) in December 2020, just prior to the mid-year review of the monetary policy. The NRB follow-up survey, however, has not reported on the full battery of questions in the follow-up report. This report is an attempt to fill some of that gap.

Early estimates job losses in the national economy

The Government of Nepal ordered a nationwide lockdown beginning March 24, 2020 in response to the Covid-19 pandemic. Under the lockdown orders, barring

¹ Population 100,000 – 200,000 as per the classification of Planning Norms and Standards 2013, Department of Urban Development and Building Construction.

essential services, all sectors of the economy were shut down. A survey conducted by Nepal Rashtra Bank in early June showed that only 4.05% of economy was operating at the peak of the lockdown period.² Such a drastic disruption in the economy was bound to result in job losses. An earlier survey conducted by UNDP in late April attempted to assess the socio-economic impact of the lockdowns, including estimates of job losses.³ At that time, since the lockdowns were only about four weeks old, putting workers under furloughs was more prevalent than firings. The survey reported that only 26% of the workers were getting fully paid, with the rest put under partial payment or no-payment employment. By late April, the report estimated that 41 percent of women and 28 percent of men had lost their jobs. Another survey from the same period, conducted by the World Food Program (WFP), showed results along similar lines, but with lower estimate of job losses.⁴ The report estimated that 1 in 10 Nepalis had lost their jobs by late April 2020 and 3 in 10 Nepalis had suffered from income losses. In both instances, the impact on women was greater than men. The differential impact is, [as our own study shows](#), a result of women being employed in larger numbers in informal and marginal businesses compared to men and compounded by school closures and the shutdown of public transportation, which tend to disproportionately affect women workers.

Data and Methodology

Secondary data for this report is mostly drawn from survey-based assessments of the economic impact of Covid-19 pandemic published by national and international agencies. The primary data for this report comes from Morang-Sunsari industrial corridor and the twin-cities of Gorahi and Tulsipur in Dang District. The two geographical clusters combine the manufacturing-heavy economy of the industrial corridor in the East with agriculture-heavy economy of the Dang Valley in the West. In that respect, the findings of this assessment may be extrapolated nationally, with some qualifications, for indicative purposes.

To generate primary data, a field survey was conducted from October 15-30 in the Morang-Sunsari industrial corridor and Dang Valley. The sample included 60 firms, equally divided in the two locations. The sample was stratified across four registration categories (individual proprietorship, private limited, cooperatives, and unregistered) and seven economic sectors (agriculture, manufacturing,

² Survey Report on the Impact of the Covid-19 pandemic on Nepal's Economy. Nepal Rashtra Bank. Kathmandu. 2020

³ Rapid Assessment of Socio-economic Impact of Covid-19 in Nepal. United Nations Development Program (UNDP). Kathmandu. 2020

⁴ The Impact of Covid-19 on Households in Nepal. World Food Program. Kathmandu. 2020

construction, wholesale and retail, restaurants and hotels, services, and “others”). Surveys were conducted in-person or by telephone, based on the respondent’s choice of methods.

A key challenge in measuring the impact of the Covid-19 pandemic on employment in Nepal is data. The Central Bureau of Statistics produces occasional National Labour Force Survey, the last one was in 2018. Without quarterly or six-monthly surveys, it is difficult to track data on employment. As such, data on employment in Nepal is notoriously difficult to track because 80.8 percent of all employment generated in Nepal is informal.⁵ Since pre-pandemic baseline numbers are not available, it has been difficult to precisely compute the pandemic’s impact on the rate of employment nationally and, more so, locality-wise. Despite this challenge, the survey has managed capture the salient trends in the state of the local economy and state of employment in the two locations.

Key Findings

Optimism is growing but worries remain. NRB’s July 2020 survey had reported that only 16.55% of the businesses across the country expected to survive six additional months of the pandemic (and infection control measures such as lockdowns). In our survey, when asked, “will your business survive another six months, if the pandemic continues?” 53.3% of the respondents felt that they can survive another six months. While this shows that by October the business sentiments were changing for the better, it is worrisome that nearly half of the businesses were not confident that they can survive the impact of the pandemic even after the lockdowns were lifted.

