

NEPAL
Proposed Project for Accelerating Inclusive Jobs Growth for Youth in Nepal and
Analytical Work on Support to Developing an Inclusive Jobs Strategy
Preparation Consultations
January 8-19, 2018
Aide Memoire (AM)

1. During January 8-19, 2018, a Bank Team led by David Ian Walker, Jasmine Rajbhandary and Ashish Narain carried out Preparation Consultations of the proposed *Project for Accelerating Inclusive Jobs Growth for Youth in Nepal and the associated analytical work on Support to Developing an Inclusive Jobs Strategy*. This Aide Memoire (AM) summarizes the strategic ideas and preliminary design of the Project as well as other critical issues discussed during the consultations. The AM was discussed at the wrap-up meeting chaired by Mr. Kewal Prasad Bhandari, Joint Secretary, International Economic Cooperation Coordination Division, Ministry of Finance on January 19, 2018. It was also agreed during the wrap-up meeting that the final AM will be a public document as per the World Bank's Access to Information Policy.

Proposed Project Scope

2. The team carried out extensive consultations with Government officials, development partners, civil society, NGO and private sector actors in Kathmandu, Kavre and Rupandehi to validate the project concept, which was approved in the Bank at the end of 2017 and to concretize ideas for implementation. A list of persons met is included in Annex 2. There was broad acceptance for the proposal to create a *Jobs Fund* which would implement the Project, focusing on the market failures associated with labor market entry for youth and with constraints to private sector labor demand, especially in Small and Medium Enterprises (SMEs).

3. In relation to labor supply, it was confirmed for a need to improve opportunities for young people to access labor market services, such as career counseling and training for employment and self-employment, linkage to jobs opportunities and work experience to enhance their chances of getting better jobs. It was also confirmed that arrangements for service provision in these areas will need to be strengthened as part of the Federalism process, which will transfer many relevant functions to local governments. In relation to demand for labor, it was confirmed that there is potential to increase the growth of labor-intensive enterprises in agribusiness, services and industry which can create better direct and indirect jobs for youth, offering an alternative to migration. SMEs need both financial and technical assistance to build the necessary capacity and to "crowd-in" additional investment from financial institutions. It was also confirmed that it would make sense to focus the project's interventions in regions with high potential for positive jobs transformation and that there should be strong synergies between the project components.

Proposed Project Development Objective:

4. To create quality jobs and enhance labor market outcomes for youth.

Potential Project Activities:

5. The Jobs Fund will support complementary labor demand and supply side interventions, both linked to clearly-defined jobs impacts in selected regions. The activity has three proposed components.

Component 1: Improving youth access to labor markets

6. This component will provide integrated employment support that caters to the employment aspirations of youth and women in targeted regions. The component will address four challenges that youth face in accessing employment opportunities: (i) the lack of reliable information on employment and training opportunities, (ii) fragmentation of employment support, (iii) a generalized lack of work experience opportunities that are needed as a bridge to getting jobs; and (iv) inequities and social barriers that preclude some groups (especially women and those from disadvantaged backgrounds) from improving their labor market outcomes. The component will support the Government of Nepal (GON) to strengthen service provision and consolidate the outcomes of existing programs, including training, micro-entrepreneurship and market linkage programs.

- (a) **Basic package.** The basic package of services, which will be available online and in-person in targeted localities, will consist of registration, work-readiness assessments, life skills training, and referrals to appropriate existing skills trainings or employment opportunities.
- (b) **Supplemental services.** Supplemental services will be offered, depending on local context, in five (not mutually exclusive) areas: (i) labor market intermediation; (ii) work experience (iii) self-employment support; (iv) women's employment; and (v) support to migrants, returnees and their families, as follows:
 - **Labor market intermediation.** Existing intermediation services are fragmented with low coverage and little employer participation. The component will support proactive outreach to the private sector and linkages to nationwide opportunities using digital tools.
 - **Work experience.** The component will support a short-term work experience program to help educated youth transition to good jobs. It will target recent high school and bachelors program graduates with no previous work experience. Placements will be in the private sector, NGOs and in the local governments. Successful candidates will receive mentoring and a stipend during the placement.
 - **Self-employment support.** The best jobs options for many young Nepalis will continue to be in self-employment. There is uncertainty about the future coverage of existing programs and there is scope to improve their design to strengthen jobs outcomes. The component will support the strengthening of such programs in project locations.
 - **Women's employment.** The component will offer comprehensive services to support women in the labor market, including psychosocial services, peer support and training to help women to get jobs in high-potential sectors, such as agriculture/agribusiness, home health care and construction.
 - **Services for migrants, returnees, and their families.** The component will include migration information services and the promotion of financial literacy and financial planning services to help migrants and their families to take advantage of relevant financial instruments, such as commitment savings products.