Income losses could still be ticking down. As pointed out earlier, the number of people put on furloughs and partial payments is expected to be larger than those who have lost employment. When firms were asked, “are you paying full salaries to your staff?” only 63.3% reported in the affirmative; 36.7% said “no”. The NRB survey from July 2020, on the other hand, reported that only 22.5% of the firms nationally had put staff on partial or no payment. It could mean two things, one, the situation in urban areas is worse than the national average, and two, transactions are not picking up even after the lifting of the lockdown and more firms are being forced to cut pay.

The survey additionally reveals that furloughs are more common than retention with a pay cut. When firms were asked “if you have been unable to pay full salaries, what percentage of the salary have you been paying?” 81.7% said that the workers

⁵ Covid-19 Labour Market Impact in Nepal. International Labour Organization. Kathmandu. 2020

are not paid at all and 18.3% said they were paying between 30 to 60% of the salary. When the two data sets are put together, it appears 30.1% of the urban businesses continued to put their staff on furloughs (without pay) even till October 2020. This makes the head count of the unemployed more complicated, but when it comes to the impact on the household, extended furloughs and unemployment tend to have similar effects. For all practical purposes, those under extended furloughs can be considered unemployed.

Inflexion point may be near, if the right conditions prevail. To the question, “do you plan to fire additional staff, if the situation continues?” 53.7% of the firms said “no”. This suggests that at least 1 in 2 firms is no longer considering reducing its staff size. The possibility of inflexion comes from another question. When asked, “do you plan to hire additional staff, if the situation improves?” 70 percent of the firms said “yes”. Now that the Covid-19 infection rates have been consistently coming down across the country and a vaccination drive, though with modest beginnings, is already underway, the possibility of a worsening spread of infection is less likely. If the situation continues to improve, we should begin to see re-hiring in the coming months.

Demand slump is a key problem going forward. All survey-based assessments cited in this report point to income losses at the household level. We see in this report and elsewhere (NRB, UNDP, for instance) that businesses are struggling to meet their operation cost and are not in a position to invest in capital goods. Because of the lockdowns, government spending on infrastructure too has been slower than usual. At the macro-level, national import growth has been in the negative since the lockdowns started. All these factors point to a demand slump. When asked “what needs to happen for your business to grow back?” a plurality of firms (46.7%) said the lifting of the lockdowns is enough. The second most frequent answer (21.7%) was that the demand needs to grow. Now that the lockdowns have been lifted, the survey points to the need to focus on the second most important factor, which is a broad-based demand slump across the economy.

What needs to happen for your business to grow back?

	Frequency	Percent
<u>Demand needs to grow</u>	13	21.7
<u>Supply of raw materials needs to resume</u>	9	15.0
<u>I need to inject more capital</u>	10	16.7
<u>Lifting of lockdown is enough</u>	28	46.7
Total	60	100.0

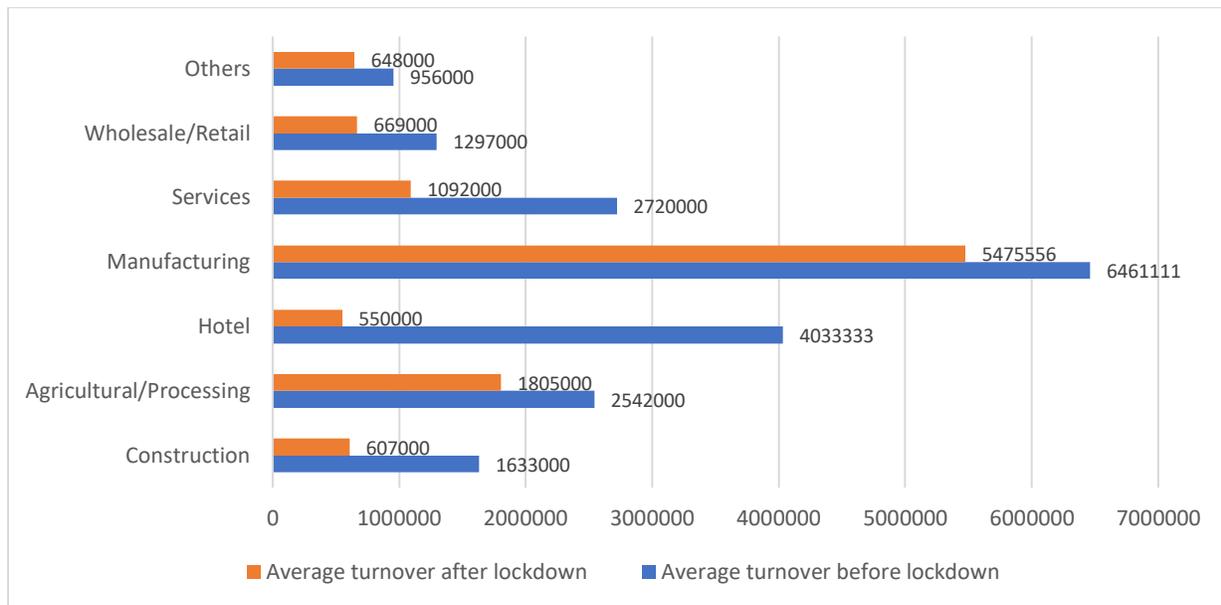
The impact is structural and spread across all businesses. To test whether the impact is structural in nature and faced by all businesses commonly or if there are particular firm-level strategies that allow businesses to escape the common pathology, firms were asked “among your peers, do you think you are doing better or worse than others?” In response, 10% of the firms reported doing better, 8.3% felt they were doing worse, and an overwhelming number, 81.7%, said they are in a similar state as others. This clearly indicates that the economic fundamentals must improve in order for the recovery to begin in earnest and there are no visible firm-level strategies for escaping the downturn.

No sector is spared, but some sectors have benefitted from early easing of the lockdown. The survey documented the change in monthly turnover of firms across seven sectors of the economy included in the sample. A precipitous decrease in sectors such as hotels and restaurants and services were expected. These sectors require free movement of people and reduced fear of infections to truly recover. Similarly, a lower impact on the agriculture sector as well as the wholesale/retail sector is easier to explain as at least some activity in these sectors were considered essential services and were exempt from lockdown restrictions.

The surprise is in the performance of the manufacturing sector. There are two ways of explaining the anomaly. First, construction and manufacturing sectors were the two earliest sectors that were allowed to re-open with a “in-campus” workforce and due precautions on infection control. While this provision did not benefit the construction sector because of the weather (construction is usually slower during Monsoon), the manufacturing sector did manage use this early advantage. A second reason could be pent-up demand. Since the survey was conducted in the late October or roughly four weeks after the lifting of the lockdown, these figures could represent the surge in sales in the immediate month after the lockdown was lifted. This study is unable to comment on what the situation looks like right now, but the December follow-up survey conducted by NRB (Monsoon subsides early October) shows the construction sector picking up pace on par with the manufacturing sector.

Employment numbers show an uphill road to recovery. As mentioned earlier in the paper, aggregate numbers on total urban employment are difficult to compute for the lack of data on informal employments and city-level baseline data. Looking at the trends, however, job losses look widespread and, in some sectors, deep. When there is an economy-wide contraction, workers fired from one sector will have difficulty entering other sectors even when they come from low-skilled, informal employment pools.

What was your average monthly turnover before and after the lockdown?



In the survey, the construction sector comes in as the worst hit but for understandable reasons. The construction sector is, by ILO's estimate⁶, 97% informal and, in most instances, based on daily wages; in other words, it can expand and contract at will with little transaction costs. The lockdowns happened at the peak of the construction period or the dry month of March. Comparing the peak employment data with post-lockdown, tail-end of the slump period⁷ data is likely to produce exaggerated impressions. Similarly, the unemployment figures in hotel and restaurant sector might be on the way to recovery as infection rates come down and the vaccination campaign begins to show its effect. Even discounting these two sectors, the average rate of contraction in employment across the economy stands at 17.44%, which is concerning.

⁶ Covid-19 Labour Market Impact in Nepal. International Labour Organization. Kathmandu. 2020

⁷ The construction sector peaks during the dry months of November – May. For further discussion on the seasonality of the sector, see Prasai, S. The Impact of Covid-19 Lockdown on Nepal's Construction Sector: A Rapid Assessment. The Asia Foundation. Kathmandu. 2020.