7. The Jobs Fund will partner with non-government service providers (NGOs and private sector) using results-based contracting mechanisms. It will contract at the national-level (for program design, technical assistance and to develop digital tools) and at local-level, to deliver services. It will explore the use of a Challenge/competitive Fund among local governments to support them to implement above described activities in project locations.

Component 2: Creating jobs for youth

8. Improving jobs outcomes for Nepali youth also means accelerating investment in growth-oriented businesses that can generate more good jobs, either for direct wage employees or indirectly, for input suppliers or through service contracts. Many SMEs face regulatory and financial barriers; and lack managerial or technical expertise, which dampens investment below optimal levels. In addition, when firms make investment decisions, they do not weigh the social benefits from helping workers transition to better jobs, which are especially strong when women and youth gain access to better earnings. This component will support the Jobs Fund to offer integrated technical and financial assistance to growth-oriented firms with credible expansion plans, which will create jobs and/or enhance earnings for low-income workers (through direct and/or indirect jobs). The component will provide expanding firms with an integrated package of support, including:

- (a) **Technical Assistance.** The Jobs Fund will offer technical assistance to help applicants to develop expansion plans of an acceptable quality, incorporating sufficient information to be eligible to participate in the challenge competition for financial support (see (b), below); and will then support selected firms to implement their plans, by improving their managerial capacity, production efficiency, technology, corporate governance, legal and statutory compliance, financial management, team capability and market linkages. The pipeline of proposals will be developed through an open outreach and through liaison with entrepreneurship initiatives such as MEDPA (MEDEP), PACT, PAF etc.
- (b) **Grants.** The Fund will offer grants, which will help firms to finance expansion plans that (directly or indirectly) improve the productivity and earnings of low-income workers and/or create new jobs. Grants will be allocated competitively, based on: (a) the projected jobs and income gains associated with the investment; and (b) (inversely) the grant amount requested. There will be a ceiling on the proportion of any expansion plan that can be grant-funded. The grants will help firms to mitigate the risks of the expansion plans and leverage additional commercial financing from banks, private equity funds, angel investors, and others.

9. Component 2 will be administered by one or more private entities, contracted by the Jobs Fund. It will be implemented through a series of challenge competitions. Participation will be limited to firms that meet identified eligibility criteria; that have a clear market demand; and which present a credible expansion plan that (once implemented) will be sustainable without the need for ongoing future subsidy. To ensure transparency and credibility, the selection of winning proposals will be supervised by a jury including internationally-recognized experts.

Component 3: Capacity building, monitoring and evaluation and project management

10. This component will finance capacity building for implementing agencies, project monitoring and evaluation system (including rigorous impact evaluations of the main components) and the administration of project implementation.

Proposed Cost and Financing:

11. Tentatively, the cost of the proposed Project will be in the range of USD 100-150 million IDA credit financing.

Proposed Financing Instrument:

12. The Project will be supported through Investment Project Financing (IPF).

Proposed Institutional and Implementation Arrangements:

13. The Project will establish a Jobs Fund to implement the project. The Jobs Fund will be administered by GON and implemented under contract by one or more private entities. Two possible implementation arrangements being considered are as follows:

- **Project Implementation Unit.** In this structure, there would be a Project Implementation Unit (PIU) with a Project Director, Component Managers and Fiduciary and Safeguards staff. The Project Steering Committee (SC) would consist of senior officials from government agencies such as: Ministry of Finance, National Planning Commission, Ministry of Labor and Employment, Ministry of Youth and Sports, Ministry of Industry, Ministry of Agriculture, and Ministry of Education. The SC would provide policy guidance and cross-sectoral coordination. This governance structure would include private sector and youth representatives. As part of the restructuring of Government, existing ministries being merged into around 15 ministries. It is expected that the responsibilities of Ministries of Labor, Industry and Commerce will be assigned to a single ministry, which would be the project's implementing agency. The future of the Ministry of Youth is unclear, but under its present mandate, it also has an important role in the project. The full implementing agency assessment will be made during project preparation, once the new structure of Government is defined.
- **Semi-autonomous Board.** Under this option, the Government would create a Board to manage the Jobs Fund (possibly using the Development Board Act 1956). The Board of Directors would include representation of public and private stakeholders. The Board would establish a Secretariat, hiring the Director and the required technical, fiduciary, safeguards staff and technical staff. The Secretariat would then contract the private service delivery firms needed to implement the project. The choice of this option might help to expedite the preparation of the project, given the uncertainties about the new ministerial structure. If the Government is interested in pursuing this option, the team will further explore the corresponding legal and administrative processes.

Preparation Work:

14. The task team will continue working with the Ministry of Finance and other key Ministries and agencies to further define the project's activities and implementation structure. This will entail reaching agreement on the following points:

- **Implementation modality:** The acceleration of the project processing depends on agreeing to the implementation arrangements. It will be important to learn of the MOF's preference and to review the experiences of semi-autonomous implementation modalities in Nepal
- **Technical preparation** of the components will continue prior to the next consultations.

15. During preparation, the Bank will also be implementing a complimentary, multi-year Non-Lending Technical Assistance (NLTA) program to frame the jobs agenda in Nepal, called the Nepal Jobs Platform. It is expected that the NLTA will receive support from the Jobs Multi Donor Trust Fund (MDTF) to support the design of the Accelerating Inclusive Jobs Growth for Youth in Nepal, which will enable the team to develop ideas for the main components and test the design and to develop a monitoring and evaluation framework for the Project.

Partnerships:

16. The team has been exploring the potential for partnerships with other development partners. On the NLTA, agreement has been reached with DFID and ILO to coordinate the analytical support provided to the National Planning Commission on inputs for a jobs strategy. ILO, Swiss Development Cooperation (SDC) and DFID have expressed their interest in joining the Bank in this agenda with

complementary efforts to support the Government around provision of labor market related interventions. The team will continue exploring this area as the project preparation proceeds.

Proposed Timeline for Processing:

17. The proposed milestones are as follows:

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|-------------------------|----------------|
| Technical consultations | April 2018 |
| Preparation | July 2018 |
| Appraisal | September 2018 |
| Negotiations | November 2018 |
| Board | January 2019 |

Next Consultations:

18. The Bank’s team indicated its willingness to work closely with the counterparts on the design work. The next technical consultation is scheduled for April 2018.

Summary of Agreed Actions:

| SL | Actions | Responsibility | Agreed timeline |
|----|--|----------------|-----------------|
| 1 | Government informs of implementation modality preference | GON | March 2018 |
| 2 | Review of global work experience practices | WB | March 2018 |
| 3 | Consultation with programs for integration linkages for component 1 | WB/GON | June 2018 |
| 4 | Market study for Challenge Competition Component 2 | WB | June 2018 |
| 5 | Qualitative diagnostics for Component 1 | WB | June 2018 |
| 6 | Technical design for the components | WB/GON | June2018 |
| 7 | Preparation of the Draft Environment and Social Management Framework | WB/GON | June2018 |
| 8 | Preparation for the Impact Evaluation | WB | November 2018 |

Annex 1: Mission Team (Alphabetical Order)

1. Anastasiya Denisova, Economist
2. Anupama Shakya, Consultant
3. Ashish Narain, Sr. Economist
4. Ashim Nepal, Financial Sector Specialist
5. David Ian Walker, Lead Economist
6. Jasmine Rajbhandary, Sr. Social Protection Specialist
7. Jyoti Maya Pandey, Social Protection Specialist
8. Karishma Wasti, Agriculture Specialist
9. Lansong Zhang, Operations Analyst
10. Maya Sherpa, Economist
11. Rajshree Karki, Executive Assistant
12. Shubha Chakravarty, Economist
13. Suravi Bhandary, Consultant