How many people were employed in your firm, before and after the lockdown?

Sectors	Average number of employees per firm before lockdown	Average number of employees per firm after lockdown	Percent change in employment generated in the sector
Agriculture/Agro-processing	19	17	-10.53
Construction	155	29	-81.29
Hotel/restaurants	40	13	-67.50
Manufacturing	213	158	-25.82
Services	56	47	-16.07
Wholesale/retail	9	8	-11.11
Others	38	29	-23.68

Government programs are not producing a discernible impact on the ground. The government has attempted to tackle the unemployment problem through fiscal as well as monetary instruments, but with meagre allocations. Since revenues were projected to decrease, the FY 20-21 allocations on recovery programs have been very conservative. The government has increased allocations on interest-subsidized loans and grants for small farmers, cooperatives, and young entrepreneurs. Allocations on Prime Minister’s Employment Fund (PMEP) has been increased significantly but the program has limited footprints in the urban areas due to structural limitations.⁸ Investments in health infrastructure has been increased but their effect will only begin to surface in the fourth quarter of the Fiscal Year due to usual delays in spending. From the monetary end, low-interest rates have been made available for refinancing of businesses and retention of workers. Both programs have not gained popularity among small and micro enterprises. Those accessing the funds, even among larger businesses, have been few. The survey indicates that only 11.7 of the firms in the sample had accessed the low-interest loans.

The fiscal programs appear even less accessible. While it is possible that since the survey was conducted mid-October (start of the 4th month of Nepali FY), some of the government program may not have initiated operations as it usually takes six months or more for budget programs to operate on the ground, the ineffectiveness of the programs was noticeable in our survey data. When asked, “have you approached the government for any relief program?” only 10 percent of the firms responded in the affirmative. Of the 10 percent, we had asked “if you have

⁸ The PMEP has proportion-based restrictions on labor versus material inputs, which makes PMEP programs less useful for urban infrastructure development and, subsequently, for urban employment generation.

approached the government, what was the outcome?" The respondents were given a choice of answering "negative" or "positive". On this follow-up question, only 5% of the respondent answered "positive".

Impact on the households. The survey is focused on the economic impact of the pandemic on firms and businesses and, therefore, unable to capture the impact on the households. To obtain a picture of the household level impacts, we recorded experiences of 10 individuals affected by the pandemic. These stories are not uniformly negative, but most are. There is a story of a 25-year-old migrant worker from Tulsipur who had to struggle for months to return home from the Gulf. Jobless and stranded in a foreign land for months, his trauma gave him the resolve to pursue a livelihood at home. He had just started a cooking gas re-filling depot, which did well during the lockdown when most families were spending the entire day at home. There are also stories of young internal migrants (rural-urban migrants) who had just found a footing in the city with a job in a restaurant, a brick kiln, or at a local metal workshop. Their jobs vanished almost within a month of the lockdown. Then there are stories of small farmers whose products couldn't find a market and prices for their produce plummeted below production costs or teachers whose schools stopped paying within two months of the lockdown.

Beyond such stories, the UNDP and WFP surveys conducted in April have also portrayed a general picture of the suffering, particularly, in the poorer households. The WFP survey reported that 1 in 10 Nepalis had lost their jobs in the first month of the lockdown and 3 in 10 Nepalis had suffered some degree of income loss by then. The UNDP survey has documented coping strategies of households where it reports that daily-wage earners were the worst hit with 39.5% of the workers choosing reducing food intake, 48.8% burrowing food to meet their needs, and 14% choosing to sell their animals within the first month of the lockdown. When we recall that in Kathmandu Valley the lockdowns lasted 175 days, we can imagine the depth of this crisis in the poorest of households.

Conclusion

We know that the pandemic has hit Nepal's economy deeply; growth figures have been revised downwards to 2.3% for FY 19-20 and projections for FY 20-21 too hover between 1.5 -2.5% as projected by different multilateral banks. For a country that was growing at an average rate of 6.9% between 2016-19, this set back will have lingering effects for some time to come, particularly on the employment front. This paper additionally makes the argument that the situation in the urban areas, where most people depend on non-farm jobs, may be worse. There is quite a bit that we don't know even now because we don't have adequate and reliable data for urban and sub-national analysis of the economy. When we look at neighbouring

India, where employment data is readily available and the stage of development is somewhat similar, we find that the pathway to recovery is not a quick one.