Annex 2: List of People Met

Government of Nepal

1. Dr. Baikuntha Aryal, Secretary, National Natural Resources and Fiscal Commission
2. Mr. Kewal Prasad Bhandary, Joint Secretary, Ministry of Finance
3. Mr. Krishna Prasad Gnawali, Joint Secretary, Ministry of Labor and Employment
4. Mr. Ram Prasad Thapaliya, Joint Secretary, Ministry of Youth and Sports
5. Mr. Mahendra Prasad Poudyal, Under Secretary, Ministry of Youth and Sports
6. Mr. Gopi Krishna Khanal, Joint Secretary, Ministry of Industry
7. Mr. Dev Raj Dhakal, Director General, Department of Labor
8. Mr. Shivraj Chaulagain, Director, Nepal Development Volunteer Service

Development Partners

1. Mr. Gareth Weir, Deputy Head DFID Nepal /Team Leader Economic Development Team
2. Ms. Priti Prajapati, Employment and Skills and Migration Adviser, DFID
3. Mr. Rabi Rayamajhi, Private Sector Development Advisor, DFID
4. Mr. Rudriksha Rai Parajuli, Livelihood Advisor, DFID
5. Mr. Ram Khadka, Economic Advisor, DFID
6. Mr. Richard Howard, Director, ILO
7. Ms. Bina Kunwar Thapa, Program Officer, ILO
8. Dr. Biswo Poudel, Consultant, ILO
9. Ms. Barbara Weyermann, SDC
10. Ms. Usha Bhandary, National Program Officer, SDC
11. Ms. Yamuna Ghale, SDC
12. Mr. Jhapendra Bhadari, ILO
13. Mr. Saurav Joshi, ILO
14. Ms. Sita Ghimire, SAMI, Helvetas
15. Mr. Gokul Pyakurel, MEDEP

Private Sector & Civil Society

1. Mr. Pravin Raj Joshi, and Co-Founder and CTO of Rooster Logic
2. Mr. Allen Tuladhar, CEO, Unlimited Technology
3. Ms. Juna Thapa, Unlimited Technology
4. Ms. Nhasala Joshi, SmartMaka, Kazi Studios
5. Mr. Suman Pokhrel, CEO, IME Remit Nepal
6. Mr. Shovan Dev Pant, CEO, Bank of Kathmandu
7. Mr. Ujjwal Rajbhandari, Deputy General Manager, Himalayan Bank
8. Mr. Janardhan Dev Pant, CEO, Nirdhan Utthan Bank
9. Dr. Bishal Dhakal, Health at Home
10. Mr. Suresh Tiwari, Nepal Country Director, Oxford Policy Management Nepal
11. Mr. Christopher Tomlinson, Deputy Director, Oxford Policy Management Nepal
12. Mr. Mangesh Lal Shrestha, Managing Director, Frost and Sullivan
13. Dr. Bimal Koirala, PricewaterhouseCoopers
14. Mr. Piyush Jha, PricewaterhouseCoopers
15. Mr. Shymal Shrestha, PricewaterhouseCoopers
16. Mr. Hansa Ram Pandey, Youth Employment and Social Dialogue Project (FNCCI)
17. Mr. Varun Lohia, Vice President, Nepalese Young Entrepreneurs' Forum
18. Mr. Ajay Shrestha, Vice President, Nepalese Young Entrepreneurs' Forum

19. Ms. Juna Mathema, Member, Nepalese Young Entrepreneurs' Forum
20. Dr. Pukar Malla, Executive Director, Daayitwa
21. Mr. Kaubin Wosti Neupane, Research Coordinator, Daayitwa
22. Mr. Tara Prasad Panthi, Program Director, Daayitwa
23. Mr. Manoj Poudel, Daayitwa
24. Mr. Madhav P. Dhungel, National Youth Council