India started to ease the lockdowns from the month of May, about two months prior to Nepal. Despite the two-month advantage, when compared on a year-on-year basis, the January 2021 employment figures in India are still lower than January 2020 figures by about 10.2 million⁹. This is surely bad news for the new entrants in the job market. If we consider wage rates as a proxy measure of tightening job markets, wages in Nepal, which were growing at 10.04% last year, are growing at 1.72% this year¹⁰. This is not very encouraging either.

Even as the survey relies on perception-based data, a noticeable demand slump across urban economies appears to be a problem. Nationally, key indicators of domestic demand such as imports, wages, and government spending show negative or decreased growth rates. The only bright spot in the dashboard is the growth in remittances, which stands at 6.7 percent in USD terms,¹¹ but remittance receiving households tend to be concentrated in rural rather than urban areas. PMEP and other government programs also tend to be focussed in rural areas. There is an urgent need to recognize that the unemployment problem, even if it is transitory, is largely an urban problem.

Recommendations

Middle-order cities have complex economies, they require localized management.

One of the more glaring issues to stand out during our research was the absence of a role for city governments to play during an economic crisis of this magnitude. Even during ordinary times, municipal governments do not have an economic governance unit; municipal budgets rarely contain economic development programs; and municipalities lack the authority, tools, and resources to promote investments, support local businesses, and protect workers, when necessary. In the light of the current crisis, there is a need to review the devolution of authority accorded to the municipal governments on economic governance. A starting point could be as simple as mandating the formation of a small economic governance unit in all sub-metropolitan and metropolitan cities across Nepal.

Good crisis management requires good data. A crisis often reveals the weakest link in the system. The economic crisis unleashed by Covid-19 pandemic has more than adequately revealed how inadequate Nepal's data spread is in monitoring the economy, particularly, at the sub-national level. Unemployment rate is an important

⁹ Centre for Monitoring Indian Economy Private Limited. Graphical data accessed at www.cmie.com.

¹⁰ Current Macro-economic and Financial Situation Tables: Sixth Month Data. Nepal Rashtra Bank. February 2021.

¹¹ Current Macro-economic and Financial Situation: Sixth Month Data. Nepal Rashtra Bank. February 2021.

economic indicator that has multiple political and social implications, yet we are not in a position to track this indicator on a regular basis. Without good evidence, effective policies cannot be devised. Employment generation programs such as the PMEP could do much better targeting and more efficient allocations across local governments if employment data were collected and periodically updated locally. Disaggregated data along gender, socio-economic groups, and other at-risk constituencies would make the targeting even more effective, a critical requirement for local analysis that enables informed and appropriate response measures during crises. Beyond the immediate example, there is a need to significantly increase investments in data collection, maintenance, and analysis across all economic governance agencies in the country.

A deliberate focus on the slumping demand is needed across all three tiers of government. This study has discussed weakening demand under several sections of the paper. While the remittance growth remains healthy and should help with domestic demand, the government’s prevailing expenditure rates show no sign of urgency at the federal, provincial, or local level. The faster the government is able to transfer its cash into the hands of the people and businesses, the faster will be the pace of recovery. There is an urgent need to identify the binding constraints in the system—whether it is much needed reforms in the procurement system or filling vacant positions in the local and provincial governments or improved enforcement of budget cycle milestones—and correct them.

A temporary urban bias in the relief measures has now become necessary. Developing economies are often accused of an urban bias in resource allocations as it serves the most vocal constituency in any country—the urban elites. As discussed in this paper, however, the pandemic has hit the urban areas harder than the rural areas. It is very likely that the economic impact of the pandemic too is disproportionately skewed towards the urban areas. For sure, the infection rates as well as caseloads in the urban areas have been higher than rural areas throughout the pandemic. Yet, the fiscal relief measures have predominantly tended to flow through “rural ministries” such as agriculture or rural-focussed programs such as the PMEP. While rural unemployment is a serious and long-term problem for Nepal, a temporary shift of focus towards the urban will serve to pace-up the recovery and should be considered urgently.

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